

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



ZAMBIA

2002-2004 COUNTRY STRATEGY PAPER

**COUNTRY OPERATIONS DEPARTMENT
NORTH, EAST & SOUTH (ONCF)**

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ACRONYMS AND ABBREVIATIONS

AAC	Anglo American Corporation
ADB	African Development Bank
ADF	African Development Fund
AIDS	Acquired Immune Deficiency Syndrome
APPR	Annual Portfolio Performance Review
ASIP	Agriculture Sector Investment Programme
BESSIP	Basic Education Sub-Sector Investment Programme
BOP	Balance of Payments
BOZ	Bank of Zambia
CDC	Commonwealth Development Corporation
CDF	Comprehensive Development Framework
CEDAW	Convention on the Elimination of all forms of Discrimination Against Women
CIDA	Canadian International Development Agency
CG	Consultative Group
CFD	Caisse Française de Développement
CLS	Core Labour Standard
COMESA	Common Market for Eastern and Southern Africa
CPA	Country Performance Assessment
CSO	Central Statistical Office
CSOs	Civil Society Organisations
CSP	Country Strategy Paper

CU	Co-ordinating Unit
DANIDA	Danish International Development Agency
DfID	Department for International Development (UK)
DBSA	Development Bank of Southern Africa
DBZ	Development Bank of Zambia
EIB	European Investment Bank
ESAF	Enhanced Structural Adjustment Facility
ESP	Environmental Support Programme
EU	European Union
FINNIDA	Finnish International Development Agency
GMA	Game Management Areas
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
GIDD	Gender in Development Division
GRZ	Government of the Republic of Zambia
HIPC	Highly Indebted Poor Countries
HIV	Human Immuno-deficiency Syndrome
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
ISP	Institutional Support Project
JICA	Japan International Co-operation Agency
MDGs	Millennium Development Goals
MOFNP	Ministry of Finance and National Planning
MOLGH	Ministry of Local Government and Housing
MW	Mega-Watts
NCBPGGZ	National Capacity Building Programme for Good Governance in Zambia
NDF	Nordic Development Fund
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
NORAD	Norwegian Agency for International Development
NPRAP	National Poverty Reduction Action Plan
OPEC	Organisation of Petroleum Exporting Countries
PCR	Project Completion Report
PFP	Policy Framework Paper
PHC	Primary Health Care
PIU	Project Implementation Unit
PSRP	Public Sector Reform Programme
PPAR	Project Performance Audit Report
RIFF	Regional Integration Facilitation Forum
ROADSIP	Road Sector Investment Programme
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SFM	Supplementary Financing Mechanism
SFTA	Support for Fiscal Transparency & Accountability
SIDA	Swedish International Development Agency
SIPs	Sector Investment Programmes
STI	Sexually Transmitted Infections
TAF	Technical Assistance Fund
TB	Tuberculosis
UA	Unit of Accounts
UN	United Nations
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

WASHE	Water, Sanitation and Health Education
ZCCM	Zambia Consolidated Copper Mines
ZCI	Zambia Copper Investment Limited
ZESCO	Zambia Electricity Supply Company
ZMM-GT	Zambia-Malawi-Mozambique Growth Triangle
ZNFU	Zambia National Farmers' Union
ZNOC	Zambia National Oil Company
ZPA	Zambia Privatisation Agency

CURRENCY EQUIVALENTS

(May 2003)

1 UA= 4908.04 Kwacha

1US\$= 3546.50 Kwacha

Executive Summary

Introduction

1. The Country Strategy Paper (CSP) for 1999-2001 lending programme (ADF-VIII) was approved by the Boards on 1 December 1999, at which the Boards commended Management for the selected intervention strategy and urged Management to ensure effective implementation of the strategy. The implementation progress of the CSP has been satisfactory. In April 2002, Zambia finalized its PRSP that has become the policy framework for poverty reduction and the present CSP is anchored on the PRSP.

Recent Developments

2. Zambia has a vibrant civil society and a stable multiparty system, and has successfully managed political transition in 2001. The presidential and parliamentary elections in 2001 posed a major challenge as the main political issue was on whether the republican constitution should be amended to allow the incumbent president to stand for elections for a third term in office. After a successful opposition to the constitutional amendment, elections were held in December 2001 and a new president and a new set of parliamentarians were elected.

3. Zambia's real GDP grew by 3 percent in 2002, 5.2 percent in 2001 and 3.5 percent in 2000, showing improved growth over the 2.4 percent in 1999 and a decline of 2 percent in 1998. The positive growth trend in the past three years has emanated from a relatively good weather condition that has led to increased agricultural production, and improved performance of the manufacturing and tourism sectors. In contrast to its three digit levels in the mid-1990s, the inflation rate has been reduced to not more than 30.1% since 1999. The lower inflation rates have been achieved through better budgetary controls and prudent fiscal management. The challenge to achieve a one-digit inflation rate is however yet to be attained.

4. Zambia's total external debt stock in 2002 was US\$6.5 billion, with a high burden of debt service to export ratio of about 37 percent, and debt to export ratio of about 663 percent. During 1999-2002 Government continued to implement its major strategy of full repayment of due debt obligations as a way to forestall the escalation of its stock of external debt. Government is also implementing the Integrated Financial Information Management System (IFMIS) at the Ministry of Finance and National Planning to improve its debt management. In the medium-term, debt relief is expected to play a major role in reducing Zambia's external debt, as the country is benefiting from the HIPC's debt relief initiative. After reaching a Completion point (end 2003) and benefiting from full debt relief under the HIPC's operation, Zambia's external debt would be reduced to sustainable levels of debt to export ratio and debt service to export ratio, not exceeding 150 percent and 15 percent respectively. So far, Zambia has remained on track in meeting the HIPC triggers, including completing the PRSP, setting up the HIV/AIDS secretariat and successfully implementing the PRGF arrangement of the International Monetary Fund.

Evolution of Poverty

5. The Living Conditions Monitoring Survey of 1998 indicates that the poverty level in Zambia has been increasing, from 69.2 percent of the population in 1996 to 73 percent in 1998. The incidence of poverty is more pronounced in the rural areas at 83 percent compared to 56 percent in the urban areas. The average Zambian poor lack both monetary income and basic food requirements, and have limited access to basic social services, especially clean water and sanitation facilities for the poor in the rural and peri-urban areas. Efforts at poverty reduction in Zambia have been constrained by several factors that include, low economic growth, high income-inequality, inadequate social safety nets, and the HIV/AIDS epidemic.

Government's PRSP

6. The Government's PRSP presents a comprehensive multisectoral strategy for poverty reduction in Zambia during 2002-2004, and outlines interventions in the major sectors of macroeconomics; agriculture; industry; tourism; mining; education; health; water and sanitation; energy; transport; communication; and roads. It also outlines measures in the cross-cutting themes of HIV/AIDS; gender; environment; and governance. On governance, the major focus would be on (i) decentralisation and democratisation of decision making; ii) efficient, equitable and transparent management of public resources; and iii) improved security and guaranteed justice for all. A policy of zero tolerance for corruption is one of the major pillars of Zambia's good governance programme as enshrined in the PRSP. The decentralisation policy would define, in operational terms, the extent and limits of actions by the central government, provincial administrations, local government authorities/councils and other stakeholders.

7. The PRSP was prepared through a participatory process that endears it as a collective product of all stakeholders and presents good strategies for poverty reduction in Zambia in the medium term. It recognises and assigns roles and benefits to all stakeholders, particularly identifying the marginalized groups of women, children, orphans, and other vulnerable groups. It mainstreams the role of the private sector in poverty reduction and identifies manufacturing, tourism, and infrastructure as key sectors where the private sector would catalyse development while recognising that government has a major role to play in creating an enabling environment, through legal and regulatory reforms and investment promotion. Zambia's PRSP programmes are fully in line with the millennium development goals (MDGs) and would contribute towards the realisation of the MDGs for the country if well implemented. But a major challenge lies ahead in achieving the MDG targets due to mounting obstacles arising from the HIV/AIDS pandemic, and the problems of orphans and the street children.

Bank Group Portfolio

8. The Bank Group has to-date committed a total of UA 548.39 million, net of cancellations, to Zambia to finance 35 projects, 5 lines of credit, 5 policy-based programmes, 4 institutional support operations, 8 studies, and 1 debt relief operation. The net commitments comprise of UA 254.02 million (46.3 %) from ADB resources and UA 294.37 million (53.7%) from ADF/TAF resources. The overall disbursement rate on the Bank Group portfolio is satisfactory at 86.5%. There has been progressive improvement in the performance of the Bank Group portfolio and Zambia generally maintains a good record of loan repayment to the Bank.

The Lending Strategy and Programme

9. The focus of the Bank's lending strategy is an outcome of the consultations with the government, other donors, NGOs and civil society organizations. The strategy is shaped by the need to concentrate in a few areas where the operations will have the highest development impact. Thus, the Bank Group medium term strategy will focus on poverty reduction, with the objective of improving social services and promoting growth. To improve social services, the Bank will support: Water and Sanitation, and Child Welfare. To promote growth, the focus will be on agriculture. In the policy front, the Bank will focus on promoting conditions for good Economic Governance as a means of achieving the two objectives of improving social services and promoting growth. Cross cutting themes will be mainstreamed in the Bank Group interventions and the major challenges will be on gender, environment, and HIV/AIDS. The Bank will also finance viable private sector projects. The choice of these sectors is informed by the catalytic roles they would play in promoting poverty reduction while taking into account the complementary activities of other donors in other sectors, the Bank's historical focus in the country and the preferences of the Government and the civil society. The proposed strategy was fully shared by the Government, CSOs, NGOs and other stakeholders during the CSP dialogue mission

10. The overall indicative allocation to Zambia under ADF-IX is UA36.25 million, made up of UA26.46 million for loan and UA9.97 million (27%) for grant, under the *base case scenario*. The proposed grant would be used to finance: (i) 100% of the Child Welfare Support Programme; (ii) part of water and sanitation project; and (iii) capacity building activities in agriculture. Grant will also be used to support mainstreamed HIV/AIDS, gender and environmental concerns in any operation. Up to 50% of the allocation would be used to support a policy-based operation, to be routed either through the budget or balance of payments, depending on developments on the country's fiduciary background. The lending programme under the base case scenario is hereby recommended for Zambia.

Recommendation

11. The Boards of Directors are invited to approve the proposed lending strategy and sectors of intervention indicated in the CSP namely, the social sector (water and sanitations, and child welfare support programme). The indicative allocation to Zambia is UA36.25 million, made up of UA26.46 million for loan and UA9.97 million (27%) for grant. Zambia could also receive up to 50% of this allocation for a policy-based operation to support economic governance. The Boards are also invited to note the proposed lending scenarios and triggers, the non-lending activities, and the proposed intervention in agriculture with additional resources under the high case scenario.

ZAMBIA COUNTRY STRATEGY PAPER (CSP), 2002-2004

I. INTRODUCTION

1.1 This Country Strategy Paper (CSP¹) for the period 2002-2004, presents analyses of Zambia's recent political, economic and social conditions and the government's Poverty Reduction Strategy Paper (PRSP). It also articulates the major development challenges and the attendant risks in the implementation of the government's PRSP. Based on the analyses, a lending strategy for Bank Group's operations in the medium term is developed.

1.2 The CSP has been prepared based on information obtained from the Government of Zambia, the Bank's documents, and various other sources. The main sources of information are: Zambia Poverty Reduction Strategy Paper, 2002-2004; Annual Reports of the Bank of Zambia (various years); Economic Report, Republic of Zambia (various sources); Budget Address, Republic of Zambia, (2001 and 2002); and Zambia Country Governance Profile (2002). Other sources include, information collected during the CSP preparation mission (June 2002) and CSP dialogue mission (April 2003) both of which involved extensive consultations with the Government, civil society organisations, donors and other stakeholders.

1.3 The Country Strategy Paper (CSP) for 1999-2001 lending programme (ADF-VIII) was approved by the Boards on 1 December 1999, at which the Boards commended Management for the selected intervention strategies and urged Management to ensure effective implementation of the strategies. An update of the CSP in 2000 upheld the same lending strategy. The implementation progress of the CSP has been satisfactory and is detailed in section 4.1. Having prepared a full PRSP that was finalized in April 2002, the PRSP has become the policy framework for poverty reduction in Zambia and the present CSP is anchored on the PRSP, which, shares the same operational period of 2002-2004 with the Bank Group CSP.

Box 1: Key Features of Zambia

Projections based on the mid-1998 estimates of the Central Statistical Office and the 1990 Census put the population of Zambia at about 11 million in 2002. The average population growth rate stabilised at 3.0 per cent during the 1990-1995 period and has been projected at 2.1 per cent for 1995-2010. The population is expected to reach 11.7 million in the year 2010, with high rate of dependence. Urbanisation has been very rapid with almost 56 per cent of the population living in the cities.

Zambia became independent in 1964. It has a unitary state with a Republican form of government, 9 provinces and 72 district councils. There are over 73 ethnic groups in the country. Since independence, Zambia has enjoyed relative peace and political stability. Contests for, and succession to power has been remarkably peaceful in Zambia. There have been three successions – from Mr. Kenneth Kaunda who led the country to independence to Mr. Frederick Chiluba in 1991 and to Mr. Levy Mwanawasa in 2001.

The level of poverty in Zambia is high, afflicting 73 percent of the population. The extent of poverty reflects in the weak social indices, with life expectancy at birth as low as 37 years, mainly due to the

¹ The previous Country Strategy Paper (CSP) for Zambia was approved in 1999 for the 1999-2001 lending period.

HIV/AIDS pandemic. Infant mortality rate is high at 109/1,000 live births while under-five mortality rate is about 20 percent, at 197/1,000 live births. Primary school enrolment ratio has declined from 95% in 1985 to about 88% since 1996, while secondary school enrolment ratio was 29 per cent in 1996 compared to the average of 58 per cent in Africa. Access to safe water and sanitation is poor, especially in the peri-urban areas where only where only 44% of the population have access to safe water and 10% to sanitation facilities.

II. RECENT DEVELOPMENTS

2.1 Political Situation

2.1.1 Since 1991 when Zambia became a multiparty democratic state, the country has undergone major political and economic transformations. From being a one-party state in which the values of transparency, accountability, human rights and freedom, as well as consultation and participation were in short supply, the country has increasingly recognised and adopted the principles of constitutionalism, rule of law, political pluralism, participatory democracy, transparency and accountability. Zambia has a vibrant civil society and a stable multiparty system, and has successfully managed political transitions in 1991, 1996 and most recently in 2001. The presidential and parliamentary elections in 2001 posed a major challenge as the main political issue was on whether the republican constitution should be amended to allow the incumbent president to stand for elections for a third term in office. After a successful opposition to the constitutional amendment, elections were held in December 2001 and a new president and a new set of parliamentarians were elected.

