

Language: English

Original: English



**AFRICAN DEVELOPMENT
BANK GROUP**

REPUBLIC OF ZAMBIA

2011-2015 COUNTRY STRATEGY PAPER (CSP)

Date: November 2010

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List of Abbreviations

ADF	African Development Fund
AfDB	African Development Bank
COMESA	Common Market for Eastern and Southern Africa
CPG	Cooperating Partners Group
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
DPs	Development Partners
DfID	U K Department for International Development
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
EAC	East African Community
EU	European Union
FNDP	Fifth National Development Plan
FSDP	Financial Sector Development Programme
GDP	Gross Domestic Product
GIDD	Gender in Development Division
GNI	Gross National Income
HDI	Human Development Index
HIP	Hamornisation in Practice
ICT	Information and Communications Technologies
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
JASZ	Joint Assistance Strategy for Zambia
MCC	Millennium Challenge Corporation
MDGs	Millennium Development Goals
MMD	Movement for Multi-Party Democracy
MTS	Medium Term Strategy
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay As You Earn
PD	Paris Declaration
PEMFA	Public Expenditure Management and Financial Accountability Programme
PF	Patriotic Front
PIUs	Project Implementation Units
PIUs	Projects Implementation Units
PPCR	Pilot Project for Climate Change Resilience
PPPs	Public Private Partnerships
PRSP	Poverty Reduction Strategy Paper
PSDRP	Private Sector Development Reform Programme
SADC	Southern Africa Development Community
SAGs	Sector Advisory Groups
SAPP	Southern Africa Power Pool
SDR	Special Drawing Rights
TNDP	Transitional National Development Plan
UPND	United Party for National Development Party
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
ZAMTEL	Zambia Telecom Company

I. INTRODUCTION

1.1 The previous Country Strategy Paper (CSP) for Zambia which was in the form of the Joint Assistance Strategy (JASZ.I) covered 2007 to 2010¹. The JASZ was approved by the Board in January 2008, under a Board Covering Note. It was jointly prepared with fifteen other Cooperating Partners (CPs²) and the Government. It articulated a harmonized response to the country's Fifth National Development Plan (FNDP), covering the period 2006-2010 and the vision 2030. The Bank Group's specific support was tied to two pillars i) Infrastructure Development, and ii) Good Governance.

1.2 This new Results Based Country Strategy Paper (RBCSP) covers the period 2011-2015. It provides an assessment of Zambia's development progress, prospects and challenges, the national strategic options, and the role that the Bank should play, in collaboration with the Government and other cooperating partners, in assisting Zambia achieve its development aspirations as contained in the Vision 2030 and the Sixth National Development Plan (SNDP). In particular, the new RBCSP assesses: i) lessons learnt from implementation of JASZ.I and FNDP; ii) the development results that are to be achieved and how to deliver them; iii) the lending and non-lending operations of the Bank; and iv) the partnerships between the Bank and other donors in supporting the country's development agenda.

II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political, Economic and Social Context

Political Context

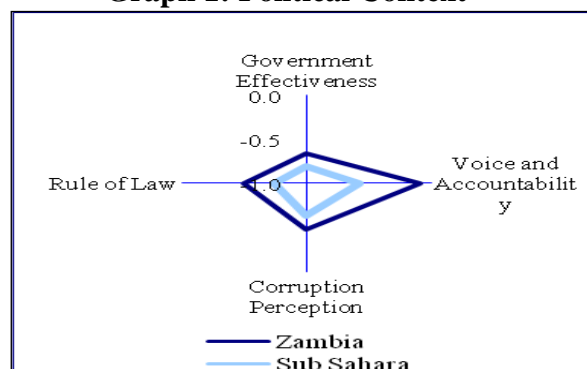
¹ Board document ADF/BD/WP/2008/06 AND ADF/BD/WP/2008/02.

² The other fifteen JASZ partners beside the AfDB are the Governments of Canada, DFID, Denmark, Finland, Germany, Ireland, Italy, Japan, Netherlands, Norway, Sweden, USAID, the EU, the UN System, and the World Bank.

2.1.1 Zambia's political environment is increasingly becoming competitive. In the 2008 special presidential bye-election 40% of the total vote cast were won by the ruling the party- the Movement for Multiparty Democracy (MMD), with a relatively small margin of only two %age points. The main opposition party, the Patriotic Front came in second with 38% of the total votes cast.

2.1.2 Preparations are underway for the next tripartite elections, expected to take place during the third-fourth quarter of 2011. Major preparatory activities that include updating of the national voters register and issuance of voter and national registration cards have commenced. Meanwhile, the two main opposition political parties, the Patriotic Front (PF) and the United Party for National Development (UPND) formed a coalition pact, which has, since 2009, won additional five parliamentary seats, including two previously occupied by the ruling party. However, the collation has shown signs of breaking up, since mid 2010.

Graph 1: Political Context



Source: AfDB Statistics Department, African Economic Outlook, 2009 and the WB, Governance Indicators

In summary, Zambia's political stability and peaceful history continues to be one of the major factors explaining why the country continues to attract increasing investments, despite the relative high cost of doing business.

Economic Context

2.1.3 The growth of the Zambian economy has been positive, averaging over 6.1% between 2006 and 2010. In 2009 alone, the Zambian economy showed resilience to the global economic crisis, and grew by 6.4%. This was boosted by a significant increase in copper production and a bumper harvest in agricultural produce. Inflation fell from 16.6% in 2008 to 9.9% in 2009; and further to 7.8% by March 2010. Generally, economic growth is expected to pick up and is projected to exceed 6% in 2010, accompanied by more broad-based recovery, particularly in the tertiary sector which, will compensate for the effects of the 2008/9 factors. The inflation target for December 2010 has been set at 8%, despite a 15% fuel price increase since January 2010.

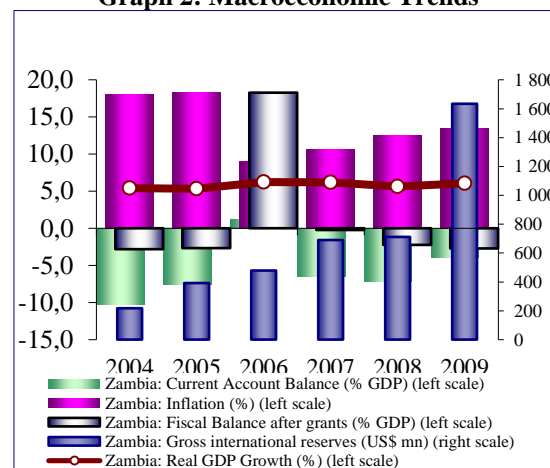
Growth and Growth Drivers

2.1.4 Macroeconomic stability and overall improvements in the investment climate had a positive impact on growth. This contributed to the increase in Foreign Direct Investment especially in the mining sector and expansion in the construction and services industries. Growth in exports also boosted economic growth during the FNDP period. The annual average growth was, however, still below the FNDP target of 7%. This is partly attributed to the weak performance of key sectors of agriculture (except in 2009/10 when there were bumper harvests), manufacturing, and tourism, as well as external factors that included higher crude oil prices and variable climatic conditions. Growth in 2010 is projected at around 6% and above. The growth objective for the period 2011-2015 is to meet the 7% MDG target.