2.2 Macro-economic, Sectoral and Structural Developments

2.2.1 **Macroeconomic developments:** Zambia's real GDP grew by 3 percent in 2002, 5.2 percent in 2001 and 3.5 percent in 2000, showing improved growth over the 2.4 percent in 1999 and a decline of 2 percent in 1998. The positive growth trend in the past three years has emanated from a relatively good weather condition that has led to increased agricultural production, and improved performance of the manufacturing and tourism sectors. The fluctuations in the growth rates are informed by the weather conditions for agriculture. In contrast to its three digit levels in the mid-1990s, the **inflation rate** has been reduced to not more than 30.1% since 1999, at 26.7%, 18.7%, 30.1%, and 20.6% in 2002, 2001, 2000 and 1999 respectively. The lower inflation rates have been achieved through better budgetary controls and prudent fiscal management. The challenge to achieve a one-digit inflation rate is however yet to be attained, on account of fast-growing money supply to meet domestic debt servicing requirements. On fiscal management, Zambia has sustained the progress it has made in the recent years and has kept fiscal deficits low, as the domestic primary balance closed in a deficit of – 0.9% of GDP in 2002 and has been projected to a surplus of over 1.4% and 2.5% in 2003 and 2004 respectively.

2.2.2 **Debt:** Zambia's total external debt stock in 2002 was US\$6.5 billion, with a high burden of debt service to export ratio of about 37 percent, and debt to export ratio of about 663 percent. During 1999-2002 Government continued to implement its major strategy of full repayment of due debt obligations as a way to forestall the escalation of its stock of external debt. Government is also implementing the Integrated Financial Information Management System (IFMIS) at the Ministry of Finance and National Planning to improve its debt management. In the medium-term, debt relief is expected to play a major role in reducing Zambia's external debt, recalling that, in April 1999, the Paris Club granted debt relief to Zambia through the cancellation and rescheduling arrangements that would amount to US\$1.06 billion on debt falling due from March 31, 1999 to March 31, 2003.

2.2.3 Further, Zambia reached a decision point in December 2000 and has started to benefit from the HIPC's debt relief since January 2001. The Bank Group had, in January 2001, approved Zambia's participation in the HIPC's (as had the World Bank and the IMF) and Zambia's expected total debt relief under the HIPC's is estimated at about US\$2.5 billion of which about US\$146 million is expected from the Bank Group in 1999 net present value terms. After reaching a Completion point (end 2003) and benefiting from full debt relief under the HIPC's operation, Zambia's external debt would be reduced to sustainable levels of debt to export ratio and debt service to export ratio, not exceeding 150 percent and 15 percent respectively. So far, Zambia has remained on track in meeting the HIPC triggers, including completing the PRSP, setting up the HIV/AIDS secretariat and successfully implementing the PRGF arrangement. The implementation of the HIPC programme in Zambia involves the participation of all stakeholders. The eligible sectors for financing with HIPC's resources are agreed to by the donors, the Government and the civil society and NGOs. Government publishes periodic (monthly) tables and annual reports on HIPC's resources received and utilised. Bank missions review the tables and reports and advise Government on HIPC's fund management.

2.2.4 **Public Sector Reform and Decentralisation:** Since 2000, government has been implementing its Public Sector Reform Programme (PSRP) to create the capacity of the public service to manage and implement reforms in the delivery of services, allocation of resources and formulation of policy. Linked to this is the decentralisation programme that has been developed to enhance grass-root participation in the development process and devolution of fiscal and administrative powers to the lower tiers of government (provinces and districts). However, the implementation of the PSRP has remained too slow while for the decentralisation programme, its implementation is yet to take off in practical terms, and this will remain a major policy challenge in the medium term.

2.2.5 **Privatisation:** Zambia has implemented a comprehensive privatisation programme which climaxed in a landmark success that was achieved in 2000 when it resolved the deadlocked privatisation of the Zambia Consolidated Copper Mines (ZCCM) and sold the major assets of the mines. Further progress was made in privatising other assets in the portfolio of the Zambia Privatisation Agency (ZPA), bringing the total entities sold to 246 out of the total portfolio of 276. The sale of the mines brought with it increased prospects for improved growth in the medium term. But that optimism received a shock early in 2002 when the Anglo-American Corporation (AAC), the major investor in the mines, announced its intention to divest from the mines in Zambia, although the International Finance Corporation (IFC) and the Commonwealth Development Corporation (CDC) are continuing with their investments in the mines. The planned divestiture by the ACC is a market-driven action that embodies both short-term adjustment and long-term structural implications on the economy. On the short-term side, Zambia faces the challenge to keep the mines afloat or risk having increased balance of payments difficulties if the earnings from copper decrease. Government has been able to reach an understanding with the AAC for the mines to remain operational while government explores other options to run the mines. On the long-term implication, the economy is faced with the challenge of diversifying the export base, in order to reduce its present over-dependence on copper (see section 2.7.1).

Sectoral Developments

2.2.6 **Education:** The education system is characterized by inadequacies at the primary, secondary and tertiary levels due to insufficient numbers of teachers and tuition materials, particularly in rural areas, and low levels of retention, among other factors. Adult literacy ratio (1997 figure) is low at 24.9%, made up of 16.7% for male and 32.5% for female. Primary school enrolment ratio had declined from 95% in 1985 to about 88% in 1996 due to increasing cost and the problem of HIV/AIDS, while secondary school enrolment ratio was 29 per cent in 1996 compared to the average of 58 per cent in Africa. Access to primary education is especially low for children in the rural areas due to the relative high income-poverty of rural parents and hence their relative inability to finance

education. As a major initiative to improve access to basic education (grades 1-9), since January 2002, Government commenced the implementation of the programme of free education and this is expected to lead to improvement in the access to education in the medium term.

2.2.7 Agriculture: The agriculture sector supplies 90% of the nation's food consumption, provides employment for 60 per cent of the labour force and is the major source of raw materials for agro-industries. Agriculture also contributes about 20 percent of GDP. Zambia has a good climate, abundant arable land and good water resources. The agro-ecological zones are suitable for the production of a wide range of crops, livestock and fish but currently, only 14% of the total arable lands of 42 million hectares are used for agricultural production. The underground water, rivers, dams, and lakes provide the country with significant irrigation potential of 500,000 hectares of which only 65,000 hectares (13%) is developed.

2.2.8 In 2002, Zambia started to experience serious food shortage that started with the scanty rains in the Southern part of the country especially during December 2001 to mid January 2002, which resulted in severe crop failure. Most food and cash crops were affected, among which were maize, cotton, tobacco, groundnut and sunflower. Thirty-eight districts in seven provinces have been identified to be in critical need of food relief, involving about 2 million people. This problem could have been mitigated if the irrigation and food storage potentials had been developed. The Government's actions to address the problem include; providing food aid to most severely affected households; facilitating private sector participation in food import; and dissemination of conservation farming technologies in areas affected by drought. Government had asked for the assistance of donors with either food aid or financial resources for food importation and many donors, including the Bank Group, responded positively to the request.

2.2.9 Water and Sanitation: The access of the population to safe Water and Sanitation in Zambia is poor and outbreak of diseases is often linked to poor drinking water and unhealthy sanitary conditions (see section 5.1.3) for details of access to water and sanitation). Zambia has been undertaking reforms in the water sector since the early nineties. The reforms are aimed at: promoting integrated management of the country's water resources, reduction of the Government's role to that of a facilitator and regulator, and also restructuring the sector for efficient delivery of services. The policy is to eventually achieve full cost recovery for these services in the urban areas, while for rural and peri-urban areas, the Government has adopted the Water, Sanitation and Health Education (WASHE) concept, whose main thrust is to enable the communities in these areas to provide the services for themselves. The water and sanitation sector has been attracting a lot of interest and support from donors in recent years, with the Bank Group being one of the lead donors. The NGO's are also actively involved as donor partners in implementing projects in the sector. The major ongoing projects in the sector are in Lusaka, Kitwe, Livingstone, and Solwezi, among others. For the rural areas, there are ongoing projects in the Eastern, Southern, Western, Central and the Northern provinces.

2.2.10 Health: Since 2001, the Government's intervention in the health sector has been guided by the five-year National Health Sector Strategic Plan, with the goal of improving the health status of all Zambians. The Plan aims to reduce the rates of infant, child and maternal mortality; to deliver cost effective public health services; to strengthen effective and efficient management of the health system; to improve collaboration and partnership; and to increase the overall pooled resources in the health sector and have them distributed equitably and according to need. Government has created autonomous district health boards responsible for district health services. The shift to Sector Wide Approach process, which created district basket fund, is slowly evolving into a single sector basket. While these programmes are helping to ensure availability of medical services to the population, including the rural dwellers, the challenge in the health sector is still high with life expectancy at birth as low as 37 years, mainly due to the HIV/AIDS pandemic and other major killer diseases, mainly malaria. The Government is tackling the major diseases through the implementation of the Roll Back

malaria initiative and the HIV/AIDS-TB-STI Strategic Framework (see section 2.5.1 for further discussion on HIV/AIDS).

2.2.11 Mining: The mining sector has historically been the engine of growth in Zambia and despite its problems in the recent years, it has continued to provide about 80% of Zambia's export earnings. The production of copper, which is the main exportable mineral has been on the decline in the past two decades due to the depletion of copper ores in the developed mines, the inability of the State-run mining conglomerate (ZCCM) to develop new mine fields and the management problems of the ZCCM. The production level has declined from over 400,000 metric tonnes per year in the eighties and early nineties to below 300,000 metric tonnes during 1998-2002. However, as a result of the privatisation programme of the government, the major mining concerns of ZCCM were sold in 2000 with the expectation that the new private-sector owners were to revamp the mines through injection of fresh capital, but that is yet to be realised. Apart from copper and cobalt production that is being carried out through large-scale mining, Zambia is rich in several other mineral resources, including emerald and other precious stones, gold, diamond, zinc and coal. Government has recently begun to promote the exploitation of these mineral resources for small, medium and large-scale developers.

2.2.12 Transport: The transport system in Zambia comprises the rail, road, air, pipeline and inland waterways. Zambia has about 37,000 km of gazetted road network, of which only 6,476 km are bitumen and surfaced, 8,478 km are gravel roads while 21,967 km are earth roads. The road transport system is fairly developed, accounting for over 60% of cargo haulage and has recently become the main transport route for moving cargo from South Africa and the neighbouring countries. There has been a lot of rehabilitation works on the urban roads in recent years while rural communities are being mobilised and assisted to construct bridges, rehabilitate and maintain access roads in the rural areas.

2.2.13 Tourism: The tourism potentials in Zambia include wildlife, water resources, cultural and natural heritage sites, in addition to Zambia being a peaceful country in terms of absence of pronounced social unrest and armed conflict. The famous Victoria Falls is located in Zambia (and partly in Zimbabwe). There are 19 National Parks and 34 Game Management Areas (GMAs) of which only 5% has been developed for tourism. The development of the tourism potentials has been constrained by inadequate infrastructure, poor institutional incentives to private sector operators, and the land tenure system that makes it difficult for investors to acquire land. Government has been undertaking programmes to market the tourism potentials to the outside world and to provide fiscal incentives to the investors. These have resulted in major investments in the hotel business in recent years.

2.2.14 Energy: The major source of energy in Zambia is fuel wood which accounts for about 70% of the nations energy needs and Zambia is richly endowed with woodlands and forests, with the growing stock of equivalent to 4.3 million tonnes of wood. The hydropower resource potential is estimated at 6000 MW of which the installed capacity is 1715.5 MW, contributing about 14% of the energy needs. Hydroelectric plants provide 99% of electrical energy from the major plants at Kafue Gorge, Kariba North Bank and Victoria Falls. Petroleum products are imported and account for 12% of the total energy use. The Tazama pipeline, the Indeni petroleum refinery and the Zambia National Oil Company (ZNOC) are the major infrastructure for imports, processing and distribution of petroleum products. These establishments have been experiencing various management and operational difficulties for which actions would be needed in the medium term to restructure them.

2.3 Private Sector Business Climate

2.3.1 The implementation of the structural adjustment programme since 1991 has gradually opened up the Zambian economy to private enterprise, creating a new era of entrepreneurship that did not

exist prior to 1991 when the economy was highly regulated along the line of a centrally-planned economy. The reforms, which have benefited from policy-based support programmes by the ADB, the Breton Woods institutions and other donors, have among other objectives, explicitly aimed at establishing a conducive environment for private investment. It has brought about a liberalised exchange rate regime, a competitive banking system, a deregulated trading system and prices, as well as privatisation of major public enterprises. Government has also revised the investment code and passed a new Investment Act that guarantees equitable taxation and arbitration of disputes, access to foreign currency through the open market by investors, and repatriation of 100% of profits after tax. In 2000, the Parliament passed a new Banking and Financial Services Act aimed at strengthening the supervisory and monitoring roles of the Bank of Zambia and laying down stricter rules for the establishment, capitalisation and operation of financial institutions. Such unethical practices as money laundering and remittances to outlawed organisations are now closely monitored in Bank supervision. It also provided for the supervision of micro-finance institutions by the central bank.

2.3.2 There are 14 operating banks in Zambia, competitively engaged in deposit mobilisation and financing investments. But the credit market has continued to be dominated by the public sector, crowding out the private sector and households. During 2000-2002, about 65% of the total domestic credit went to the government and government-owned enterprises, leaving only about 35% to the private sector and households. And as a result of the government's active role in the credit market, interest rates have been too high for profitable private sector borrowing at over 40% since 2000. Even though the rate of inflation has been declining in recent years, the government's borrowing requirements from the domestic market has negated the downward pressure the deceleration could have exerted on interest rates (see section 5.1.10 on domestic debt). Alternative financing options however exist for government and private sector businesses through the **stock market** (the Lusaka Stock Exchange) that has been established since 1994 to play a leading role in financial intermediation in the capital market. The intermediation by the stock market is low as it has only 11 quoted companies and a total market capitalisation of about US\$246 million at the end of 2002. It is hoped that the government would redirect its financing sources from the money market to the capital market which will help both to speed up the development of the capital market and stabilise the money market. Zambia also has a Securities and Exchange Commission that regulates operations in the capital market and protects investors from market malpractices.

2.3.3 The private sector contributes over 70 per cent of Zambia's GDP and shares about 60% of the total investment. Private enterprises are active in major sectors of the economy including mining (copper, cobalt, limestone and manganese processing), manufacturing (food processing, beverages, tobacco, textile, clothing etc), agriculture and agribusiness (cotton production and processing, fresh flowers, vegetables, etc), tourism and financial services. These sectors offer growing investment opportunities especially in the following sectors: mining, agri-business (particularly grain and livestock production), tourism, construction, transport services, financial services, and non-traditional exports, such as horticulture.

2.3.4 The efficiency and attractiveness of private sector businesses are constrained by deficiencies of infrastructure in transport, telecommunications, power and water supply which increase the costs of production and affect the competitiveness of Zambian products. Government has been addressing the infrastructure problems through measures to encourage private sector participation in the provision and management of infrastructures. The telecommunications sector is gradually being opened up to competition with two private sector companies (Telecel and Zamcell) now operating the cellular network while the state-owned company, Zamtel provides non-satellite telecommunications. With the involvement of the private sector, the state of infrastructure in Zambia is expected to improve in the medium to long term.