2.1.5 During the FNDP period, exports increased by an annual average of 22.8%; the share in GDP rose to 33.4%, compared to 28% during 2002-2005. The improvement in performance is attributed to the favorable copper prices on the international markets. Non-traditional exports also went into double digit growth;

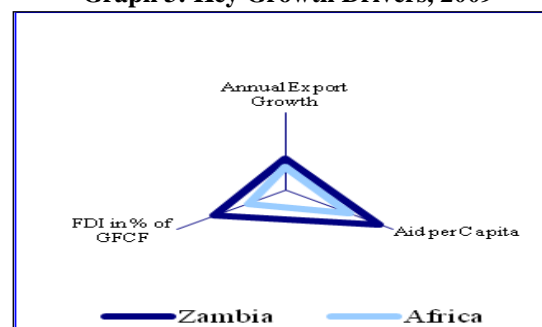
rising by an annual average of 13% during the same period, from 16.1% in the period 2002-2005. Meanwhile imports increased by an annual average of 17%. The current account deficit has narrowed, helped by a recovery of copper prices and import compression following a sharp depreciation of the kwacha in late 2008-early 2009. Tax revenues slowed in 2009, primarily owing to import compression.

Graph 2: Macroeconomic Trends



Source: AfDB Statistics Department, African Economic Outlook, 2009

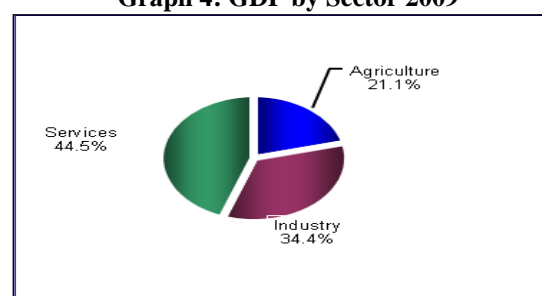
Graph 3: Key Growth Drivers, 2009



Source: AfDB Statistics Department, 2009.

Macroeconomic Management

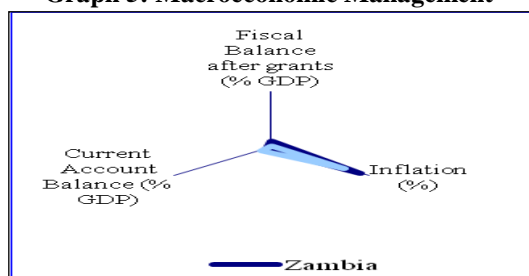
Graph 4: GDP by Sector 2009



Source: AfDB Statistics Department, African Economic Outlook, 2009

2.1.6 Following the outbreak of the global financial crisis in late 2008, Zambia eased its overall policy stance. The unwinding of the stimulus is however, envisaged to accelerate during 2010–11 as global economic prospects firm up. In the aftermath of the crisis, overall economic recovery was initially slow but later improved; with the Kwacha appreciating by close to 25% as at October 2010.

Graph 5: Macroeconomic Management



Source: African Economic Outlook, ADB-OECD 2009/2010; ADB Statistics

2.1.7 The debt sustainability analysis (DSA) for Zambia by the IMF and World Bank shows that the country is still at low risk of debt distress (table 1), and that there is scope of (US\$ 600 million) annual external borrowing on commercial terms to finance high-priority infrastructure projects. This provides the Government with more opportunities for external borrowing to augment domestic revenues to finance its huge infrastructure needs. However, because of the current Bank's credit policy on non-concessional borrowing, Zambia is unable to access ADB window financing.

Table 1: External Debt Sustainability Indicators for Zambia.

Ratios	Bench mark	2006	2007	2008	2009e	2010p
External debt (nominal terms, billion \$)		0.96	1.08	1.69	1.55	2.25
NPV of debt to GDP ratio (%)	40	6.0	5.6	8.1	8.9	11.0
NPV of debt to exports ratio (%)	150	16	13.7	22.6	25.3	32.9
Debt service to exports ratio (%)	20	1.6	1.4	1.5	1.5	1.5

Source: AfDB Statistics Department and IMF

Governance

2.1.8 Despite the recent strong macro-economic performance noted above, more needs to be done to improve the public resource management. Key reform measures taken so far include development and revision of the Public Procurement System, and pilot implementation of the integrated financial management information system-IFMIS (launched in January 2010). Moreover, the external audit capacity and coverage improved in the provinces and districts. The budget credibility has improved through introduction of the Medium Term Expenditure Framework (MTEF). Expenditure control has also improved as a result of the IFMIS and the introduction of the treasury single account which, will reduce the number of government accounts in commercial banks, and improve cash management.

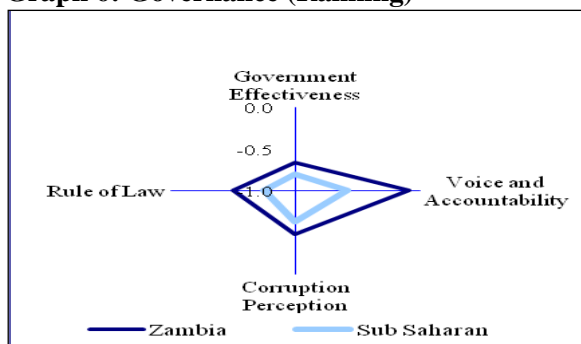
2.1.9 In addition, the national anti-corruption policy and implementation plan was developed in 2009. The Government also began formulating legislation to protect whistleblowers when they report corruption. The Government established the Financial Intelligence Unit in early 2010 with the objective of reinforcing the existing anticorruption agencies such as the police and the anti-money laundering units. Since 2008, the office of the Auditor General has stepped up effort towards internal and external audit functions within key Government agencies.

2.1.10 One of such audits (covering the roads sector) has been discussed by the Parliamentary Accounts Committee and implementation of the recommendations has commenced. The institutions of restraint appear to be performing their formally designated functions effectively³. The recent prosecutions for corruption and subsequent convictions of former political elites under the second republic

³ Peter Vondoepp, "Politics and Judicial Assertiveness in Emerging Democracies: High Court Behavior in Malawi and Zambia," *Political Research Quarterly*, Vol. 59, No. 3, 389-399 (2006); Taylor 2006, *Ibid.*; and the May 2010 convictions of former finance minister Katele Kalumba, and others, on charges of corruption.

administration (1991-2000), provide clear evidence of the mandate and effectiveness of these institutions. This is in addition to 2009 exposure and subsequent in-depth investigations into cases of financial mismanagement in the health sector which, led to suspension and prosecution of some senior civil servants.

Graph 6: Governance (Ranking)



Source: AfDB Statistics Department using data from Doing Business Databases, WB, 2009

Business Environment and Competitiveness

Business Environment

2.1.11 The recent (2005-2009) reforms have steadily improved Zambia's competitiveness and general business environment and resulted in the country being a favorable place to do business relative to neighboring countries. In Doing Business Report 2010, Zambia ranked 90 out of 183 economies in the world, and 6th in 2010 up from 9th in 2008, out of 46 in Sub Sahara Africa.

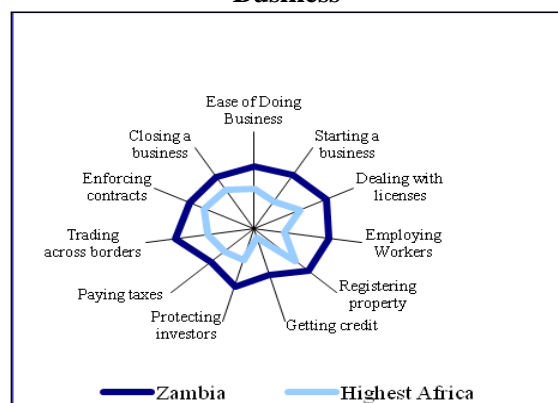
2.1.12 Specific actions have included the second phase launch of the Private Sector Development Reform Programme (PSDRP2)-in September 2009. The key objective has been to accelerate and broaden private sector growth. For example, Parliament passed the Markets and Bus Stations Act to enable Local Authorities to significantly improve the management of markets. Continued consultations on the Draft Land Policy are aimed at strengthening and modernizing land administration thereby increasing the supply of land for investment, and

increasing access to land ownership for disadvantaged groups, including women, who only hold 20% of state owned land title deeds.

2.1.13 In early 2010, Zambia made additional gains in liberalization of the telecom sector with the privatisation of ZAMTEL and implementation of the Public Private Partnership policy. This will build on earlier reforms in key areas like transport, energy and financial sector development in order to improve the broader business regulatory environment.

2.1.14 Key binding constraints to private sector development however, remain. These include the high cost of borrowing and low access to credit, high communication and transport costs, restrictive labour laws, numerous licensing procedures and lack of entrepreneurial skills, especially at the MSMEs level.

Graph 7: Zambia 2010 Ease of Doing Business



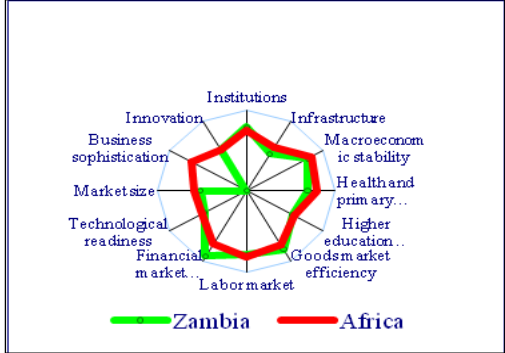
Source: Ease of Doing Business, World Bank, 2010

Competitiveness

2.1.15 In the 2009 World Economic Forum's overall competitiveness index, Zambia ranked 4th out of 9 SADC countries. This progress is again attributed to sustained effort by the Government to improve the regulatory environment for businesses. However, Zambian firms, particularly MSMEs, show far less productivity compared to neighboring countries such as Botswana and Zimbabwe. Evidence of low entrepreneurship skills

can be seen in the export trends and low productivity of Zambian enterprises. Export concentration has increased in recent years while export sophistication has stagnated and lagged behind most of its neighboring countries since the 1980s.

Graph 8: Global Competitiveness Index



Source: World Economic Forum, 2009

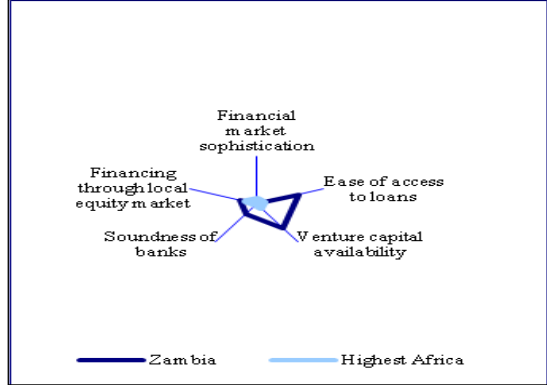
2.1.16 Financial Sector: despite the recent increase in financial intermediation, the cost and access to credit, particularly for MSMEs remains a key challenge for creating an efficient financial sector. The spread between the saving and lending rates is quite high, 5-6% and 25-30% respectively. The high cost of finance is largely attributed to the oligopolistic nature of the banking sector which limits the level of competition, and a high risk averseness of the financial institutions. While credit outreach to the salaried population has increased substantially, deposit services and simple transaction accounts remain limited and costly. At the aftermath of the global financial crisis, non-performing loans increased (primarily in the agricultural and household sectors), but recently, there has been some improvement in banks’ return on assets and equity. Banks have been increasing their capital and have ample liquidity.

2.1.17 At the same time, physical access to banks is limited; particularly for smaller size firms (only 37% of population has access to banks in 2009)⁴. For those with access to banks, the high collateral request (100-200%) is unachievable. This is even the case with loans of the Citizenship

⁴ The Zambia Financial Sector 2009 Survey; Assessing the Change in the Landscape of Financial Services

Economic Empowerment Commission established by the Government, which since 2007 has targeted women, youth and poorer sections of the population as clients. Difficulties accessing credit apply particularly to sections of the population who own limited property, women prominently among them. Microcredit is more readily available but the terms are too prohibitive and compared to commercial loans too expensive to be of much use for expanding entrepreneurs.

Graph 9: Financial Sector 2009

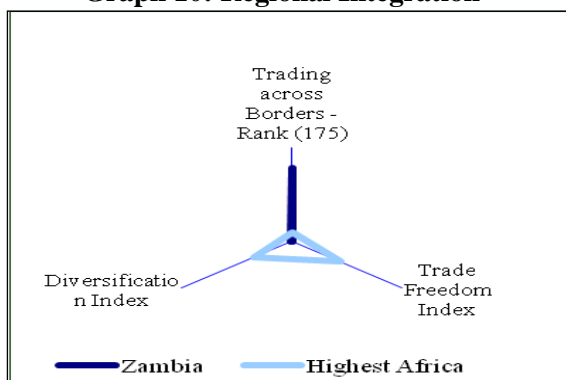


Source: World Economic Forum, 2009

Regional Integration and Trade

2.1.18 Zambia is a land locked country which is working very hard to become ‘land linked’. In this regard, in December 2009, Zambia launched a One-Stop Border Post at Chirundu on the border with Zimbabwe and the Simplified Trade Regime at the Mwami border post on the border with Malawi. In 2009, it hosted the North-South Corridor conference aimed at mobilizing resources to finance regional infrastructure projects for enhancing transport facilitation between the South African ports and its northern neighbours including Congo DR. The country’s central location provides an important opportunity for linking the countries in the region to foster meaningful cooperation and trade. However, the quality of basic infrastructure (transport, energy, ICT), and the low level of trade facilitation capacity continue to limit the potential benefits from effective integration.

Graph 10: Regional Integration



Source: World Bank, *Ease of Doing Business 2010*, *African Economic Outlook*, ADB-OECD 2009/2010

Social Inclusion, Gender Equality & Environment

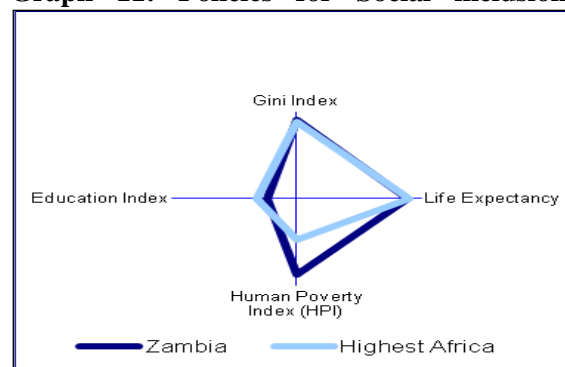
Social Inclusion and Equity

2.1.19 The 2006 Zambia Living Conditions Monitoring Survey showed that, despite a 4% decline in overall poverty over the 2004-2006 period, 64% of the population (approximately 7.5m Zambians) remained below the national poverty line in 2006). The 2009 UNDP Human Development Report, ranked Zambia the 164th poorest country of the 182 countries listed, with no change over the last years. This rather gloomy picture is largely attributed to low labor productivity and the concentration of growth in highly capital-intensive and urban-based sectors like mining, construction and services. In addition, revenues have not increased significantly, in proportion to the economic growth while current expenditures have increased, making it difficult for the Government to provide quality goods and services to the people. This has in turn compromised pro-poor public spending in areas such as health, education, and water and sanitation, and rural roads.