2.4 Evolution of Poverty

2.4.1 The Living Conditions Monitoring Survey of 1998 indicates that the poverty level in Zambia has been increasing, from 69.2 percent of the population in 1996 to 73 percent in 1998. The incidence of poverty is more pronounced in the rural areas at 83 percent compared to 56 percent in the urban areas. The average Zambian poor lack both monetary income and basic food requirements, and have limited or no access to education, health, clean water and sanitation facilities. The major socio-economic factor influencing the incidence of poverty in Zambia is the make up of a household such as gender, age, level of education and employment status of the head of the household. Poverty is positively correlated with the number of persons in a household, and more severe in female-headed households, at 60% for female-headed households and 52% for male-headed households. This gender disparity is explained by the relatively lower levels of functional education and employment among females and the higher vulnerability of females to HIV/AIDS infections. Poverty among children is rising in Zambia, emanating from orphans, street children, and child-headed households.

2.4.2 Efforts at poverty reduction in Zambia have been constrained by several factors that include, low economic growth, high income inequality and inadequate social safety nets, and the HIV/AIDS epidemic. The over-dependence of the economy on the troubled mining sector and the adverse weather conditions in recent years have combined with other factors to negate a sustained high economic growth required to make an appreciable dent on poverty. At a Gini coefficient of 0.5, a large section of the population would remain marginalized from the benefits of any growth. For the poor in the rural areas, who are detached from the direct gains of growth, their view is that they have remained in poverty due to the failure of the government's agricultural policies in not providing them with infrastructure, inputs, absence of credit finance, weak extension services. They have also identified long distance to safe and clean water, poor access to health facilities and unaffordable education.

2.5 Cross-Cutting Themes

2.5.1 **HIV/AIDS:** The problem of HIV/AIDS in Zambia has reached alarming levels, from the first diagnosed case in 1984 to an estimated adult HIV prevalence of 14 percent in rural areas and 28 percent in the urban areas among the 15-49 years age bracket. Country-wide, 20 percent of the adult population are infected with the disease. While the pandemic rate of increase appeared to have stabilised in the urban areas, it was rising in the rural areas. As a result of the problem of HIV/AIDS, life expectancy at birth has dropped from 50 years in 1990 to 37 years in 2000 and might have dropped further since then. The HIV/AIDS pandemic has left an estimated 620,000 orphans (as at 2000) and the number has been projected to reach 974,000 in 2014. About 6 percent of the orphans end up as street children. Some of the Government's programmes to fight the HIV/AIDS include, implementation of multi-sectoral behaviour change communication campaigns; free condom distribution by the Government; improvement of sexually transmitted infections (STI) management and treatment; expansion of access to quality mother-to-child transmission programmes; and treatment of infected persons.

2.5.2 **Gender:** According to the UNDP Gender-related Development Index (GDI), Zambia ranks 122nd out of 177 countries, with an index value of 0.362. This low gender index is a reflection of women's relative lack of opportunities in access to education, asset ownership, and participation in economic and political activities. The government of Zambia has recognised that to achieve sustainable development, it needs full participation of both women and men in the development process. Government has signed major UN conventions on gender equality, such as CEDAW (Convention on the Elimination of all Forms of Discrimination against Women), and is a signatory to the SADC Gender and Development Declaration of 1997. In 1996 a Gender in Development Division (GIDD) was established in Cabinet Office, and gender focal points were established in all ministries,

government's specialised agencies, and provinces. In 2000, the government passed a National Gender Policy which addresses the problem of poverty, coordination among various implementing agencies and harmonisation and streamlining of gender and development activities. It recognises that the limited access of women to productive resources, including tenured title to land and credit contributes to their relative impoverishment.

2.5.3 Some of the practical measures taken to promote the empowerment of women include: the inclusion of sex/gender as one of the grounds where discrimination is forbidden in the 1996 amendment of the Constitution (Article 23 of amended constitution); establishing a programme for the Advancement of Girls Education and bursary scheme for female students; and the revision of school curriculum to reflect gender-neutral language and the lowering of cut off point pass marks for girls in grades seven and nine. However actions need to be taken by the government to domesticate the conventions it has signed while the implementation of the gender programmes should be intensified.

2.5.4 **Environment:** There are three main types of environmental problems in Zambia, namely, industrial pollution; loss of natural resources; and wild life poaching. Industrial pollution is most pronounced in the densely populated Copperbelt province. There is loss of natural resources through desertification, deforestation and lands degradation, caused by slash and burn agriculture system, firewood gathering and charcoal production. Also, due to poor irrigation system, there is intensive agriculture on the developed farmlands that results in soil erosion. Wild life poaching is causing a decline in Zambia's rich natural biological resources.

2.5.5 In response to the environmental problems and to the need to institutionalise environmental management, the government has created the Environmental Council of Zambia to co-ordinate its policies and actions for the environment. An Environmental Protection and Pollution Control Act was enacted in 1990 to regulate actions affecting the environment. Since then, companies are given guidelines and made to comply emission standards. An Environmental Support Programme (ESP) has been established with the main objective of protecting the environment and natural resources and to mainstream environmental and natural resource management in national development processes. Through the activities of the ESP, environmental considerations were integrated in the Zambia PRSP.

2.5.6 **Core Labour Standards:** The government of Zambia is committed to the principles of core labour standards and is a signatory to thirty six (36) conventions of the International Labour Organisation, including all the seven conventions on Core Labour Standards. Zambia is playing active roles in implementing the international labour standards in the SADC region. The conventions Zambia has signed include, the international convention on the elimination of all forms of discrimination against women, the convention on the rights of the child, elimination of all forms of forced or compulsory labour, abolition of child labour, and the right to collective bargaining. The challenge ahead is to domesticate these conventions. In 1999, Zambia gave a commitment that it would ensure that the requirements of core labour standards, especially as it relates to child labour are observed in implementing Bank Group projects and there has been no report of violating this on any of the Bank Group operations.

2.5.7 With the growing problem of HIV/AIDS orphans, child-headed families and street children in Zambia, the labour rights of children may not be fully guaranteed in practice as it is in law. But Government plans to tackle the problem of orphans and street children in the context of the PRSP. In the medium term, the Bank will continue dialogue with the government on Core Labour Standards (CLS) issues with a view to ensuring that government starts actions on creating the institutional capacity for the implementation of the core labour standards, particularly with respect to the rights of the child and rehabilitating street children and orphans.

2.5.8 Regional Integration: The government has been at the forefront of promoting peace and conflict resolution among the troubled countries in the Great Lakes region and has been playing mediation roles for the wars in the Democratic Republic of Congo (DRC) and Angola. As a result of these conflicts, Zambia hosts about 450,000 refugees from DRC and Angola. Zambia plays active roles as a member of the Southern African Development Community (SADC), the Common Market for Eastern and Southern African Countries (COMESA), the Regional Integration Facilitation Forum (RIFF) and the Zambia Malawi and Mozambique Growth Triangle (ZMM-GT). Through the initiatives of these regional blocs, Zambia has implemented several policies to promote trade liberalisation. Zambia is one of the first ten countries that signed the COMESA free trade area in 2000, and is committed to the COMESA customs union in 2004. Zambia is among the first three countries that have reduced the maximum import tariffs to the range of 20-25 percent, among the fourteen members of the RIFF when many of the members still impose tariff rates of 85-200 per cent. In 2000, Zambia signed the memorandum of understanding with Malawi and Mozambique to promote joint economic ventures under the auspices of ZMM-GT. Zambia is also participating actively in the activities of NEPAD to promote development among African countries.

2.5.9 Stakeholder Participation: Stakeholder participation in the development process is generally recognised in Zambia as an integral part of governance. The preparation of the PRSP entailed an elaborate participatory process that involved extensive consultations with stakeholders at the central, provincial and district levels (see Box 4). The legal framework for participation is imbedded in the Constitution that guarantees the freedom of association, assembly, movement and expression. The freedom of participation manifests most clearly in the multiparty system, the vibrancy of the civil society and the independent media. There are no legal restrictions to the formation of NGOs and CSOs and since 1991, NGOs have multiplied (about 400 of them exist) and have become major players in the governance process. The NGOs and the CSOs are active in extending development projects to the rural areas.

2.5.10 Governance: In 2002, the Bank completed the Zambia Country Governance Profile (CGP). The report noted that the Government has realized that without tackling the problem of poor governance, very little could be done to reduce poverty, encourage private sector investment, accelerate equitable economic growth and development, and sustain political stability, peace and security. As a result of this realisation, through a consultative process that involved the civil society, donors and other stakeholders, the country has formulated and adopted a governance agenda. The major elements of the governance agenda are embodied in Governance: National Capacity Building Programme for Good Governance in Zambia, NCBPGGZ (2000), and are also restated in the Zambia Poverty Reduction Strategy Paper, 2002-2004 (PRSP) (see section 3.1.4). Among other objectives, the government's governance agenda aims at effective decentralisation, which allows for community participation in local decision-making and which will ensure efficient and quality service delivery. It also aims at institutionalising sound budgetary policies and efficient bureaucracy; favourable investment and economic environment; and gender equity.

2.5.11 The CGP demonstrates that major weaknesses on governance are revealed the areas of accountability and transparency in managing public resources, with pronounced manifestation in the way domestic debt is contracted and managed. The CGP also shows that Zambia has created several institutions to foster good governance that include the Office of the Auditor-General, the Anti-Corruption Commission (ACC), and the Office of the Investigator General, as well as the constitutional independence of the legislature and the judiciary. But these institutions are operationally weak, under-funded and lack necessary autonomy to deliver on their mandate. However, the ongoing Support for Fiscal Transparency and Accountability (SFTA) financed by the Bank Group, and the World Bank's Fiscal Sustainability Credit are aimed at addressing these problems. Among other operations by donors are the capacity building programme by the DfID to strengthen operations

of the ACC and a similar programme by NORAD for the Office of the Auditor-General. The major challenge in Zambia therefore is in terms of strengthening existing institutions.

2.5.12 The new government that came to office in December 2001 has initiated one of the most monumental anti-corruption crusades against past and present public officials ever witnessed in Africa, and this has resulted in some senior public officers being prosecuted for various offences related to corruption. The ACC, which the Bank is assisting to decentralise its operations and improve its operational capacity, is playing a key role in the anti-corruption crusade as the core institution for investigation and prosecution of corrupt persons.

2.6 Major Constraints to Sustainable Growth and Poverty Reduction

2.6.1 The **poor state of infrastructure** in Zambia is a drag on development. In almost all sectors, particularly in water supply, agriculture, power, and telecommunications, the existing facilities are insufficient and poorly maintained, and contribute to high costs and non-competitiveness of the productive sectors. But the most telling are the insufficiency of agricultural infrastructure, as the vast and fertile lands are not developed for agriculture and poor water and sanitation facilities in the peri-urban areas. There is also a **human resource constraint** to development existing mainly in the public sector. Motivation of public servants is not high due to poor remuneration and working conditions, while the system experiences high turnover as a result of deaths related to HIV/AIDS. The problem of pay and conditions of service have been proposed to be addressed through the public sector reform programme but the implementation of the programme has been slow.

2.6.2 The economy is **open** and dependent on the outside world to a large extent. Typically about two-thirds of the government's budget on capital expenditure and about half of the total national budget are financed with external resources. This has now created the problem of external indebtedness that has become unsustainable and that is now crowding out investments in the core social sector services. External debt service amounts to 10% of GDP whereas total expenditure on social services amount to 5% of GDP. While there is hope that the external debt problems will be addressed through HIPC's and other debt forgiveness and restructuring plans, Government has switched to heavy dependency on domestic borrowing. Hence both the external and the domestic debt have now constituted major constraints to development.

2.6.3 **Land tenure system:** The major productive asset of the poor in Zambia is land, yet about 97% of farmers in Zambia have no title to land, although they have access to the land for cultivation. The absence of title to land creates disincentive to farmers and other investors to invest in land improvement and physical infrastructure, knowing that the land could be repossessed by the State. Also, the absence of title to farming land denies the farmer the use of the farm land as collateral for loans. This is a major constraint to investment to small, medium and large-scale farmers. The absence of title to lands is historically explained by the 1975 Land (Conversion of Title) Act which stated that all land has no commercial value and cannot be sold in itself unless there are developments/improvements on it. Although this Act was repealed in 1995, in practice, not much has changed in terms of investors getting title deed to land.

2.7 Potential for Growth and Poverty Reduction

2.7.1 **Economic diversification:** As a response to the crisis of the mining sector, a workshop of all stakeholders was organised in June 2002 to define the options for diversifying the economy. The workshop noted that the Zambian economy is heavily dependent on copper for over 80 percent of its foreign exchange earnings and in the light of the poor performance of the copper mines in recent years, it was necessary to seek practical policies, strategies and action plan to diversify the economy, starting with the Copperbelt. It identified four key sectors that would lead the diversification process,

namely, Agriculture, Manufacturing, Gemstones and Non-copper mining, and Tourism. It noted that Government should catalyse the diversification process by providing an enabling environment to attract and encourage foreign and domestic investors, including creating a stable macroeconomic setting and reducing the cumbersome requirements for establishing a new business. It proposed establishment of a private sector led Copperbelt Development Agency to facilitate the diversification process, particularly in the areas of negotiating fiscal incentives with the Government for investors, facilitating access to land, facilitating development of water resources and coordinating and attracting infrastructure development. Government has expressed its determination to implement these recommendations in the medium term.

2.7.2 **Private sector:** Zambia's private sector has the potential to stimulate and lead economic growth. As already identified above, the potentials abound in non-copper mining, agriculture, tourism and manufacturing. Zambia also has a well-trained labour force to support increased economic growth, barring the impact of HIV/AIDS in depleting the trained labour force. The relative peace and political stability in Zambia makes it attractive to investors and recently there has been a shift of investors from the troubled neighbouring countries to Zambia. Appropriate policies and incentives, such as land reforms, would need to be promoted in the medium term to harness these investment and growth potentials.

III. THE GOVERNMENT'S POVERTY REDUCTION STRATEGY

3.1 Key Elements of the Government's Poverty Reduction Agenda

3.1.1 The Government's PRSP presents a multisectoral and inter-linked strategies for poverty reduction in Zambia during 2002-2004, and outlines interventions in the major sectors of, macroeconomics; agriculture; industry; tourism; mining; education; health; water and sanitation; energy; and transport, communication and roads. It also outlines measures in the cross-cutting themes of HIV/AIDS; gender; environment; and governance. These measures are briefly summarised below:

Promoting Growth

3.1.2 Government plans to promote growth through improvement in macro economy, agriculture and other sectors. In the **macro-economy**, during 2002-2004, government targets to achieve an annual average real GDP growth rate of 4%, and to reduce inflation to 5% by 2004. Government plans to encourage investment through investment promotion and investment facilitation by undertaking necessary legal and policy reforms. In **agriculture**, the focus of interventions would be on i) land and infrastructure development, including construction and rehabilitation of dams and irrigation systems; ii) establishing targeted support systems for food security, including timely distribution of inputs and extension services; iii) farming technology development and dissemination; and iv) providing financial infrastructure especially for rural credit and outgrower schemes. Government plans to review the Land Act of 1995 with the aim of promoting utilisation of land for agriculture and other investment. Also to promote growth, Government plans expansion and rehabilitation of facilities by both the public and the private sector in industry, tourism, mining, energy, transport and communications, and roads sectors.