2.1.20 The 2008 Zambia MDG progress report by contrast is more positive suggesting that Zambia is likely to achieve 3 goals, namely universal primary education, gender equality and to combat HIV/AIDS, Malaria and other diseases. The report also notes that Zambia is potentially able to eradicate extreme hunger, reduce child mortality and improve

maternal health. Only the goal on ensuring environmental sustainability is unlikely to be reached. However, a closer look at the indicators suggests that the report was perhaps overly optimistic since the ratio of girls to boys in secondary school declined from 0.92 in 1990 to 0.73 in 1996, while the share of women in wage labor also declined. Maternal mortality ratios had declined but in 2007 were still more than double the MDG target of 162 and births attended by skilled personnel had declined from 51% in 1996 to 46 in 2007.

Graph 11: Policies for Social inclusion



Source: AfDB Statistics Department using data from the UNDP Databases, 2009

Gender Issues

2.1.21 In addition to the commitment to main- stream gender in all its development strategies, the Government established the Gender in Development Division (GIDD) under the Cabinet Office, which is mandated to coordinate, monitor, and evaluate the implementation of the 2000 National Gender Policy in order to achieve gender responsive development. Gender Focal Points were appointed in each line ministry and at the provincial and district levels to function as link between the GIDD and the various ministries. In addition, the new draft constitution proposes the establishment of an independent Gender Equality Commission. The work of GIDD and the gender focal points is hampered by a lack of funds and capacity, and a lack of sex-disaggregated data in all but a few ministries. A large NGO sector complements the work of

GIDD but here too lack of core funding hampers effectiveness.

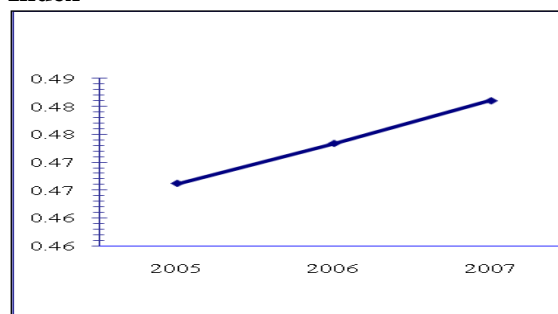
2.1.22 The promotion of gender equality activities is largely funded through a multi-donor trust fund, with contributions from Ireland, Norway, the Netherlands and the UN system to finance a Joint Gender Support Programme put in place in 2008. It focuses on capacity building in gender analysis, gender responsive budgeting, M & E and, the economic empowerment of women. The programme has also funded gender audits in three ministries and plans to conduct a further three under the program. GIDD has presented the DPs with a list of proposed areas of support for the period 2010 to 2015 which includes capacity building activities in gender budgeting, M & E including data collection, work in the area of the prevention and treatment of gender based violence, the economic and political empowerment of women and the strengthening of accountability mechanisms for gender mainstreaming.

2.1.23 Progress continues to be made regarding education levels in primary education; where gender parity has been reached. Gaps that continue to exist in secondary and tertiary education are hopefully going to be closed through affirmative action measures, including lower cut off points for girls, a 60% quota for bursaries for girls and 25% of places reserved for female learners at tertiary level.

2.1.24 Areas that require further improvement include: increasing human and budgetary resources to implement the National Gender Policy on women's participation in decision making, currently standing at 12% in parliament down from 14% in 2004, and below the SADC Protocol on Gender and Development target of 50% by 2015. Women's participation in local government currently stands at only 7% of councillors. Improvement is also needed with regard to changing attitudes and overcoming the

dual nature of the law with customary law, which often discriminates against women, still being applied parallel to civil law.

Graph 12 – Zambia Human Development Index



Source: AfDB Statistics Department, 2008.

Environment and Climate Change

2.1.25 The national environment policy launched in June 2009 aims to ensure environmental management practices that are in line with the principles of sustainable development. Implementation of the policy is expected to contribute to the harmonisation of sector plans and strategies in the use of the environment and its natural resources, in order to attain an integrated approach to development.

2.1.26 The African Development Bank is currently collaborating with the World Bank, UNDP, IFC, and DfID in implementing the Zambia chapter of the Global Pilot Project for Climate Change Resilience (PPCCR). The initiative is more important given the potential impact of the mining industry on the environment and the increased development activities related to agriculture and construction within the SNDP.

2.1.27 Serious challenges must be tackled in order for Zambia to meet the environmental MDG target and to ensure environmental sustainability. These are: high poverty levels and the lack of alternative sources of livelihoods in rural areas which exert increasing pressure on land and associated resources, which threaten rural and urban livelihoods from a changing environment.

2.1.28 Other environmental concerns include: inadequate data and weak monitoring systems, regarding forest inventories, animal populations; lack of credible data to guide informed decision making towards the identification of alternative environmentally friendly technologies in the sub-sectors of environment, energy and agriculture.

2.2 Strategic Options

2.2.1 Country Strategic Framework

2.2.1.1 **The Government's current strategy focuses** on Infrastructure and Human capital development. It provides an important step towards the realization of the Vision 2030. The new strategy thus aims to attain the following overarching objectives:

- i) To accelerate economic growth, infrastructure development and diversification;
- ii) To promote rural investment and accelerate poverty reduction; and
- iii) To enhance human development.

2.2.1.2 The strategy also aims to deepen the mainstreaming of interventions to address the challenges of the HIV/AIDS pandemic, address disability, promote gender equality, particularly regarding the promotion of women's socio-economic empowerment, consolidating gender-responsive policies, legislation and monitoring.

2.2.1.3 In developing key facilities, Zambia, special focus will go towards; improving transport links (roads, rail and port); Information Communication Technologies (ICT); energy; and water supply and sanitation.

2.2.1.4 In recognition of the important role played by trade and regional integration, the Government is rehabilitating road links that improve the national network and promote the regional transport corridors such as the North-South and Nacala Corridors (Great East Road). This is

supplemented by major improvements at key border posts, such as Nakonde (with Tanzania), Kasumbalesa (with Congo DR), and Kazungula (with Botswana).

Box 1: Objectives and principles of the Zambia Vision 2030

Goal

- (i). to become a prosperous middle income country by the year 2030

Strategic Objectives

- i) Reaching middle-income status
- ii) Significantly reducing hunger and poverty; and
- iii) Fostering a competitive and outward-oriented economy

Principles and Values

- i) Gender responsive sustainable development
- ii) Democracy
- iii) Respect for Human Rights
- iv) Good traditional and family values
- v) Positive attitude towards work
- vi) Peaceful co-existence
- vii) Private-public partnerships

Source: Government of the Republic of Zambia, Vision 2030, 2006

2.2.1.5 Agriculture is targeted as a major entry point for addressing particularly the high levels of rural poverty. Investments in agriculture infrastructure, such as irrigation and agro-processing offer an effective means to make a significant impact on poverty reduction. Further efforts will be needed towards improving productivity through enhancing capacity through training, research and extension services. These will augment initiatives that promote livestock production and crop diversification while at the same time improving marketing systems and productivity in farming to ensure sustainable national food security and if appropriate for export.

2.2.1.6 An improved energy sector presents an opportunity for faster growth and exports diversification. The Government is therefore pursuing strategies that will attract and promote additional private investments in addition to supporting the public private partnerships. The Government is

continuing with implementation of the policy of generating cost-reflective electricity tariffs by 2013/14. Other major reforms include implementation of a grid code aimed at facilitating private sector participation in the power sector through the agreed sharing of transmission network infrastructure.