Improving Social Services

3.1.3 For the **education sector**, the focus is on : i) extension of BESSIP to cover grades 1-9 as against 1-7; ii) promotion of integrated functional literacy for all marginalized groups; iii) skills training; and iv) equity programme to encourage girls' education, including bursary schemes at basic

school level. In the **health sector**, Government plans: i) implementation of the basic health package under the health sector wide approach; ii) programmes for malnutrition prevention; and iii) adoption of cost sharing and fees. Under the integrated approach to health care, government plans to give priority to: malaria control through the Roll Back malaria initiative; control of HIV/AIDS, TB, and STI, through the National HIV/AIDS strategic framework; and improved child health and control of epidemics through improved sanitation and supply of safe water. For **Water and Sanitation sector**, the emphasis will be on: i) rural water supply and development; and ii) peri-urban water system expansion and rehabilitation. Interventions in water and sanitation will incorporate the Water, Sanitation and Health Education (WASHE) programme.

Improving Governance

3.1.4 The major focus on **governance** during 2002-2004 will be on: i) decentralisation and democratisation of decision making; ii) efficient, equitable and transparent management of public resources; and iii) improved security and guaranteed justice for all. A policy of zero tolerance against corruption has become one of the major pillars of Zambia's good governance programme. Cross-cutting themes of gender, environment, HIV/AIDS form integral part of the PRSP.

Financing the PRSP

3.1.5 The resource requirements to finance all components of the PRSP during 2002-2004 amounts to US\$1,200 million. It is proposed that donors would finance two-thirds of the cost of the PRSP while the government would finance the remaining one-third. This cost sharing formula is consistent with the historical share of the donors and government in financing development programmes in Zambia.

3.1.6 **Bank Group Assistance in Preparing the PRSP:** The Bank Group provided US\$62,500 to the Government for PRSP preparation (institutional capacity building) through the on-going Institutional Support Project (ISP). Also, through the ISP, the Bank sponsored three Government officials on long-term external training specifically to enhance their capacity in PRSP preparation and implementation monitoring. The Bank also participated in the review of the draft documents produced by the PRSP working groups, and in the seminars and workshops that were organized to review the draft PRSP before it was finalized.

3.2 Assessment of the Poverty Reduction Strategy

3.2.1 The PRSP was prepared through a rich participatory process that endears it as a collective product of all stakeholders (see Box 4). The PRSP identifies the interdependent and inter-linked roles of the sectors and the cross-cutting themes in poverty reduction. It further recognises and assigns roles and benefits to all stakeholders, particularly identifying the marginalized groups of women, orphans, and various vulnerable groups as constituting major targets for assistance. It mainstreams the role of the private sector in poverty reduction and identifies manufacturing, agriculture, tourism, and infrastructure as key sectors where the private sector would catalyse development while recognising that government has a major role to play in creating an enabling environment through legal and regulatory reforms and investment promotion.

3.2.2 The proposed actions under the PRSP are in line with the poverty diagnosis (section 2.4). The focus on land and infrastructure development for agriculture, farming technology and financial infrastructure for rural credit and outgrower schemes fit into the identified poor agricultural infrastructure as the cause of Zambia's food insecurity. The emphasis of the PRSP on basic education is linked to the high rate of illiteracy while the proposed basic health package and malnutrition prevention programmes address the high mortality rates. The PRSP also emphasises water and

sanitation in the rural and peri-urban areas where the poor are most susceptible to unhealthy water and sanitation conditions. The articulation of strategies to reverse the HIV/AIDS epidemic and gender imbalances in development, poor environmental quality, and poor governance are in line with the processes that accentuate poverty in Zambia. It is, noteworthy, that the government's zero tolerance for corruption has been enshrined in the PRSP, just as the decentralisation programme that devolves poverty reduction actions to the grassroots is a cardinal plank of the PRSP. Zambia's PRSP programmes are fully in line with the millennium development goals (MDGs) and would contribute towards the realisation of the MDGs for the country if well implemented (see box 2).

3.2.3 The PRSP has, however, ignored the role of economic integration in the poverty reduction process. With Zambia's implementation of the COMESA free trade area with its neighbouring countries, and its active participation in SADC, RIFF and NEPAD, it is expected that regional economic cooperation would contribute positively to poverty reduction in Zambia. Although the contribution of regional integration has not been articulated in the PRSP, this does not diminish Zambia's continued efforts in fostering peace and economic cooperation in the region and the gains from these efforts would rein in additional sources of poverty reduction in the medium term.

3.2.4 Although the PRSP has duly recognised the government's comprehensive programme on good governance (NCBPGGZ), there is no clear and viable prioritisation of the good governance programme under the PRSP. The strategic link between the governance programmes that would be implemented with the limited PRSP budget and the rest of the ten-year programme has not been drawn up. This gap highlights the need for prioritisation of the good governance programme and harmonising its phases with the present and subsequent PRSP cycles. This is part of the activities being undertaken by the PRSP Secretariat in preparing detailed action plan for the PRSP.

3.2.5 The budget of US\$1200 million for three years is realistic as it is in line with the commitments by the government and donors over the past three years. In particular, the donors' share of about US\$800 million is in tandem with the commitments of donors to Zambia in the past three years and if the donors maintain their levels of financing as they did in the past three years, the PRSP will be fully funded.

Box 2: Towards the Millennium Development Goals in Zambia

Principles and targets

Using 1990 as the base year and 2015 as the target year, the major tenets of the Millennium Development Goals (MDGs) are to i) eradicate extreme poverty by reducing to half, the proportion of people whose income is less than one dollar a day and those who suffer from hunger; ii) achieve universal primary education, by ensuring that all children, both boys and girls alike are able to complete a full course of primary education; (iii) promote gender equity and empower women, through elimination of gender disparity in schools; (iv) reduce child mortality, improve maternal health; and

combat HIV/AIDS, malaria and other diseases; and (v) ensure environmental sustainability and develop a global partnership for development.

Status and Challenges

(i) Zambia's Poverty Reduction Strategy Paper seeks to achieve an annual economic growth rate of 4 percent that would generate sufficient resources and jobs to achieve the poverty reduction target. If the resource requirements of the PRSP for 2002-2004 are realised and at least the same levels of investments are made in the subsequent periods up to 2015, Zambia would achieve the poverty

reduction targets. However, to be effective, such resource inflows must be accompanied by improvement of policies and institutions to increase the absorptive capacity of the economy and the development effectiveness of the investments. For instance, the implementation of the decentralisation policy will be pivotal in achieving this MDG target, as it will facilitate the delivery of social services to the poor in the rural areas.

(ii) The inability of poor parents to pay for primary education had been a major factor militating against universal free education in Zambia, but since 2002, fees have been abolished in the Government-owned schools and if the policy is sustained, Zambia will comfortably attain the MDG target on education. One area for concern will however be the street child who does not yet have a family base to attend school. (iii) On gender equity, Zambia has removed most gender disparities in the school system and will be on target on this.

(iv) Reforms in the health system may fail to achieve the targets on child and maternal mortality due to the negating effect of HIV/AIDS. However, with the growing goodwill on financing the HIV/AIDS programmes in Zambia, the spread of the disease could be halted by 2015, paving the way for reversing its spread and achieving the targets on maternal and child mortality only in the subsequent periods.

(v) Zambia has done a lot in integrating the principles of sustainable development into its policies and programmes and with the implementation of projects such as the one that is being sponsored by the Bank on afforestation, the loss of environmental resources would be reversed by 2015.

3.3 Challenges and Risks

Challenges

3.3.1 Financing Poverty Reduction by the Government: The challenge facing the Government is to demonstrate its commitment to the implementation of the PRSP by fully financing its share of the programme. In the past, there had been poor budgetary allocations by the Government for its share of development programmes, due to resource constraints and poor budget management. But as the Government is benefiting from HIPC's resources (see 2.2.3), as well as from the assistance by the Bank Group and other donors to improve its fiscal system and budget management, it is expected that there will be better funding of development programmes during 2002-2004.

3.3.2 Keeping the mines afloat and diversifying the economy: Government is saddled with the challenge of finding an investor or a group of investors to substitute for the role of the Anglo American Corporation (ACC) that has indicated its intention to divest from the copper mines in Zambia. As copper export is the major source of foreign exchange and revenue to the government, it is critical that the mines are kept running, if government is to achieve its projected own financing of the PRSP. It is a major challenge for the government to find ways and means to keep the mines running in the short-run, while in the medium to long-term, the desirable option is to sufficiently diversify the economy to increase its resilience and reduce its dependence on the mines.

3.3.3 Decentralisation: The decentralisation policy that would empower the lower tiers of government to participate effectively in the poverty reduction process has been on the drawing board for too long. Government would need to speed up the approval and implementation of the decentralisation programme to enhance participation, efficiency and service delivery at the provincial and district levels during 2002-2004.

Risks

3.3.4 **Revenue Shock:** Government has yet to secure alternative investors to replace the AAC in the copper mines and this poses an immediate risk that the major mines may not maintain their levels of output which will entail a serious revenue shock to the government. This scenario may, however, not materialise as the continued interest of the IFC and the CDC on the mines could facilitate securing new investors. The mitigating factor for the revenue shock is the good will Zambia enjoys among the donor community on which it may rely for increased resources to finance the PRSP. It will, therefore, be important that Zambia remains faithful and committed to the implementation of necessary reforms to sustain the good will of donors.

3.3.5 **HIV/AIDS** pandemic may still pose a source of risk if the rate of new infections is not quickly halted as further loss of qualified manpower in the public and private sectors, including the informal agriculture sector could result in a serious labour force crisis. A lot of expectations are placed on the implementation of the HIV/AIDS programme that has, fortunately, received generous support from donors to contribute to ameliorating the situation.

3.3.6 **Drought conditions** could affect agricultural production, causing food shortages and a worsening of poverty. However, recent investments in irrigation facilities (Small-Scale Irrigation Development Project) by the Bank, is expected to provide a cushion in an event of drought when completed. Zambia would further rely on humanitarian assistance by the outside world to mitigate the risk.

3.3.7 **Implications on Bank Group Resources:** The risk of *revenue shock* and *HIV/AIDS* could impact adversely on the Bank Group portfolio if they occur. That of revenue shock could result in non-payment of counterpart funds on the Bank-financed projects, leading to delays in project implementation. It could also lead to non-repayment of Bank Group loans. But as stated in section 3.3.4, the goodwill of Zambia among the donor community would prevent the worst-case scenario from occurring. The risk arising from the HIV/AIDS could also lead to dearth of qualified personnel to implement Bank Group-funded projects, however, given the Bank's usual competitiveness in the local labour market, it would still be able to recruit qualified personnel for its operations, although at higher costs. The risk of *drought* could compel the Government to seek emergency assistance from the Bank, and during 2003 and 2004, the Bank may face the challenge of assisting Zambia with up to US\$1 million.

3.4 Strategic Partnership

3.4.1 The Bank Group participates in the four main donor co-ordination meetings on Zambia, namely: i) the Consultative Group (CG) meeting; ii) the Special Programme of Assistance (SPA), iii) Donor Working Group meetings on each sector; and iv) the occasional meetings of donors with the Ministry of Finance and National Planning. The CG meeting is the most important forum that brings together all the donors on Zambia, and the Bank participates actively in it. The absence of an office in Lusaka makes the Bank's participation in the donor working group meetings irregular, but whenever the meeting is scheduled in advance or whenever it holds while there is a mission in Lusaka, the Bank participates. Bank missions also do consult the donors resident in Lusaka to follow up on their programmes and to harmonise them with those of the Bank.

Box 3: Donor Support By Sector

The Government of Zambia has a good working relationship with the country's development partners who normally coordinate their operations among themselves. Most of the operations are financed and co-ordinated through Sector Investment Programmes (SIPs). There are the SIPs in agriculture, health, education, power, and roads sectors and where there is no SIP, operations of the donors are streamlined the Government's sector strategy. In the medium term, the support of donors will be within the framework of the Poverty Reduction Strategy Paper. Below is a summary of donors that have been active in Zambia, who are likely to remain the major partners of Government on the implementation of the PRSP in the various sectors.

Agriculture: Among the donors participating in the sector with the Bank Group are DANIDA, DfID, EU, Germany, JICA, Kuwait, Netherlands, Norway, UNDP and the World Bank.

Health and Education: The Bank Group is actively supporting health and education projects in Zambia. For the health sector, the other donors are, CIDA, DANIDA, EU, Irish Aid, JICA, Netherlands, SIDA, USAID, UNDP and the World Bank. For the education sector, the donors are DANIDA, DfID, EU, Finland, Irish Aid, JICA, Netherlands, Norway, OPEC Funds, USAID, UNDP, UNICEF, and the World Bank.

Power: The SIP is being financed by the Bank Group, EIB, NORAD, DBSA, NDF, SIDA, CFD, FINNIDA, and the World Bank.

Water and Sanitation: The Bank Group stands out as a major player in this sector, and other participating donors include, the World Bank, Germany, Norway, Japan, Ireland, DFID, EU.

HIV/AIDS: Bank Group, Global HIV/AIDS initiative, World Bank, all other donors.

Roads: The road sector investment programme is supported by the Bank Group, DANIDA, DfID, EU, Germany, JICA, Kuwait, Netherlands, Norway, UNDP and the World Bank.

3.4.2 In the course of implementing the PRSP in the medium term, the Bank Group will endeavour to participate more actively in coordinating its activities with other donors to ensure synergy in promoting poverty reduction as enunciated in PRSP. The Bank will encourage the donors resident in Lusaka to plan donor consultation meetings at least two weeks in advance so that Bank missions could be scheduled to coincide with such meetings. The same will apply to the occasional meetings of donors with the MOFNP. The Bank will continue the practice of individually consulting other donors at every stage of a project cycle.

Box 4: Participatory Process in Preparing the CSP

Stakeholder participation in developing this CSP is anchored on the participation in preparing the Zambia Poverty Reduction Strategy Paper (PRSP). The PRSP was prepared through extensive country-wide consultations that involved all stakeholders, including the legislature, government establishments, the private sector, academia, NGOs, CSOs, donors, and the grassroots, represented by the provinces and the districts. The preparation of the PRSP was managed by the PRSP Secretariat in the Ministry of Finance and National Planning.

The first set of consultations were the **awareness seminars** to explain the basic concept of the PRSP to the stakeholders. There were seminars for senior government officials, parliamentarians, provincial

administrators, and for general stakeholders. Through the seminars, consensus was reached on the process for preparing the PRSP and as recommended by the seminars, **eight working groups** were set up to lead the drafting of sections of the PRSP and each working group had representation across the spectrum of stakeholders, including the donors, with the participation of the Bank Group. The working groups produced zero drafts of the report which were discussed in another round of seminars.

As part of the PRSP, participatory research was conducted on the communities on their perception of poverty, its causes and solutions. A PRSP conference was held in each province with at least 10 participants from each district, including representatives of NGOs, CSOs and traditional institutions. Finally, a national summit was held to discuss the first draft of the PRSP. The final version of the Zambia PRSP is therefore a product of wide consultative process that involved all stakeholders.

As the PRSP had just been completed in April 2002, it was not expedient to start another formal session of stakeholders during the CSP preparation mission in May 2002. However, the CSP preparation mission consulted with the Government, several NGOs and CSOs as well as with other donors on the Bank Group strategy. The CGP preparation mission in July 2002 repeated similar consultations. The CG meeting in July 2002 in Zambia provided another opportunity for further consultations on the CSP and the strategy proposed in this document is a product of these consultations.

During the CSP dialogue mission in April 2003, a workshop was organised for the stakeholders to review the draft CSP and to provide their final input on the Bank Group strategy. Thirty-three persons, representing the NGOs, CSOs, donors, the private sector and the government participated at the workshop. Following the discussions at the workshop and its consensus, the draft lending strategy and programme were modified, and the outcome is the proposed strategy and programmes in Chapter V. The strong emphasis of the strategy on water and sanitation, and child welfare reflects the general view at the workshop.

IV BANK GROUP ASSISTANCE PROGRAMME

4.1 Assessment of the Previous Strategy

4.1.1 **Previous Lending Strategy:** During 1999-2001, the thrust of the Bank Group's lending strategy was to contribute to poverty reduction and improved social welfare, with focus on: agriculture and conservation of the environment; improving the social sector; infrastructure development in public utilities; and economic management and promotion of good governance.

4.1.2 The Boards approved a lending programme that recommended a total commitment of UA 46.9 million (UA42.7 million for projects and UA4.2 million for TAF) for the period 1999-2001 and a policy-based support of up to 50 per cent of the basic allocation. Following a reduction in Zambia's allocation after the 2001 CPA exercise, the allocation was revised downwards to UA34.93 million, comprising UA32.38 million for projects and UA2.55 million for TAF. Actual Bank Group total commitment amounted to U37.77 million, showing that the total revised allocation of UA34.93 million was exceeded by 10.8 percent. In addition, the Bank Group approved one policy-based operation, two debt relief operations, and one private sector credit, as shown in table 1 below.

4.1.3 The 1999-2001 lending strategy was correctly focused on poverty reduction and improved social services as reducing poverty has remained the main development challenge in Zambia. It enabled the Bank to provide an irrigation project to address the major problem of drought and food insecurity in Zambia. It also rightly directed the Bank's operation to the area of preserving

environmental resources as one of the approved projects addressed the problem of fast depletion of woodland resources. In the public utilities, the strategy guided an intervention in rural power supply to aid food and export crop processing by the poor. In the social sector, it supported the provision of education facilities and enabled the Bank to catalyse donor interventions in tackling the HIV/AIDS pandemic by pioneering the establishment of the HIV/AIDS secretariat that coordinates donor interventions on HIV/AIDS. Above all, through its focus on economic governance, the Bank supported a good governance operation to lay the foundation for transparency and accountability in fiscal management and to address the problem of fiscal indiscipline that has been the bane of budget implementation in Zambia.

Table 1: Bank Group Approved Projects and Programmes, 1999-2001

Name of Operation	Amount
<u>Public Sector Projects and Programmes</u>	
i) Education III Project	UA8.5 million
ii) Victoria Falls – Katima Mulilo Transmission Line Small-Scale	UA 4.85 million
iii) Irrigation Development Project	UA 6.05 million
iv) Central Province Rural Water Supply and Sanitation Project	UA12.41 million
v) Village-Based Community Woodlands Project	UA4.43 million
vi) Institutional Support for HIV/AIDS Project	UA1 million
vii) Support for Fiscal Transparency and Accountability Programme	UA16.2 million (PBL) UA0.53 million
<u>Debt Relief</u>	
Supplementary Financing Mechanism (SFM) loan of million was	UA4.97 million
HIPCs Debt Relief	US\$146 million
<u>Private Sector</u>	
Rehabilitation of Lusaka Intercontinental hotel	US\$5 million.

4.1.4 Due to resource limitations, accentuated by the mid-term reduction in the resource envelop for Zambia, the scope and depth of activities in the chosen sectors were limited and no intervention was implemented in the transport sector. Useful as all the interventions have been, they appear to have been too many in the light of the implementation capacity of government and even from the standpoint of cost-effectiveness on the side of the Bank. The poor capacity of the government to manage seven new operations that were approved over a period of two years is manifested in some of the operations not being effective, 12 months after approval.

4.2 Bank Group Portfolio and Portfolio Management

4.2.1 The Bank Group has to-date committed a total of UA 548.39 million, net of cancellations, to Zambia to finance 35 projects, 5 lines of credit, 5 policy-based programmes, 4 institutional support

operations, 8 studies, and 1 debt relief operation (Supplementary Financing Mechanism). The net commitments comprise of UA 254.02 million (46.3%) from ADB resources and UA 294.37 million (53.7%) from ADF/TAF resources. The industry sector has received the largest share of Bank Group financing (37.68%), followed by public utilities (24.36%), agriculture (12.61%), the multi-sector (9.90%), the social sector (8.69%), and transport (6.77%).

4.2.2 The overall disbursement rate on the Bank Group portfolio is satisfactory at UA 474.45 million (86.5%) while the disbursement rates on ADB and ADF/TAF loans are UA 253.66 million (99.86%) and UA 220.8 million (75.01%) respectively. The low disbursement rate on the ADF/TAF window is due to recent ADF/TAF commitments. Approved projects since 2000 for the ADF/TAF window represent 40% of the on-going operations and about 25% of the entire commitments under the ADF/TAF window.

4.2.3 **Loan Repayments:** Over the past three years, Zambia has maintained a good record of loan repayments and is currently not in arrears and not under sanctions. In 2000, Zambia benefited from the Bank Group Supplementary Financing Mechanism (UA4.97 million) and since January 2001 it has been receiving debt relief from the Bank Group under the HIPC (US\$146 million).

4.2.4 **Project Implementation Experience:** The 2000 Bank Group Annual Portfolio Performance Report (ADB/BD/WP/2002/30) showed that the average age of projects in Zambia has systematically decreased from 7.2 in 1998 through 6.2 in 2000 to 5.1 in 2001. The report further showed that the number of actual problem projects had dropped to zero, from three in the earlier period. The APPR however noted that 5 projects were potentially problematic, principally due to slow implementation progress. Like the APPR, the supervision mission reports have also recognised the improvements in the performance of the Zambian portfolio. These improvements have resulted from a number of measures, that include increased coordination between the Ministry of Finance and National Planning (MOFNP) on the one hand and the line ministries and implementation agencies on the other hand, that has led to better performance of the sector projects. There has also been improved budgetary allocation for counterpart funding of projects, improved procurement management and improved submission of project progress and audit reports by the PIU task managers who have benefited from the Bank's project management workshops.

4.2.5 **Measures to Improve Portfolio Performance:** The APPRs, PCRs, Portfolio review and Supervision mission reports have provided lessons on ways to further improve the Zambian portfolio. One outstanding problem of the portfolio that is responsible for the potential problematic projects is the start-up delay that is principally caused by delays in submitting legal opinion to the Bank and fulfilling conditions precedent to entry into force of loan agreements. This problem stems from the under-staffing and ineffectiveness of the Office of the Treasury Counsel in managing the fulfilment of loan conditions. Government has agreed to increase the staffing of the Office of the Treasury Counsel and to enhance its operational efficiency through provision of working facilities. Government has also assured that with the reform of the budgetary process, from 2003 the counterpart funding for all approved donor-funded projects would be provided for in the budget and timely released. On the part of the Bank, task managers will continue with regular supervision of all ongoing projects. For new operations, there will be budgetary provisions for external project audit as the audit capacity of the government's internal audit department is weak. The Bank would organise seminars on procurement, disbursement and project management procedures for all PIU staff at least once every 18 months to continuously update project management personnel with the rules of the Bank. Also, increased selectivity in the choice of projects and reduction in the number of operations would help to align the Bank Group portfolio with the government's operational capacity.

4.2.6 Private Sector Portfolio: The Bank has made three private sector investments in Zambia totalling US\$17.83 million. The first investment is a loan of US\$ 10.83 million to the Swarp Spinning Mills Limited that was approved in 1995. After few years of positive financial and operational performance, the textile project ran into difficulties due to a combination of many factors, particularly falling prices of yarn in the world market and management problems. These problems have affected the repayment of the Bank loan and measures to strengthen the management of the company and a restructuring plan are being implemented. The second investment is an equity participation of US\$2 million in the Zambia Venture Fund Limited that was approved in 1998 and disbursed in 1999. The company is in a healthy operating condition. The third investment of US\$5 million was approved in 2000 to finance the rehabilitation of the Lusaka Intercontinental hotel that has been completed. The loan has been fully disbursed and the company is up-to-date in servicing the Bank's loan.

V BANK GROUP STRATEGY

5.1 Bank Group Medium-Term Strategy

A. Public Sector

5.1.1 The focus of the Bank's lending strategy is an outcome of the consultations with the government, other donors, NGOs and civil society organizations. The strategy is shaped by the need to concentrate in a few areas where the operations will have the highest development impact. Thus, the Bank Group medium term strategy will focus on poverty reduction, with the objective of improving social services and promoting growth. To improve social services, the Bank will support: Water and Sanitation, and Child Welfare. To promote growth, the focus will be on agriculture. In the policy front, the Bank will focus on promoting conditions for good Economic Governance as a means of achieving the two objectives of improving social services and promoting growth. Cross cutting themes will be mainstreamed in the Bank Group interventions and the major challenges will be on gender, environment, and HIV/AIDS. The proposed strategy was fully shared by the Government, CSOs, NGOs and other stakeholders during the CSP dialogue mission. The components of the strategy to be supported under each of the lending scenarios are discussed in section 5.3.

5.1.2 The choice of these sectors is informed by the catalytic roles they would play in promoting poverty reduction while taking into account the complementary activities of other donors in other sectors (Box 3), the Bank's historical focus in the country and the preferences of the Government and the civil society. The Bank has been one of the lead donors in Water and Sanitation and the planned intervention will complement the previous operations while building on feasibility studies already financed by the Bank. The intervention on Child Welfare Programme is envisaged as an initial catalytic operation that will pave the way for future operations by other stakeholders to address the problem of HIV/AIDS-orphans and the street children who have been neglected in the past. This particular intervention was of a very high priority to the CSOs, NGOs and the Government who pressed it upon the Bank to guide and assist them in tackling the challenge. The PRSP has recognised agriculture as a sector that would play a pivotal role in promoting growth, as a basis for poverty reduction. The focus of a policy-based operation on economic governance (domestic debt and decentralisation) results from the Country Governance Profile that has pointed to these aspects of governance as part of the major challenges in the medium term. Another major challenge on governance is on strengthening institutions, which is already being addressed by the Bank and other donors (2.5.11).

Sectoral Focus

(a) Water and sanitation:

5.1.3 ***Sectoral Constraints to be addressed:*** Water and sanitation constitutes a critical area in the fight against poverty and disease in Zambia, and the poor performance of the sector mirrors the state of poverty in the country. From the installed facilities, access to safe water covers 89 % of the population in urban areas and 37% in the rural areas, while for sanitation, it is 73% for urban areas and 68% for rural areas. In the peri-urban areas where 50-70% of the urban population live, water supply and sanitation facilities are extremely poor, and unreliable, as only 44% of the population have access to safe water and a mere 10% have access to sanitation facilities. In areas with poor water and sanitation facilities, particularly the peri-urban centres, there have been annual outbreak of waterborne diseases during the rain season, often leading to deaths and severe burden on the health facilities.

5.1.4 ***Intervention Strategy:*** The Bank Group would focus on rehabilitating and expanding existing facilities in the peri-urban and rural areas where the country is most deficient and where dwellers are most vulnerable to outbreak of diseases. The instruments will be project loan and grant. As indicated above, peri-urban areas where the bulk of the urban population live, are the worst hit in terms of poor sanitation and shortage of drinking water. Central Province, which will be the target of the Bank Group intervention, is one of the provinces where absence of safe water and sanitation is most pronounced and where 77% of the population are poor, higher than the national average. Operations in this sector will have an integrated health component to address the HIV/AIDS problems and water-born diseases, especially cholera in the project areas. The intervention would complement the previous Bank Group-financed water supply and sanitation projects covering the rural areas of the Central Province. The expected outcome of the intervention is that access to safe drinking water and safe sanitation will be ensured for about 300,000 persons by the time the project is completed in 2006, as 16 million cubic metres of safe water would be supplied annually from the project.

Proposed Operation: Water and Sanitation Project in Eight Centres in the Central Province

(b) Child Welfare

5.1.5 ***Sectoral Constraints to be addressed:*** According to the *Zambian Demographic Health Survey* of 2001, there are over 4 million children in Zambia, and most of them are being brought up under conditions of poverty. As much as 16% of children are orphans and there are about 75000 children living on the streets in Zambia. It has been estimated that there are over 1 million orphans and other vulnerable children who, besides being poor, live in extremely difficult conditions and have no access to basic social services. The most vulnerable ones are the HIV/AIDS orphans, estimated at 620,000 in 2000 and projected to reach 974,000 in 2014 (section 2.5.1).

5.1.6 ***Intervention Strategy:*** The Bank Group intervention will be anchored on the objectives of the Government's policy on child welfare as enunciated by the Ministry of Community Development and Social Services which are (i) to maximize access of vulnerable persons to education and health services; (ii) to encourage responses to the needs of orphans and vulnerable children; (iii) to ensure that professional standards are set and maintained through training and supervision of service providers; and (iv) to coordinate the activities of service providers.

5.1.7 Programmes to be supported by the Bank would include (i) programmes (especially in health and education) targeting the needs of orphans and vulnerable children (OVCs); (ii) providing training in professional practice to grassroots workers in order to improve the quality of welfare services; (iii) raising awareness on issues concerning OVCs, encouraging extended families for Ophans and

Vulnerable Children (OVCs); and (iv) supporting institutions concerned with the rehabilitation of OVCs.

Proposed Operation: Child Welfare Support Programme

(c) **Multi-sector:**

Policy-Based Operation:

5.1.8 ***Sectoral Constraints to be addressed:*** While efforts have been made to address the problem of external debt in Zambia (see section 2.2.2), domestic debt still constitutes a major threat to the stability of the economy. At the end of 2002, the total stock of domestic debt amounted to Kwacha 2,249 billion, which amounts to about 60% of the Governments annual budget for 2003. In 2002, interest payments on domestic debt amounted to 2.8% of GDP and over 15% of the total tax revenue. The public sector borrowing requirements to service the domestic debt has been the principal factor responsible for the high interest rate at about 50 percent, which makes it difficult for the productive sector, including micro enterprises to borrow. Zambia would need assistance from the Bank Group and its other cooperating partners during 2002-2004 to address the problem of its domestic indebtedness. Policy-based support would seek to reduce the stock of domestic debt and address its effect on interest rates and macroeconomic stability with a view to reducing the rate of inflation and stabilising the economy.

5.1.9 Another major focus of the Bank Group policy-based operation would be on decentralisation. The decentralisation policy has been on the drawing boards for too long and concrete actions are now needed to move its implementation forward. Specifically, the Bank Group would seek to secure the approval of the decentralisation policy by the Cabinet and ensure that its implementation is commenced, especially in the aspect of devolution of fiscal functions to the provincial and local authorities. The policy would be made to define in operational terms the extent and limits of actions by the central government, provincial administrations, local government authorities/councils and other stakeholders.