2.2.1.7 The industry and manufacturing sector has been targeted because of its backward and forward linkages, especially for promoting agro processing. There is ongoing work towards improving the regulatory and the business environment. Zambia is also developing manufacturing infrastructure such as the Multi-Facility Economic Zones and Industrial Parks, in order to contribute to increased employment creation in the urban areas.

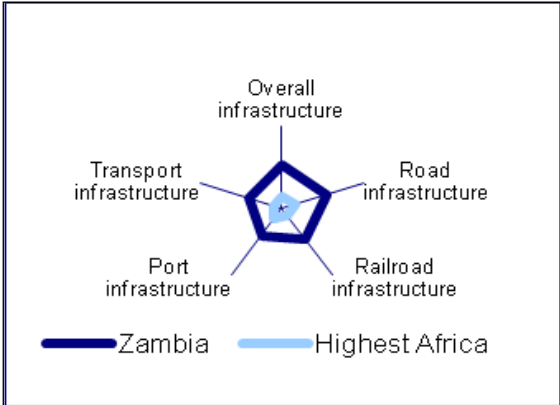
2.2.1.8 The mining sector remains a major driver of growth while adding momentum to the growth of industry and manufacturing. Relevant policies will focus on encouraging and attracting private investment in exploration, reinvestment and development of new mines through a stable and attractive fiscal and regulatory regime.

2.2.1.9 Tourism has been identified as a viable area in which Zambia’s competitiveness could be enhanced, especially through improved infrastructure particularly in the Greater Livingstone area, Kafue National Park and the Northern circuit. The government is improving the regulatory framework and the development of capacity to enhance service delivery. This will be complimented by infrastructure development initiatives such as increased access to electricity and ICT services.

2.2.1.10 **Human Skills Development:** In order to augment the results achieved so far in the above priority sectors; the government continues to improve human capacity development via additional investments in health, education, science and technology, and water and sanitation.

2.2.1.11 **Financing:** In implementing the above activities, the government has projected that domestic revenues will rise to at least 21% of GDP by 2012 (up from 15.7% in 2009). This projection is based on major ongoing reforms aimed at improving economic activities, tax administration and the expansionary tax reform programme; to be implemented between 2011 and 2012. The share of donor grants is therefore, expected to decline from 3.5% of GDP in 2010 to 1.8% by 2015.

Graph 13: Infrastructure 2009



Source: AfDB Statistics Department using data from the WEF, 2009

CPIA Ratings

2.2.1.12 Zambia’s CPIA ratings have been rising since 2007 (graph 14). It has consistently performed very well in macroeconomic management reforms. There is however need for Zambia to improve performance in the important areas of revenue mobilization, social inclusion and equity given the persistent levels of rural poverty.

2.2.1.13 The high scores in business regulatory environment, property rights, rule based governance and gender equality are signs of positive transformation given the relatively short time since Zambia changed to a market led economy. The stagnation in corruption-related indicators could affect the flow of external donor support.

2.2.2: Challenges and Opportunities

Table 2 Zambia: Summary of Key Challenges/Weaknesses and Strengths/Opportunities

	Challenges/Weaknesses	Strengths/Opportunities
1	High levels of rural poverty	Existence of a comprehensive harmonization framework for effective aid coordination
2	Limited success in entrenching gender equality	Strong macroeconomic policy management
3	Limited diversification	Additional fiscal space
4	Institutional capacity weaknesses across the public Service Sector	Peace and Stability
5	Public infrastructure inadequacies (see graph 13)	Potential for increasing Domestic Revenue Mobilisation
6	High cost of doing business	
7	Quality of Human Resource Skills	

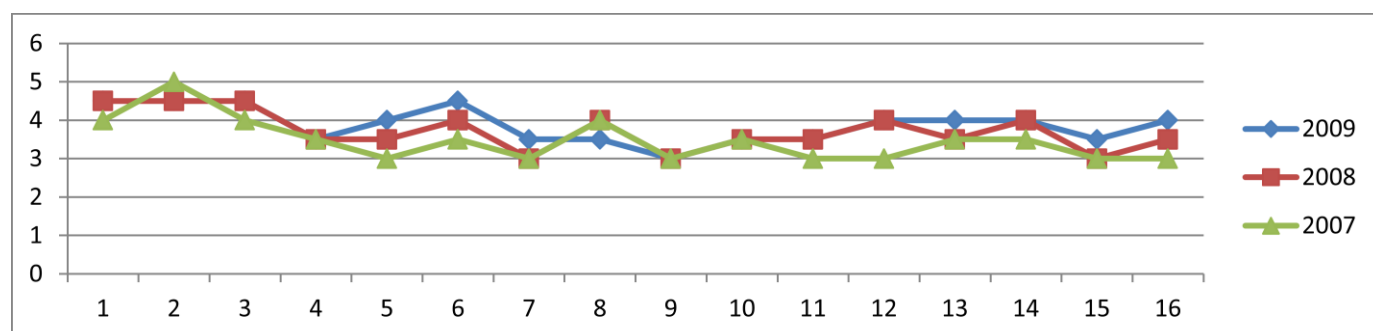
2.3 Developments in Aid Coordination and Harmonization

Aid Coordination and Harmonization

2.3.1 Available data sources show that ODA to Zambia reached record high of US \$ 2.1 billion in 1995 but declined by as much as 70% by 2006 reaching US\$ 636 million as donor started to question government policies. It has fluctuated around that level since.⁵ As of 2007, total Aid flows were estimated at US\$ 556 million which constituted 4.9% of GDP.⁶ Between 20% and 30% of aid is disbursed in the form of budget support from the EU, World Bank, AfDB, DfID, German, Ireland, Netherlands, Norway, and Finland. A substantial proportion of aid flows to Zambia is channeled through sector budget support.

2.3.2 The JASZ provides the current aid coordination framework amongst Cooperating Partners (CPs) and between CPs and the Government. The division of labour matrix in Annex V provides guidance for each donor sectoral presence and support. As such, the Bank's pillars under ADF-XI were selected in accordance with the JASZ framework. The Bank is an active participant in the regular meetings of the Cooperating Partners Group (CPG), as well as in close to 20 other diverse macro and thematic sector advisory groups (SAGs). The major objective remains to contribute to aid effectiveness in line with the Paris Declaration.

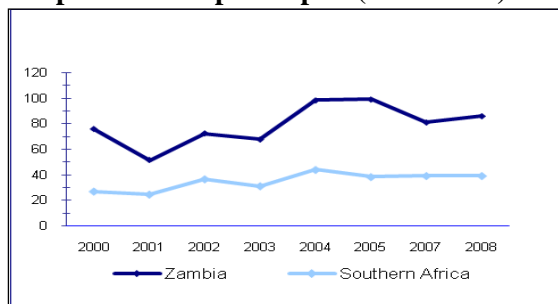
Graph 14: Trends in Zambia's CPIA Ratings



⁵ European Center for Development Policy Management- Wohlgenuth and Saasa (2008) Ibid.

⁶ AfDB/OECD (2008) ibid.

Graph 15- ODA per Capita (US dollars)



Source: OECD, Africa Strategic Outlook, 2008-2009

2.3.3 The joint JASZ evaluation⁷ was undertaken in early 2010. It observed that, among other things, aid effectiveness and development outcomes were not automatic results of a joint intervention strategy. Moreover, there was little evidence of increased country ownership at national level, although pooled funding is said to have increased Government ownership.