5.1.10 ***Intervention Strategy:*** The instrument will be programme loan (policy-based loan). In supporting policy-based operation, the Bank Group will operate through either balance of payments support or budget support. The adoption of budget support will depend on the outcome of the efforts that have been devoted in the recent years to fiscal reforms. The Bank has supported a programme to promote fiscal transparency and accountability that complemented a similar programme by the World Bank on fiscal sustainability. Components of the Bank's operation include budget reforms, promoting autonomy and operational efficiency of the Office of the Auditor-General, improving public procurement systems and enhancing the capacity of the Anti-Corruption Commission to ensure that deviations from fiscal standards are punished.

5.1.11 Through the policy-based operation, it is expected that by 2004, Government would have approved the decentralisation policy and started its implementation. Also, the increase in the stock of domestic debt would have been halted by 2004 while the total stock of domestic debt would be reduced at least by 10% annually from 2005. Interest rate would be reduced from about 50 % to below 30% from 2005

(d) **Capacity Building**

5.1.12 The local capacity to implement development projects is critical in ensuring that such operations achieve their intended impact on development. Improvements in the implementation

performance of Bank Group projects have been linked to the efforts of the Bank Group and other donors in promoting local capacity on project management. In the medium-term, capacity building efforts will focus on developing human capacity and creating administrative infrastructure for project management. Capacity building activities will be mainstreamed in the projects on Water and Sanitation, Child welfare and agriculture. On the child welfare support programme that will constitute the main capacity building activity, the Bank Group would assist the Government to create the institutional framework for delivery of assistance to orphans and vulnerable children, in the same manner as an institutional framework has been created for HIV/AIDS problem.

(e) **Agriculture:**

5.1.13 *Sectoral Constraints to be addressed:* The major problems of the agriculture sector are, drought, poor access to inputs by smallholder farmers, poor infrastructure, and lack of access to credit and market by farmers, especially those in the rural areas. The challenge in the medium term for the agriculture sector is to increase the agricultural productivity and incomes as the driving force for reducing rural poverty, enhancing food security and providing the base for accelerated growth in the overall economy in a sustainable manner.

5.1.14 *Intervention Strategy:* In Agriculture, the Bank would seek to expand agricultural infrastructure to make agricultural production less susceptible to weather conditions, with the primary target of ensuring food security. Further, agricultural practices, such as the out-grower schemes that have proved to be effective in poverty reduction would be supported. An outgrower scheme encompasses development of new farm blocks (as part of the 18 farm blocks proposed in the PRSP), provision of credit to farmers, and guaranteed market and crop storage facilities. The Bank's instruments will be project loan and grant for capacity building. The expected outcome of the operation would be an increase in the farm land by 5,000 hectares to 70,000 hectares, thus ultimately increasing food production (particularly maize) by about 7.5% and providing employment for at least 3000 farmers, by 2007.

Proposed Operation: Agricultural Development Project

5.1.15 **Grants:** Twenty-seven percent (27%) of Zambia's total allocation will be in grants. The proposed grants would be used to finance: (i) Child Welfare Support Programme;(ii) part of water and sanitation project; and (iii) capacity building activities in agriculture. Grants will also be used to support mainstreamed HIV/AIDS, gender and environmental concerns in any operation. The benefits of the grants would be measured from the project matrix of the child welfare support programme that will have performance monitoring indicators. The component of the water and sanitation project that would be financed with grants will also be clearly identified, with measurable indicators. Similarly, the rest of the capacity building activities in agriculture and the cross-cutting themes will be concretised, with measurable indicators.

B. Private Sector

5.1.16 The Bank's private sector activities in Zambia during 2002-2004 will depend on the emerging business climate. As the business climate improves, the Bank would seek to increase its private sector activities through direct investment and technical assistance. In this regard, the Bank will intensify its efforts to identify projects, which it can finance directly in sectors such as, manufacturing, tourism, agribusiness, financial services and infrastructure. These sectors offer potential for new investments or rehabilitation of existing enterprises. To address the needs of small and medium scale enterprises, the Bank will explore the possibility of providing lines of credit to financial institutions with a good track record.

5.2 Risks Associated with the Bank Group Strategy

The risks identified in section 3.3 that could affect the implementation of the PRSP could also affect the implementation of the Bank Group strategy as the strategy is firmly anchored on the PRSP. Further, the efficiency and commitment of the public sector workers to implement the Bank Group projects and programmes will be critical in achieving success on the strategy. It is expected that with fewer number of new operations government would effectively manage their implementation.

5.3 Lending Scenarios

5.3.1 Base Case Scenario: The overall indicative allocation to Zambia under ADF-IX is UA36.25 million, made up of UA26.46 million for loan and UA9.97 million for grant. Zambia could also receive up to 50% of this allocation for a policy-based operation. The allocation is derived from the Country Performance Assessment (CPA). Resources under the scenario will be used to finance operations on water and sanitation, child welfare and the policy-based operation on economic governance. The lending programme under the base case scenario is recommended for Zambia.

5.3.2 High Case Scenario: Zambia could graduate to a high case scenario if its performance improves significantly, especially in the areas of decentralisation, anti-corruption, granting autonomy to the Office of the Auditor-General, and domestic debt management (see table 2 for the full criteria for graduation to high case scenario). Under this scenario, Government would receive additional resources up to 50% of the base case scenario. Resources under the high case scenario will be used to finance an operation in agriculture.

5.3.3 Low Case Scenario: If the Government's performance becomes weak, especially in the areas of decentralisation, anti-corruption, granting autonomy to the Office of the Auditor-General, and domestic debt management (see table 2), its allocation will be limited to 20% of the base case scenario. Under this scenario, the Bank will only finance the child welfare support programme.

5.4 Non-Lending Activities

The Bank will assist Zambia to strengthen the policy environment through preparation of policy advisory work such as Public Expenditure Review, Country Financial Accountability and Assessment, Financial Management of HIPC's resources, and Guidance on the administrative and Organisational arrangement for implementing the PRSP.

5.5 Co-financing and Catalysing External Resources

The projects financed under ADF-VIII were either co-financed or harmonised with the operations of other donors funding similar activities in Zambia. The Water and Sanitation project and the HIV/AIDS project were coordinated with other donors supporting these sectors while the Education III project was financed under Education Sector Investment Programme. The policy-based operation (SFTA) was co-financed by the IMF (US\$340 million), the World Bank (US\$95 million), the EU (US\$79 million) and The Dutch (US\$30 million). During 2002-2004, efforts will be intensified to operate under sector wide approach while co-financing and harmonisation with other donors will be explored where a sector-wide approach does not exist.

5.6 Monitoring Outcomes

A department has been created in the MOFNP to coordinate and monitor the implementation of the PRSP and the Bank is already supporting external training of the staff of the department to strengthen their capacity on monitoring and evaluation. The Bank will liase closely with this department in monitoring the implementation of the PRSP and the Bank's lending programme. As a guide to the monitoring exercise, a matrix of indicators and outcomes is shown in Annex 4.

Table 2: Lending Scenarios

Policy Developments	Triggers		
	Low Case Scenario	Base Case Scenario	High Case Scenario
(i) Portfolio Rating (Project at risk)	>50%	25-50%	<25%
(ii) Decentralisation	Government announces discontinuation of the decentralisation process	Policy document under preparation	Policy document finalised and approved by Cabinet
(iii) Anti-corruption (Anti- Corruption Commission-ACC)	Government fails to release full budgetary allocation to ACC over a period of 3 months	Prospective ACC Commissioners identified and under review	Commissioners appointed for the Anti-Corruption Commission (ACC)
(iv) Autonomy to the Office of the Auditor-General (OAG)	Government fails to release full budgetary allocation to OAG over a period of 3 months	Document on the autonomy of the OAG tabled before the Cabinet for approval	Cabinet approves the document on the autonomy of OAG
(v) Domestic debt	Stock of domestic debt exceeds end 2002 level by >5%	Policy on domestic debt under preparation	Stock of domestic debt reduced from end 2002 level by >5%

5.7 Issues Requiring Dialogue

5.7.1 During 2002-2004, the Bank will consult with the government to elicit and sustain government's political will to implement the PRSP and other policy measures. The Bank would focus on persuading government to initiate practical actions on the following:

- (a) Counterpart Funding of Development Programmes: The government needs to lead the process of implementing the PRSP by devoting appropriate budgetary allocations for

financing its share of the PRSP and ongoing development projects. Also, Government is required to make budgetary allocation for counterpart funding of Bank Group projects and to ensure that the funds are timely released.

- (b) Implementation of the decentralization programme: Government would be required to approve the decentralisation policy and to commence its implementation. Specifically, there is need to enhance the administrative and fiscal autonomy of the lower tiers of government, namely the provincial and district authorities.
- (c) Portfolio Improvement: The major problem of the Bank Group portfolio is start-up delay, which, arises because Government is not normally proactive in meeting loan and grant conditions. The office of the Treasury Counsel would be required to play proactive roles in fulfilling loan and grant conditions.
- (d) Rehabilitation of Street Children: The Bank would engage the Government in a dialogue on the Government's programmes to rehabilitate the street children and integrate them into the education system. The Bank expects Government to develop a formal programme and to create the institutional framework for addressing the problems of the affected children.
- (e) Domestic Debt Management: The Bank and the Government would initiate dialogue on the strategies to address the problem of Government's domestic indebtedness. It is expected that Government will be committed to exploring alternative ways and means to finance interest payments on domestic debt rather than crowding out the private sector in the domestic money market by issuing expensive borrowing instruments. There is also the need to explore how to repay the existing stock of domestic debt.
- (f) Implementation of Land Reforms: Government is required to facilitate the process of granting title deeds to land to promote long term investment (section 2.6.3). Government is to create the institutional mechanism for smooth and accelerated processing of title deeds to land.
- (g) Domestication of International Conventions: Government is required to domesticate the international conventions it has signed by incorporating them into national laws. Some of these include the conventions on: the elimination of all forms of discrimination against women; the rights of the child; the elimination of all forms of forced or compulsory labour; the abolition of child labour; and the right to collective bargaining.

5.7.2 The dialogue will continue with Government on its affirmation to implement the required policy measures. The Bank will continue to follow up with the Government to ensure that the full policy expectations on the issues are realised. It should be noted that other donors are also concerned with the dialogue issues especially with respect to funding development programmes, the decentralisation programme, rehabilitation of street children, domestic debt management, and the implementation of land reforms. The Bank will liaise closely with other partners on the dialogue issues.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

6.1.1 Zambia has demonstrated sustained commitment towards poverty reduction, having continued with its programmes on structural and policy reforms, and most recently, finalised a poverty reduction strategy paper that presents a comprehensive and viable programme for poverty reduction. The PRSP shows that the country faces a major challenge in terms of the need to undertake reforms and implement programmes and projects to address the poverty reduction challenge within the context of the Millennium Development Goals. Assistance by the Bank and other external partners would play a significant role in realising the targets of the PRSP. Zambia has remained on track in meeting the HIPC triggers, including completing the PRSP, setting up the HIV/AIDS secretariat and successfully implementing the PRGF arrangement of the International Monetary Fund. The World Bank is among the donors supporting the implementation of Zambia's PRSP. Zambia has remained faithful to servicing its external debt to the Bank Group and other development partners. Further, the performance of the Bank Group's portfolio in Zambia has been improving.

6.1.2 Anchored on the Government's Poverty Reduction Strategy Paper, the Bank's strategy for Zambia during 2002-2004 will focus on poverty reduction and will aim to improve social conditions, and to promote growth and economic governance. The Bank will therefore support operations to improve water and sanitation conditions, child welfare, and agricultural production. In addition, the Bank will support a programme to promote economic governance, especially in the areas of decentralisation and domestic debt management. The Bank will finance viable projects in any sector.

6.2 Recommendations

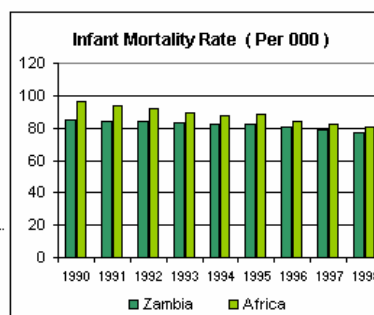
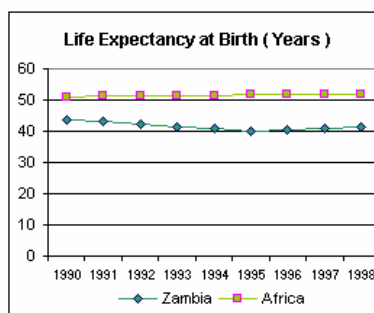
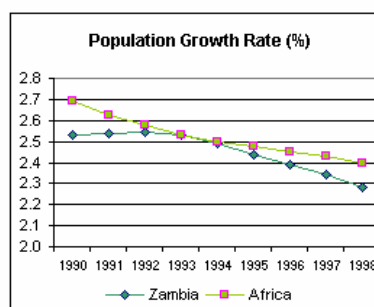
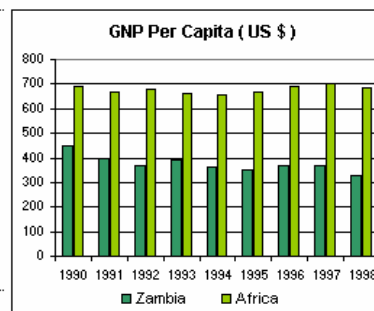
The Boards of Directors are invited to approve the proposed lending strategy and sectors of intervention indicated in the CSP namely, the social sector (water and sanitations, and child welfare support programme). The indicative allocation to Zambia is UA36.25 million, made up of UA26.46 million for loan and UA9.97 million (27%) for grant. Zambia could also receive up to 50% of this allocation for a policy-based operation to support economic governance. The Boards are also invited to note the proposed lending scenarios and triggers, the non-lending activities, and the proposed intervention in agriculture with additional resources under the high case scenario.

ZAMBIA: BANK GROUP OPERATIONS (On-going)										
UA 'millions										
	PROJECT	APPROVED	SIGNED	EFFECTIVE	SOURCE	AMOUNT	DISBURSED	UNDISBURSED	DISBURSEMENT	DISBURSEMENT DEADLINE
									Ratio(%)	
AGRICULTURE SECTOR										
1	Agricultural Sector Investment Program	17/12/1996	24/04/97	22/04/1998	ADF	15.000	2.297	12.700	15.31	31/12/2003
2	Village Based-Woodlands Management Project	14/11/2000	20/06/2001	12/11/2001	ADF	4.130	0.000	4.1300	0.00	31/12/2005
	Village Based-Woodlands Management Project	14/11/2000	20/06/2001	12/11/2001	TAF	0.300	0.000	0.3000	0.00	31/12/2005
3	Small-Scale Irrigation Project	07/09/2000	06/02/2001	15/03/2002	ADF	5.290	0.126	5.164	2.38	31/12/2007
	Small-Scale Irrigation Project	07/09/2000	06/02/2001	15/03/2002	TAF	0.760	0.000	0.7600	0.0	31/12/2007
Multi-Sector										
4	Support for Fiscal Transp & Accountability	28/06/2001	17/07/2001	2/10/2001	ADF	16.200	9.917	6.283	61.22	31/12/2004
	Support for Fiscal Transp & Accountability	28/06/2001	17/07/2001	2/10/2001	TAF	0.530	0.074	0.456	13.96	31/12/2004
PUBLIC UTILITIES SECTOR										
5	Kitwe Water Supply Rehabilitation	14/05/1997	27/05/1997	03/05/1999	ADF	17.780	16.708	1.072	93.97	31/12/2002
6	Water Supply and Sanitation Study	26/11/1998	04/09/1999	22/06/99	TAF	1.870	1.483	0.387	79.3	31/12/2002
7	Victoria Falls Katima-Mulimo Project	01/12/1999	17/02/2000	01/12/1999	ADF	4.850	0.023	4.827	0.47	30/06/2005
8	Central Province Rural Water Supply	13/12/2000	20/06/2001	12/11/2001	ADF	12.410	0.900	11.510	7.25	31/12/2006
SOCIAL SECTOR										
9	Health II (Health Sector Support Project)	14/07/1999	01/10/1999/	01 /02 /2001	ADF	8.920	0.533	8.387	5.98	31/07/2005
10	Education III	01/12/1999	17/02/2000	09/02/2001	ADF	8.500	0.874	7.626	10.28	31/12/2004
11	Support to HIV/AIDS Control Program	25/04/2001	20/06/2002	20/06/2002	TAF	1.000	0.349	0.651	34.90	31/12/2003

Note: There are 47 completed operations amounting to UA450 million.

ZAMBIA : BASIC DATA SHEET
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Zambia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		753	30,061	80,976	54,658
Total Population (millions)	1998	8.8	748.0	4,718.9	1,182.2
Urban Population (% of Total)	1998	43.6	38.2	39.6	75.6
Population Density (per Km ²)	1998	11.7	24.9	58.3	21.6
GNP per Capita (US \$)	1998	330	687	1,250	25,890
Labor Force Participation - Total (%)	1998	42.0	43.7	...	...
Labor Force Participation - Female (%)	1998	18.9	37.0	...	...
Gender -Related Development Index Value	1997	0.4	0.5	0.6	0.9
Human Development Index (Rank among 174 countries)	1997	151	n.a.	n.a.	n.a.
Population Living Below \$ 1 a Day (% of Population)	1993	84.6	45.0	32.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	1998	2.3	2.4	1.6	0.3
Population Growth Rate - Urban (%)	1998	3.2	4.3	3.1	0.6
Population < 15 years (%)	1998	47.6	42.9	33.2	18.8
Population >= 65 years (%)	1998	2.3	3.2	19.7	26.7
Dependency Ratio (%)	1998	51.4	86.9	61.7	48.8
Sex Ratio (per 100 female)	1998	97.6	99.3	103.3	94.8
Female Population 15-49 years (millions)	1998	2.0	176.2	1,213.4	296.8
Life Expectancy at Birth - Total (years)	1998	41.2	52.7	64.0	75.4
Life Expectancy at Birth - Female (years)	1998	41.7	53.4	65.8	79.1
Crude Birth Rate (per 1,000)	1998	41.4	37.7	23.8	11.0
Crude Death Rate (per 1,000)	1998	18.7	13.7	8.4	10.3
Infant Mortality Rate (per 1,000)	1998	77.2	80.7	58.9	9.0
Child Mortality Rate (per 1,000)	1998	126.6	116.1	76.2	10.4
Maternal Mortality Rate (per 100,000)	1996	230	698	488	30
Total Fertility Rate (per woman)	1998	5.2	5.0	2.9	1.6
Women Using Contraception (%)	1992	15.2	...	56.0	70.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	1990-96	10	23	76	253
Nurses (per 100,000 people)	1988-96	21	89	85	780
Births attended by Trained Health Personnel (%)	1987-92	51	...	54	99
Access to Safe Water (% of Population)	1990-97	47	55	72	100
Access to Health Services (% of Population)	1996	75	60	80	100
Access to Sanitation (% of Population)	1990-97	71	45	43	100
Percentage of Adults (aged 15-49) Living with HIV/AIDS	1997	19.1	5.7	...	...
Incidence of Tuberculosis (per 100,000)	1996	345	201	157	24
Child Immunization Against Tuberculosis (%)	1996	81	77	88	93
Child Immunization Against Measles (%)	1996	69	63	79	90
Underweight Children (% of children under 5 years)	1990-97	24	26	31	...
Daily Calorie Supply	1996	1,945	2,406	2,650	3,222
Public Expenditure on Health (as % of GDP)	1995-97	2.8	1.4	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	1994	90.8	79.5	100.0	103.0
Primary School - Female	1994	87.7	73.0	93.8	103.2
Secondary School - Total	1994	27.4	28.3	50.4	100.3
Secondary School - Female	1994	21.1	25.7	45.3	101.8
Primary School Female Teaching Staff (% of Total)	1994	44.2	45.0	51.0	82.0
Adult Illiteracy Rate - Total (%)	1997	24.9	43.5	28.2	1.3
Adult Illiteracy Rate - Male (%)	1997	16.7	33.0	19.6	1.0
Adult Illiteracy Rate - Female (%)	1997	32.5	51.6	35.8	1.5
Percentage of GDP Spent on Education	1996	1.6	3.5	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	1996	7.1	5.9	9.9	11.6
Annual Rate of Deforestation (%)	1990-95	0.8	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	1980-90	8.0	4.0	...	...
Per Capita CO2 Emissions (metric tons)	1996	0.3	1.1	2.1	12.5



Source : Compiled by the Statistics Division from ADB databases; UNAIDS; World Bank Live Database and United Nations Population Division.

Notes: n.a. Not Applicable
... Data Not Available

MAP OF THE REPUBLIC OF ZAMBIA



This map has been prepared by the ADB Group's staff exclusively for the convenience of the readers of the report of which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the Group and its affiliates, any judgement on the legal suits of any territory or any endorsement or acceptance of such boundaries.

ZAMBIA COUNTRY STRATEGY PAPER, 2002-2004: POLICY MATRIX

Diagnosis/Issue	Government's Strategy/Actions	Measurable Indicators	Implementation Time-table	A. <u>Bank Group's Instruments</u>	
				C. <u>Lending</u>	Non-Lending
<ul style="list-style-type: none"> • Macroeconomics 	<ul style="list-style-type: none"> • To achieve a high and sustained level of real GDP growth with greater equity of opportunity, income and access in a low inflation environment with a sustainable external sector position 	<ul style="list-style-type: none"> • Inflation rate, Headcount poverty expenditure on PRSP sectors Poverty Depth 	2002-2004	PBL	
<ul style="list-style-type: none"> • Agriculture 	<ul style="list-style-type: none"> • To promote a self-sustaining export led agricultural sector which ensures increased household income and food security 	<ul style="list-style-type: none"> • Agric GDP growth Agric employment growth percent of food secure households Expenditure on extension and vet. Services 	2002-2004	Project loan & grant	
<ul style="list-style-type: none"> • Tourism 	<ul style="list-style-type: none"> • To enhance the tourism sector's contribution to economic growth and poverty reduction 	<ul style="list-style-type: none"> • Tourism GDP growth rate Tourist arrivals, Bedroom occupancy rates National park road upgrades (km) 	2002-2004		
<ul style="list-style-type: none"> • Mining 	<ul style="list-style-type: none"> • To promote investment in the mining industry and ensure the development of a self-sustaining mineral-based industry 	<ul style="list-style-type: none"> • Mining GDP growth rate Mineral output (tonnes) Growth in mining employment export earnings of gemstones 	2002-2004		
<ul style="list-style-type: none"> • Industry 	<ul style="list-style-type: none"> • To promote growth of an exported-led industry leading to employment creation and poverty reduction 		2002-2004		
<ul style="list-style-type: none"> • Health 	<ul style="list-style-type: none"> • To improve the health status of all people in Zambia especially the poor 	<ul style="list-style-type: none"> • Life expectancy at birth percent of <5 immunised Health posts with 80% of est. posts filled number of antenatal patients 	2002-2004		
<ul style="list-style-type: none"> • Education 	<ul style="list-style-type: none"> • To provide relevant, equitable, efficient, and quality education for all • 	<ul style="list-style-type: none"> • Literacy rate Percent population with grade 7 and better level of education expenditure on basic education enrolment rates 	2002-2004		

Diagnosis/Issue	Government's Strategy/Actions	Measurable Indicators	Implementation Time-table	A. <u>Bank Group's Instruments</u>		
				C. <u>Lending</u>	Non-Lending	
<ul style="list-style-type: none"> HIV/AIDS 	<ul style="list-style-type: none"> To reduce the incidence, infection, and the socio-economic impact of HIV/AIDS 	<ul style="list-style-type: none"> HIV/AIDS influence number of SH cases expenditure on ARVs 	2002-2004	Grant		
<ul style="list-style-type: none"> Gender 	<ul style="list-style-type: none"> To promote gender balance, to ease the burden of poverty especially of women at the household, community and national levels 	<ul style="list-style-type: none"> TBD 	2002-2004			
<ul style="list-style-type: none"> Environment 	<ul style="list-style-type: none"> To formulate appropriate policies on the protection of the environment, management and development of natural resources, and ensure their efficient and effective delivery and implementation 	<ul style="list-style-type: none"> National Environmental policy formulated 	2002-2004			
<ul style="list-style-type: none"> Energy 	<ul style="list-style-type: none"> To ensure optimum supply and utilisation of energy 	<ul style="list-style-type: none"> Energy GDP growth rate Household electricity access (percent) Total petroleum consumption Households using wood fuel (percent) New solar applications 	2002-2004			
<ul style="list-style-type: none"> Water and Sanitation 	<ul style="list-style-type: none"> To contribute to poverty reduction through increased access to safe water and sanitation, increased food production and food security 	<ul style="list-style-type: none"> Percent of households with access to safe drinking water percent of households with access to safe sanitation volume of treated water produced number of boreholes sunk 	2002-2004			Project loan & grant
<ul style="list-style-type: none"> Governance 	<ul style="list-style-type: none"> To promote good governance in the management of private and public affairs as a mechanism of poverty reduction 	<ul style="list-style-type: none"> TBD 	2002-2004			PBL

ZAMBIA: Macro-economic Indicators

Annex 5

	1999	2000	2001	2002	2003	2004
			Est.	Projected		
(Annual percentage change, unless otherwise indicated)						
Real GDP	4.0	4.5	5.5	3	4	4
Inflation rate	20.6	30.1	18.7	26.7	5	5
Av. Official exchange rate (kwacha/US dollar)	2632	4158	4158	3830	3830	3830
(In percent of exports of goods and services)						
External debt*						
External debt service before rescheduling 1/	37.0	36.7	49.0	50	50	50
Total external debt	663	591	533	533	533	533
(In millions of U.S. dollars, unless otherwise indicated)						
Overall balance of payments	-111	-294	-209	-200	-200	-200
Gross official reserves (end of period)	46	114	187	229	299	384
In months of imports of goods and services	1.4	2.3	2.8	3.2	3.2	3.2

Sources: Zambian authorities; IMF staff estimates and projections and ADB Staff computations.

1/ External debt pertains to public and publicly guaranteed debt

2/ Excludes "dormant" commercial debt not tendered in 1994 buyback, which authorities estimate to be US\$85million.

*The external debt projections have not taken into account the debt relief of US\$1.06 billion granted By the Paris Club in 1999, and possible operations under the HIPC's debt relief. The actual figures are expected to be substantially lower.

National Accounts (Gross Domestic Product at Current Prices, 1997-2001)

Annex 6

Kind of Economic Activity	1997	1998	1999	2000	2001
			(In K'Billon)		
Agriculture, Forestry and Fishing	844.7	1,127.90	1,614.40	2,002.2	2,582.2
Agriculture	323.2	362.6	453.1	561.1	627.3
Forestry	424.7	662.3	1,032.80	1,285.0	1,778.5
Fishing	96.8	103	128.6	156.1	176.3
Mining and Quarrying	510.8	378.3	281.3	416.1	518.9
Metal Mining	505.8	373.4	276.4	407.9	511.3
Other mining and quarrying	5	49	4.9	8.2	7.6
Manufacturing	598.1	692.5	808.5	1,027.3	1315.1
Food, Beverages and Tobacco	364.4	424.7	497.8	613.9	766.9
Textile, and Leather products	91.2	114.1	139	180.4	234.0
Wood and Wood products	481	50.3	53.7	64.1	92.7
Paper and paper products	176	24	33.8	40.0	54.2
Chemicals, Rubber and plastic products	464	48.5	50.8	85.8	117.3
Non-metallic Mineral products	65	9.1	11.5	14.3	18.1
Basic Metal products	49	2	2.1	3.2	3.6
Fabricated Metal products	185	19.5	18	22.9	24.0
Other Manufacturing .	05	0.4	1.8	2.7	4.1
Electricity, Gas and Water	214.5	220.1	246.5	328.0	445.3
Construction	226,5	267,8	320,2	500,5	728,6
Wholesale and Retail trade	854,3	1,049,00	1,380,8	1,879.8	2,355.0
Restaurant, Bars and Hotels	111	133.5	145.6	207.0	315.6
Transport, Storage and Communications	271.6	341.5	429.6	635.7	852.6
Rail Transport	223	31.9	36.1	54.9	72.7
Road Transport	112	138.5	175.4	255.2	311.3
Other Transport and Allied Services	44.7	53.1	64.8	99.0	133.7
Communications	92.6	118	153.3	226.6	334.9
Financial Intermediaries and Insurance	451	546.8	676.7	982.2	1,238.8
Real Estate and Business Services	294.1	381.7	496.2	660.6	833.5
Community, Social and Personal Services	411.4	511.4	666.8	901.9	1,236.5
Public Admin and Defense, Public and Sanitary services	216	268.7	328.6	454.1	554.0
Education	127.2	158.3	192.1	256.1	394.3
Health	29.3	36	84.1	107.0	175.5
Recreation, Religious, Personal Services	15.7	19.5	23.9	33.0	47.9
Less : FISIM	23.5	28.9	38.0	51.7	64.8
	(259.2)	(314.2)	(388.9)	(564.4)	711.9)
TOTAL GROSS VALUE ADDED	4,529.00	5,336.40	6,677.2	8,976.9	11,710.0
Taxes on products	612	692.2	802.3	1097.7	1,460.0
TOTAL G.D.P. AT MARKET PRICES	5,141.00	6,028.60	7,479.5	10,074.6	13,170.0
Growth rates	30.1	17.0	24	35.0	31.0
GDP per capita (Kwacha)	525,666	596,887	733,282	978,119	1,242,454

Source : Central Statistical Office

National Accounts (Gross Domestic Product at Constant 1994 Prices, 1997-2001)