2.3.4 Mutual accountability and the Monitoring & Evaluation mechanisms were not very effective. However, the most important lesson for the Bank is that it was rather soon to have replaced its CSP with the JASZ. It was noted that except for the Bank and Sweden, other 14 partners developed specific strategies that augmented the JASZ as a broad framework for enhancing in-country aid coordination, harmonisation and alignment of donor practices. The Bank's RBCSP will ensure complementarity and fully alignment to the thrust of the second JASZ.

2.3.5 In view of the Bank's mandate, ownership structure and strategic orientation, it has reached out and is bilaterally working closely with many of the in-country OECD/DAC and non-OECD/DAC donors (popularly known as BRIC)- Brazil, Russia, India, China, as well as Saudi Arabia, Turkey and Egypt.

2.3.6 The non-OECD/DAC donors have increasingly become key partners to Zambia. It is estimated that close to 50% of new

infrastructure projects and programmes in the areas of energy and transport are being supported, either in part or fully by at least one of these donors. The Bank has identified specific operations for co-financing with some of these donors during the RBCSP period.

2.3.7 The Ministry of Finance and National Planning (MoFNP), which is the lead government agency for coordinating donor processes, plays the "challenge" function of rallying the rest of the government around donor funded development activities. Two main meetings are held each year to assess performance in the form of Poverty Reduction Budget Support Programme (PRBS). The Bank actively participates in the PRBS joint donor group reviews which discuss budget and public financial management issues with the Government.

AfDB's Positioning in Zambia

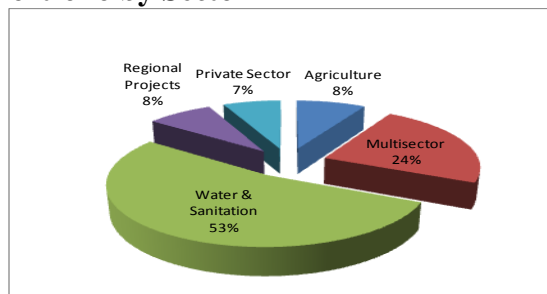
2.3.8 Since commencement of operations in Zambia in 1971, the Bank Group has to-date committed to Zambia a total of UA 851.33 million, net of cancellations. It has financed 37 projects, 5 lines of credit, 5 policy-based programmes, 4 institutional support operations, 8 studies, 2 debt relief operations and 1 emergency relief operation. The Bank has also made three private sector investments valued at US\$ 57.83 million.

2.3.9 The current portfolio consists of the seven public sector projects, one NGO project, three private sector operations and three regional projects with a commitment of UA 115.36 million, UA 0.61 million, UA 9.89 million and UA 10.85 million respectively. The portfolio is relative small and is focused on a few areas of interventions with an average project size of UA 16.57 million. The predominant financing modalities are project loans/grants, accounting for about 78 % of the total ongoing commitment. Annex VII provides details of the on-going projects.

⁷ In line with the harmonisation spirit, the 2010 JASZ Evaluation Report, presented under a summary assessment of the Board Covering Note, translated into the Bank's CSP PCR.

2.3.10 Chart I shows the sector presence of the on-going portfolio with water and sanitation accounting for the bulk of the interventions, at 53%. This is explained by Government's preference to borrow from the Bank for the sector and the division of labour guidelines contained in the JASZ.

Chart 1: Distribution of the on-going Portfolio by Sector



2.3.11 In addition, the Bank has two ongoing Economic Sector Work (ESW) activities; the first analysing Zambia's competitiveness in livestock, tourism and mining sectors; and the second is a public expenditure review that is assessing the country's resource use-efficiency in the peri-urban water and sanitation sub-sector.

2.3.12 The Zambia 2010 Country Portfolio Performance Review (CPPR)⁸ was undertaken concurrently with the preparation of the new RBCSP. It reflected that the performance of the portfolio has remained satisfactory with an improved overall portfolio rating of 2.47 in 2010, compared to 1.75 in 2008. The average rating for the Implementation Progress (IP) and Development Objectives (DO) is 2.46 and 2.47 respectively, indicating high likelihood for individual projects to meet their respective development objectives. There has also been improvement in most key portfolio indicators.

Alignment to the Country's Strategic Focus and Prospects for Future Growth of the Portfolio

2.3.13 The country's strategic focus is diversification of the economy from dependence on copper mining. Although the ongoing projects were developed from past

national development plans, the current portfolio does not necessarily reflect the above strategic focus. The ongoing projects/programmes are characterised by independent interventions responding to sectoral challenges. The objective under the new RBCSP 2011-2015 is therefore, to restructure the approach to focus not only on alignment with Bank's Medium Term Strategy (MTS), but also directly responding to the country's diversification of the economy programme.

2.3.14 Given the limitations of the ADF country allocation against huge infrastructure demands in Zambia, the potential growth in the portfolio will mostly be in the private sector, particularly opportunities brought about by Public Private Partnership (PPP) investments. The Government is aggressively promoting PPPs in energy, transport, agriculture and housing sectors, which the Bank should take advantage by supporting from both the public and private sector windows.

Key Portfolio Lessons for the New RBCSP

2.3.15 The joint preparation of the RBCSP and the 2010 CPPR provided a timely opportunity for drawing key portfolio lessons important for the design of the Bank's new strategy. While the specific details on the portfolio performance are contained in the CPPR, below is a summary of issues relevant to the design of the RBCSP.

2.3.16 Alignment of the Portfolio to the Country's Strategic Focus: Although the ongoing projects were developed from past national development plans, the current portfolio does not fully reflect the strategic focus of economic diversification. The recommendation is to ensure that the new portfolio is fully aligned to the SNDP.

2.3.17 Linkage between the CPPR and the RBCSP: The CPPR should form an important instrument for analyzing the portfolio's performance in relation to achievement of the outcomes of the RBCSP. Therefore, robust sectoral baseline data in the areas of Bank focus is needed under the new RBCSP, which will facilitate better preparation of new

⁸ Board document: ADB/BD/WP/2010/170 AND ADF/BD/WP/2010/115

interventions, whereby the respective log - frames are easily linked to the results/outcomes of the RBCSP.

2.3.18 Monitoring and Evaluation: The Ministry of Finance and National Planning is in the process of establishing a government – wide comprehensive Monitoring and Evaluation System. It focuses on M & E at all levels of Government. The challenge is strengthening the framework to effectively undertake its mandate at all levels. Government intends to approach the Bank for assistance during implementation of the new RBCSP.

2.3.19 Potential Growth of the Portfolio: As indicated above, the Zambia portfolio is relatively small. There are limitations of ADF country allocations against huge infrastructure demands in the country. The growth identified is mostly in the private sector, particularly opportunities brought about by Public Private Partnership (PPP) investments in energy, transport, agriculture and housing sectors. However, to realize this potential the Bank needs to be proactive by assisting the Government in strengthening its capacity to prepare bankable PPPs that could be marketed to various financiers. Such capacity seems not to exist within Government, although a PPP policy was recently launched.

III. BANK GROUP STRATEGY FOR ZAMBIA

3.1 Rationale for Bank Group Intervention

3.1.1 The preparation of the new strategy comes against the back drop of the ADF XII replenishment exercise; the end of FNDP implementation; and the planned launch of SNDP, a major milestone in the implementation of Zambia’s vision 2030. It is also during the RBCSP that the assessment of Zambia overall progress towards meeting the MDGs will be conducted. The timing further coincides with the preparation of the second joint assistance strategy for Zambia, which will deepen the harmonisation and alignment progress achieved under JASZ.1. Moreover, the Bank in collaboration with the other

development partners would like to support Zambia in order to sustain the economic progress made over the past 10 years.

3.1.2 In formulating the new RBCSP, Bank held extensive consultations with the Government, the donor community including the non-DAC donors such as China, Brazil, India, Egypt and Saudi Arabia, Civil society, the academic, and private sector.

3.1.3 The Bank sought views and guidance on five major issues: i) Government priorities and whether the Bank’s proposals were well aligned; ii) relevancy and appropriateness of the pillars on which Bank support was to be based in the RBCSP for 2011- 2015; iii) What the Bank needs to do better in order to improve the Bank’s portfolio, and iv) the appropriateness of the proposed financing instruments.

3.1.4 The consultations between the Bank and other stakeholders agreed on the need to do fewer but large size, more focused and results-oriented operations. The cooperating partners urged the Bank to ensure full alignment with SNDP and continued harmonisation of interventions during implementation of the RBCSP.

3.1.5 The selection of pillars for Bank Group support under the new RBCSP will support efforts aimed at improving Zambia’s overall competitiveness in regional and international markets. Broadly, the operations will align to the national diversification agenda and the promotion of regional integration. The first pillar focuses on developing key social economic infrastructure while the second pillar will provide complementarity through supporting improvement of the overall business environment; notably the implementation of key public sector policy reform areas such as reducing the cost of doing business and enhancing labor productivity. These efforts will lead to increased private sector activities in the country including attracting additional foreign direct investments, especially from within the Southern and Eastern Africa region.

Box 2. Guiding Principles for Preparing the RBCSP

- Full alignment to National Strategy/SNDP.
- Harmonisation with other donor support including co-financing.
- Division of labour among donors
- Strong element of prioritization.
- Comparative advantage of Bank support in Zambia
- Balanced resource allocation between national and regional programs.
- Increased Selectivity and focus for new projects/programs.
- New Areas of potential growth in Bank support including expanding private sector presence.

Pillars for Bank Group Support

Pillar Supporting Economic Diversification through Infrastructure Development

3.1.6 In order to drive economic growth, economic diversification and poverty reduction, infrastructure development remains a major priority area for the Government of Zambia. In line with the Bank's Medium Term Strategy, support will be channeled towards national and regional public infrastructure, including through the use of PPPs. Building on past support and its comparative advantage, the Bank's sectoral focus under this pillar will go towards transport and energy/power. In promoting regional integration, the specific interventions will target enhancing national/regional interconnectivity; by taking advantage of Zambia's central location (surrounded by 8 neighbors).

3.1.7 To generate greater development impact, the Bank will prepare more integrated and cross sector operations. For example integrated energy development for supporting agro-processing, rural development, manufacturing, environmental sustainability, and trade promotion. This will increase the size, while reducing the overall number of operations in the portfolio.

3.1.8 Transport Sector: Since commencement of operations in the transport sector in 1987, the Bank supported interventions valued at UA 591 million. These were mainly in institutional strengthening in the sector, studies in civil aviation and bridges, rehabilitations in the railway subsector and the first rehabilitation of Lusaka-Chipata Road covering 187 km between Lusaka and Luangwa Bridge. The new intervention under the RBCSP will target improving the linkage between Zambia and its regional neighbors addressing high cost of doing business arising from poor roads and delays at major exit points.

3.1.9 Specific interventions under the new RBCSP will focus on construction of new roads, and rehabilitations of existing roads, bridges and ports along the North South Corridor as well as improvements of border crossings to allow for establishment of one-stop-border posts. Support will also go towards establishing viable PPPs in the road and railway sub-sectors. This will be preceded by a sector wide transport master plan study. The work will build on previous initiatives undertaken by other Cooperating Partners active in the sector.

3.1.10 Energy sector: The Bank support in the immediate past, include construction of a 220 kV Victoria Falls-Katima Mulilo power interconnection project, which targeted increasing supply of adequate and reliable electricity to border towns in Namibia and the Western Region of Zambia. Primarily, the project was aimed at strengthening the existing supply to the Caprivi region in Namibia, by extending 220 kV transmission line from Victoria Falls (Zambia) to Katima-Mulilo (Namibia). The project was completed in September 2006 with the establishment of the 220kV power line and the Sesheke and Zambezi Substation. Some of the achievements include increased availability, access, reliability and power consumption in the project area. Specific examples of benefits include the connection of schools and a Sawmill.

3.1.11 Interventions under the new RBCSP will focus on power generation and improving transmission networks to meet both domestic and regional demand, with additional emphasis on clean energy technologies. Mini hydro power stations will be supported through PPPs. The aim is to address the current shortages and unpredictability of power supply that is hampering industrial growth in the country.

3.1.12 The focus on only two sectors, i.e transport and energy is to consolidate selectivity. However, at the midterm review of the RBCSP, the Bank will determine the need to expand sectoral focus to include direct investments in agriculture and water and sanitation, which it is already supporting under the ongoing portfolio. This will aim at ensuring continuity of Bank Group presence in these important sectors and will hopefully coincide with the ADF XIII replenishment process.

Pillar II: Support to Economic & Financial Governance

3.1.13 Support under this pillar will complement the first pillar. The key objective is to promote efficiency, transparency and accountability in the management of public resources and improve service delivery. In addition the bank will collaborate with other cooperating partners in supporting activities that specifically focus on addressing policy-related constraints affecting private sector development by way of reducing the cost of doing business.

3.1.14 The 2008 Public Expenditure and Financial Accountability (PEFA) assessment and the 2010 PEMFA evaluation reports observed that Zambia had made significant progress in key Public Finance Management (PFM) areas. However, both reports pointed to key

weaknesses⁹ in public financial management, which require continued improvement in order for the country to achieve a more transparent and accountable PFM system.

3.1.15 The Bank's support will consolidate and improve activities such as budget management; strengthening audit function of government; improving procurement systems; strengthening anticorruption; improving debt management, enhancing tax reforms; and support to oversight institutions such as the Public Accounts Committee of Parliament with a view to improving transparency and accountability.

3.1.16 Gender mainstreaming will also be strengthened through supporting gender responsive budgeting, including gender audits and analysis in AfDB priority sectors, and technical assistance to build the capacity of the government to generate better and more coordinated sex-disaggregated data. This will enable government to put in place a public financial management system that responds to the needs of all citizens. The expected outcomes are a credible gender-responsive budget, a transparent procurement system; expenditure aligned to budget, and improved financial management and audit.

Private Sector

3.1.17 Linked to the two pillars will be intervention in the private sector with three broad strategic focus, namely (i) leveraging private sector resources through supporting the PPPs in energy and transport (ii) deepening financial intermediation in the financial sector to catalyze development of mortgage financing and support to SMEs (iii) supporting reforms to promote wider

⁹ Following the 2008/9 special audits in health, agriculture, and roads sectors major weaknesses were revealed by the Auditor General in the area of commitment control. This is despite having in place the Public Finance Act. It is therefore, clear that the PFM systems in Zambia require further strengthening and tightening with additional reforms and enforcement of rules.

competitiveness and improved business environment.

3.2 Deliverables and Targets

3.2.1 In implementing the RBCSP, the Bank will develop a work program, around the indicative operations contained in Annex II. These were derived from the Government's priority projects under SNDP. It will combine both lending and non-lending activities, with inbuilt flexibility for process and midterm reviews. This will enable Zambia to embrace emerging national, regional and global developments, in addition to the SNDP priorities.