Kind of Economic Activity	1997	1998	1999	2000	2001
	(In K' Billon)				
Agriculture, Forestry and Fishing	379.9	384.6	423.3	429.9	418.9
Agriculture	189.7	189.3	210.4	212.6	200.0
Forestry	119.8	124.5	129.5	134.7	140.5
Fishing	70.4	70.7	83.3	82.5	78.4
Mining and Quarrying	284.5	213	160.3	160.4	182.9
Metal Mining	279.8	208.5	155.7	155.2	178.5
Other mining and quarrying	4.7	4.6	4.6	5.2	4.4
Manufacturing	242.8	247.2	254.2	263.3	278.4
Food, Beverages and Tobacco	138.6	146	154.8	155.7	163.7
Textile, and Leather products	39.1	42.4	44.8	45.8	48.9
Wood and Wood products	19.6	19.2	19.3	19.2	21.0
Paper and paper products	7.2	7.3	7.6	7.5	7.7
Chemicals, Rubber and plastic products	22.5	18.7	15.5	21.9	24.1
Non-metallic Mineral products	4.1	4.5	4.4	4.6	4.7
Basic Metal products	3.3	1.3	1.3	1.4	1.5
Fabricated Metal products	8	7.3	5.9	6.5	6.3
Other Manufacturing .	0.5	0.5	0.6	0.6	0.7
Electricity, Gas and Water	69.9	70.3	72.1	72.9	82.1
Construction	123.7	112.4	116	123.6	137.8
Wholesale and Retail trade	412.9	427.3	446.2	456.6	484.2
Restaurant, Bars and Hotels	44.1	45.8	43	48.2	59.9
Transport, Storage and Communications	134.2	145.7	154.0	157.7	162.1
Rail Transport	10	11.4	10	10.3	11.1
Road Transport	59.5	67.7	75.4	76.8	77.3
Other Transport and Allied Services	23.1	24.6	26.2	27.8	30.8
Communications	41.6	42	42.5	42.7	42.9
Financial Intermediaries and Insurance	200.7	201.6	206.7	205.4	205.6
Real Estate and Business Services	158.9	179.0	203.7	238.2	246.6
Community, Social and Personal Services	183.1	178.8	193.7	192.8	203.9
Public Admin and Defense, Public and Sanitary services	104.3	101.4	110.2	109.4	110.5
Education	47.9	46.5	50.6	50.2	57.0
Health	12	11.7	12.7	12.6	14.7
Recreation, Religious, Personal Services	7.6	7.4	8	8	8.8
Less : FISIM	11.4	11.8	12.3	12.6	13.0
	-115.4	-115.8	-118.8	-121.8	-124.9
TOTAL GROSS VALUE ADDED	2,119.20	2,089.60	2,154.40	2,227.30	2,337.5
Taxes on products	286.4	271.1	258.9	272.4	291.4
TOTAL G.D.P. AT MARKET PRICES	2,405.6	2,360.8	2,413.3	2,499.6	2,628.9
Real Growth rates (in Percent)	3.30	-1.86	2.22	3.58	5.17

Source : Central Statistical Office

ZAMBIA: Central Government Finance, 1999-2004

(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004
I. Revenue and grants	25.5	25.1	23.9	23.7	23.9	23.8
1. Revenue	17.6	19.4	18.1	18.1	18.5	18.6
Tax revenue	17.1	19.2	17.8	17.8	18.0	18.0
Income taxes	6.4	6.3	6.8	7.1	7.1	7.1
Excise taxes	2.9	2.8	2.7	2.5	2.7	2.7
Value-added tax (VAT)	5.7	5.7	5.7	5.9	6.1	6.1
Domestic VAT	3.3	2.3	2.2	1.9	2.1	2.2
Import VAT	2.4	3.4	3.5	4.0	4.0	3.9
Customs duty	2.1	2.5	2.4	2.2	2.1	2.1
Clearance of ZESCO tax arrears	0.0	1.9	0.3	0.0	0.0	0.0
Nontax revenue	0.5	0.2	0.3	0.4	0.5	0.6
Of which: Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0
2. Grants	7.9	5.7	5.8	5.6	5.5	5.2
Program	1.9	1.0	0.8	0.9	0.9	0.8
Project ^{1/}	6.1	4.7	5.0	4.7	4.6	4.4
II. Expenditures	29.2	31.0	31.5	31.0	30.7	29.7
1. Current expenditures	16.7	16.9	19.1	17.9	17.8	17.1
Wages and salaries	5.3	5.3	6.3	7.1	7.1	7.1
Public service retrenchment	0.7	0.7	0.2	0.5	0.2	0.0
Recurrent departmental charges (RDCs)	2.5	3.0	5.5	2.8	3.5	3.4
Arrears clearance ^{2/}	0.0	0.0	0.6	0.3	0.8	0.7
Elections	0.0	--	0.7	0.0	0.0	0.0
OUA summit	0.0	0.0	0.5	0.0	0.0	0.0
HIPC-financed	0.0	0.0	0.5	0.2	--	--
Other RDCs	2.5	3.0	3.2	2.3	2.5	2.5
Transfers and pensions	2.4	2.2	3.3	2.5	2.6	2.6
Of which: HIPC-financed	0.0	0.0	1.1	0.2	--	--
Domestic interest ^{3/}	1.4	1.4	1.5	3.1	2.4	1.9
External interest (paid)	1.4	1.7	1.1	1.2	1.2	1.4
Other current expenditures	1.2	0.9	1.2	0.5	0.5	0.5
of which: financial restructuring ^{4/}	0.0	0.0	0.4	0.0	0.0	0.0
Contingency	0.0	0.8	0.0	0.1	0.2	0.2
Payments of domestic arrears ^{2/}	1.6	0.9	0.0	0.0	0.0	0.0
2. Capital expenditure	10.5	10.0	11.4	12.8	12.6	12.2
Domestically financed	1.6	2.3	3.2	4.2	4.5	4.5
of which: HIPC-financed	0.0	0.0	0.5	1.8	--	--
Foreign financed	8.8	7.8	8.2	8.6	8.1	7.7
3. Net transfers to ZCCM	2.0	4.1	1.0	0.3	0.3	0.3
Change in balances and statistical discrepancy ^{5/}	-0.3	-1.1	0.1	0.0	0.0	0.0
III. Overall balance ^{6/}	-4.0	-7.0	-7.4	-7.3	-6.8	-5.9
Domestic balance ^{6/ 7/}	0.4	-3.3	-3.8	-3.1	-2.9	-2.0
Domestic primary balance ^{6/ 7/8/}	1.8	-1.9	-2.3	-0.9	1.4	2.5
IV. Financing	4.0	7.0	7.4	7.3	3.4	3.3
1. Domestic	1.0	1.8	2.1	1.2	0.0	0.0
Bank	0.5	1.4	1.9	0.8	--	--
Nonbank	0.5	0.4	0.2	0.4	--	--
2. External	3.0	5.3	5.3	6.1	3.4	3.3
Program loans	3.5	4.8	3.1	3.3	0.9	0.8
Project loans	2.8	2.9	3.3	3.9	3.5	3.3
Amortization (paid)	-3.3	-2.4	-1.1	-1.1	-1.0	-0.8
V. Financing gap	0	0	0	0	0	0

Sources: Zambia authorities; and Fund staff estimates and projections

^{1/} Figure for 2001 includes grants of K24 billion used for elections and domestic transfers, rather than capital expenditure^{2/} From 2001 onward, arrears clearance has been classified under "Recurrent departmental charges"^{3/} Figure for 2002 includes treasury bills issued for interest on the foreign exchange bridge loan^{4/} BoZ Recapitalization (K14 billion) in 2002 is captured under "capital expenditure"^{5/} Refers to changes in balances of government commercial bank accounts, as well as any statistical discrepancy (including differences between the face value and cost of newly issued government paper)^{6/} Cash basis^{7/} Excludes foreign grants, external debt service, and foreign financed capital (and other) expenditure

Annex 9

Zambia : Monetary Survey, 1999-2002
(End of period)

	1999	2000	2001	2002
Net foreign assets	-2,424	-2,693	-2,499	-1,826
Bank of Zambia (BoZ)	-2,893	-3,592	-3,293	-2,659
Assets	266	1,220	542	984
Liabilities	-3,159	-4,811	-3,835	-3,643
Commercial banks	469	988	795	833
Assets	530	965	881	---
Liabilities	-61	-66	-86	---
Net domestic assets	3,852	5,178	5,251	4,992
Net domestic credit	1,505	1,953	2,662	2,403
Net claims on government	693	1,365	1,848	1,983
Claims on government	1,073	1,874	---	---
Government deposits	-380	-508	---	---
HIPC transfer to budget	---	---	---	---
HIPC account (IMF)	0	-634	-573	-1,159
Claims on ongouvernement	812	1,221	1,388	1,579
Claims on private sector	555	862	946	1,107
Claims on public enterprises	257	359	442	472
Other items (net)	2,346	3,225	2,589	2,589
Broad money	1,428	2,486	2,753	3,165
Narrow money	504	761	1,013	---
Quasi money	924	1,725	1,739	---
of which: foreign exch. Deposit	534	1,171	1,045	---
Other	391	554	694	---
Net foreign assets	-14.7	---	-6.0	24.4
Net domestic assets	43.9	---	16.8	-9.4
Net domestic credit	33.8	---	26.7	-9.4
Net claims on government	10.2	---	19.5	4.9
Claims on nongovernment	23.6	---	6.7	6.9
Claims on private sector	11.7	---	3.4	5.8
Claims on public enterprises	12.0	---	3.3	1.1
Other items (net)	10.1	---	-9.9	0.0
Broad money	29.2	---	10.7	15.0
Memorandum items:				
Program exchange rates				
Kwacha/US dollars	2,632	4,158	3,830	3,830
Kwacha/SDR	3,613	5,405	4,826	4,826

Sources: Zambia authorities; and Fund staff estimates and projections

1/ The difference between the columns for "Actual" and "Program Base" is that the former uses the program exchange rate whereas the latter uses the actual end-December exchange rate

Zambia : Balance of payments, 1999-2004
(in million of U.S. Dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003 Proj.	2004 Proj.
Current account balance	-532	-608	-668	-665	-692	-704
Trade balance	-149	-221	-294	-281	-278	-289
Exports, f.o.b.	756	746	851	883	961	1,011
Metal sector	468	497	585	580	633	654
Nonmetal	288	249	266	304	328	358
Imports, f.o.b.	-922	-978	-1,253	-1,192	-1,269	-1,332
Metal sector	-121	-177	-223	-206	-203	-200
Nonmetal	-801	-801	-934	-986	-1,065	-1,132
Goods procured by airlines	17	11	12	28	30	31
Services (net)	-211	-225	-226	-243	-238	-249
Receipts	87	115	153	141	154	170
Payments	-298	-340	-379	-384	-392	-419
Income (net)	-156	-145	-126	-121	-155	-145
Of which : interest payments	-166	-166	-157	-148	-151	-143
Current transfers (net)	-16	-18	-22	-21	-21	-21
Project grants	153	153	180	183	188	193
Financial account	169	-71	46	62	35	113
Official loan disbursement (net)	166	93	121	150	143	144
Amortization (-)	-162	-290	-232	-235	-224	-199
Change in n.f.a of commercial banks	2	-89	17	-10	0	0
Private capital net 1/2/	163	214	140	157	116	168
Errors and omissions, short-term capital	-124	154	9	0	0	0
Overall balance	-334	-373	-434	-420	-469	-399
Financing	334	373	434	420	269	108
Change in net international reserves of Boz (- increase) 3/	-35	-49	-167	-167	-238	-305
Gross official reserves of Boz	-2	-68	-74	-115	-70	-85
Boz liabilities	-47	-7	-7	-7	-7	-5
IMF (net)	14	26	-87	-44	-161	-215
Others foreign assets of the Boz	...	30	...	...	...	...
Debt relief (non-HIPC) 4/	443	217	170	170	154	120
Debt relief (HIPC, including IMF)	...	...	292	267	283	223
Of which : IMF	...	...	151	153	150	114
Net change in arrears (+ increase)	-251	-10	0	-10	0	0
Balance of payments support grants	61	32	31	33	35	35
Balance of payments support loans	117	154	108	127	35	35
Financing gap (+)	0	0	0	0	201	291
Memorandum items :						
Current account balance (percent of GDP)	-17.0	-18.8	-18.5	-17.2	-17.0	-16.2
Export volume (percentage change)	-3.6	-6.4	20.4	3.5	1.2	1.6
Import volume (percentage change)	-6.9	4.5	22.5	-4.6	5.3	5.0
Terms of trade (percentage change)	-5.9	3.9	1.8	1.8	6.4	3.6
Copper volume (thousands of metric tonnes)	240	234	286	304	299	295
Copper price (U.S. dollars per pound)	0.70	0.82	0.78	0.74	0.82	0.86
Gross official reserves 5/ (in months of imports)	46	114	187	229	299	384
Scheduled official debt service 6/	...	169	158	147	149	209
Debt-service cash payments 7/	136	161	158	226	172	233

Sources : Zambian authorities ; and fund staff estimated and projections

1/In 2000, reflects revenues from the privatization of copper mines

2/Consists primarily of the net borrowing of privatized copper mines from their shareholders and foreign commercial banks

3/In 2000, reflects freeing of US\$30 million of central bank assets held as collateral at end-1999

4/ Indicates debt relief that would have been available under traditional mechanisms, relative to 1999 Paris Club rescheduling, comparable treatment from non-Paris club bilateral and the 1997 restructuring of Camdex claim on the Boz

5/Includes balances in the special Bank for International Settlements account established in accordance with the 1999 Paris Club accords

6/Corresponds to table 14 (revised) in Zambia's decision point document (EBS/00/233).

7/Consists of official and private debt service, including the obligations of copper mines to shareholders

External Financing Requirements, 1999-2004
(In millions of U.S. Dollars)

	Actual			Actual	Projections	
	1999	2000	2001	2002	2003	2004
Gross financing requirements	-641	-758	-1,076	-1,104	-1,028	-1,054
External current account deficit (excl. Official transfers)	-532	-608	-743	-665	-692	-704
Debt amortization on medium and long-term debt 1/	-108	-82	-116	-112	-52	-49
Public sector	-108	-82	-58	-52	-52	-49
Of which : multilateral 2/	...	-54	-23	-17	-15	-12
Private sector	0	0	-58	-60	0	0
Gross reserves (-, increase)	-2	-68	0	-116	-70	-85
IMF repurchases and repayments	0	0	-217	-211	-213	-215
Available financing	641	758	1,076	1,104	827	763
Foreign direct investment (net)	163	214	281	157	116	168
Official creditors 3/	497	431	376	455	401	407
Multilateral 2/	284	289	211	286	226	228
Of which : balance of payments financing 4/	117	154	44	127	35	35
Bilateral to public sector	213	142	165	170	175	179
Of which : balance of payments financing 4/	61	32	31	33	35	35
IMF (PRGF)	14	26	97	167	52	0
Others flows 5/	-32	87	322	325	258	188
Of which : IMF interim assistance enhanced HIPC	...	...	150	153	150	150
Of which : Interim HIPC assistance from other creditors	...	...	116	114	116	116
Financing gap	0	0	0	0	0	0

Sources : Bank of Zambia (Boz) ; and Fund staff estimates and projections

1/On a cash basis.

2/Excludes the IMF

3/Includes both loans and grants

4/Includes those transactions that are undertaken for the purpose of financing a balance of payments deficit or an increase in reserves.

5/Includes all other net financial flows, and errors and omissions.