3.2.2 During ADF XI the country allocation for Zambia was UA 118.9 million which was committed to finance four operations; an urban water and sanitation project (UA 35 million), and two budget support operations (UA 46.9 million) and a multinational road project - (UA 37 million). An additional of UA 24.9 million was leveraged under the multinational window to finance the road project. The pipeline of projects/programs for the ADF XII lending Cycle has been discussed with the Government in anticipation of conservative estimate of an increase in allocation over the ADF XI resources. Consequently, the strategy is to co-finance most of these projects with other Cooperating Partners and leverage the private sector resources through PPPs, to meet the targeted investment under the RBCSP.

3.2.3 The proposed operations will contribute to improving Zambia's socio-economic performance by increasing the number of kilometers of tarred roads, and strengthening inter regional linkages between Zambia and its neighbors, Botswana, Malawi, Mozambique. In addition, the operations in the energy sector will contribute to improved reliable energy supply. The support to PFM and business environment reforms will lead to a stronger public finance management

systems and a more competitive private sector.

Lending Operations - ADF¹⁰

3.2.4 The Bank's mode of delivery of assistance to Zambia will continue to be in the form of; i) poverty reduction budget support, ii) stand alone project investments (public/private), iii) support to multinational projects and programs, and iv) aspects of technical assistance grants, such as the ongoing supporting to the Central Statistical Office. Moreover, in line with the recent GCI increase, Zambia will be supported in areas of investments that utilize the ADB¹¹ window to leverage the relatively scarce ADF financing.

Lending Operations - private sector

3.2.5 The Bank Group's private sector strategic priorities will place additional emphasis on improving Zambia's competitiveness. In particular, the Bank will monitor progress towards licensing reforms, cross border facilitation, and improving labour laws, and lowering the cost of and improving access to credit. The Bank is developing a pipeline of potential projects for direct investment support during implementation of the new RBCSP. The highly recommended approach for supporting the private sector is using PPPs. The operations earmarked to be developed via the PPP model include the Itezhi-Tezhi Hydro Power generation plant Project and the transport projects indicated in annex.II.

Non-Lending

3.2.6 In addition, the Bank will provide non-lending support to Zambia during implementation of the new RBCSP. This will involve engaging in Economic and Sector Work (ESW) of national and

¹⁰ The specific operations proposed for Bank Group's support under the CSP are contained in Annex. II.

¹¹ Aware of the limitations imposed by the Bank's non-concessional borrowing policy, the private sector will be mobilized to tap into the resource opportunities available under the ADB Window.

regional nature which, where appropriate, will be co-financed with other Cooperating Partners. The envisaged ESW include i) Supporting Government in preparation of the Zambia Transport Master Plan, ii) A study on Domestic Resource Mobilization for Poverty Reduction; iii) Zambia Private Sector Profile; iv) an inventory of women entrepreneurs and a study on the constraints and opportunities of cross-border traders; and v) a gender-responsive audit of Zambia's land resources and tenure systems. The proposed gender audits in AfDB priority sectors will complement the work of the Joint Gender Program and will enable the Bank to effectively mainstream gender equality in its interventions.

3.3 Monitoring and Evaluation of the CSP

3.3.1 The RBCSP results monitoring matrix links into Zambia's SNDP monitoring and evaluation framework which was developed under FNDP. In addition, the Bank results matrix builds on the joint Poverty Reduction Budget Support Performance Assessment Framework (PAF). The latter instrument, a subset of the wider monitoring framework, was initially developed and is jointly revised annually by the government and the cooperating partners. The PAF helps in the monitoring and reporting on specific results directly linked to poverty reduction, in areas such as water and sanitation, agriculture, health, education and public financial management reform improvement. The log frame will therefore, be used in tracking progress and the specific results achieved in implementing activities covered under the two pillars of the RBCSP.

3.3.2 Monitoring the RBCSP results matrix will involve working closely with the government and other cooperating partners, and the use of the CPPR. Under the M& E system the Ministry of Finance and National Planning is able to follow through public sector activities at programme level,

while the rest of the structures focus mainly on the project level. Although the institutional framework is in place, there is a challenge regarding the need to strengthen the structure at all levels to effectively undertake its M & E functions. The Government intends to approach the Bank for such assistance. The Bank Group will therefore work with the Ministry of Finance and National Planning, to prepare regular monitoring reports on the portfolio. These reports will inform the discussions during the joint portfolio reviews with the Government and help to assess progress towards achieving the targeted development outcomes.

3.4 Country Dialogue Issues

3.4.1 **RBCSP Strategic Thrust:** consultations with the authorities confirmed that the strategic pillars in the RBCSP were appropriate. However, the financing of Zambia's development needs remains a challenge in view of the limited resource envelope. It is therefore, advised that other sources for co-financing, for example, from the EU, Japan, World Bank, Finland, DBSA and from the non-OECD/DAC donors be explored.

3.4.2 **Additional Financing sources and options to be explored include** the private sector window, the Infrastructure Consortium for Africa (ICA), the African Water facility (AWF) and the different bilateral grant partnerships managed under ORRU.

3.4.3 **Increased private sector focus:** The Bank's private sector financing in Zambia has significantly reduced over the past two years. At the same time, the volume of public sector financing appears to be on a declining trend. However, Zambia, because of its location and stable political environment is increasingly becoming a favorable investment destination for both regional and international FDI. The Bank will use its private sector window to partner with this sector more effectively.

3.4.4 Strengthening partnership: In order to build on the current harmonisation achievements and to address some of the weaknesses identified during implementation of JASZ.I, the Bank is working closely with the other cooperating partners to among others, develop and implement a robust results framework. The Government and Donors are in the process of revising the division of labor matrix with the view to realise better development effectiveness, including information sharing on key studies and coordination of missions.

3.5 Potential Risks and Mitigation Measures

3.5.1 Zambia has over the past 10 years built a stable macroeconomic framework which is assisting in mitigating some of the potential economic risks. As such the risk of policy reversal and economic decline is low. However, the following key areas of potential risk could divert development outcomes of the RBCSP.

i) Pace of Public Sector and other Structural Reforms:

3.5.2 Zambia faces the risk of slowing down the current economic progress if the ongoing public sector reforms such as PEMFA, the Pay Reform, the Decentralization Implementation Plan and overall economic diversification program are not sustainably supported financially. The consequence of this will be losing the momentum of the core reforms which are predicated on the current positive economic growth and the complimentary decline in poverty levels.

3.5.3 The Bank will mitigate the structural reform risks through increased policy dialogue engagement and where necessary pursue bilateral discourse with the government and the other in-country cooperating partners. This will assist in the government create a stronger public sector for effective implementation of the

development programs identified in the SNDP.

ii) External Developments

3.5.4 The economic management challenges experienced following the 2008 food and oil crisis, and later the financial and economic crisis exposed Zambia as a vulnerable economy. The decline in revenue performance and the rise in inflation that resulted from these crises pointed to a need for better systems and a mechanism for increasing domestic revenues, especially through economic diversification. If measures are not in place to respond to the exogenous external shocks, implementation of the programmes under the SNDP could be curtailed. The Bank will, therefore, support the government in areas that enhance economic diversification and expand the revenue base.

iii) National Elections in 2011

3.5.5 There is a risk of budgetary pressures arising from preparation of the 2011 national elections where the government might be vulnerable to undertaking short term political actions, with negative long term effects on fiscal sustainability, eg the proposed expansion in the road sector that the Government has announced. This is supposed to be funded through external borrowing, hence, threatening the country's debt sustainability indicators. Second, is ensuring the credibility of the electoral process for a free and fair outcome that will not be contested and hence fuel political disturbances.

iv) Adverse shifts in Environment and Climatic conditions

3.5.6 More than 60% of Zambians live and work in rural areas and therefore remain largely dependent on the agriculture sector. Moreover, due to low levels of technology and commercialization, the sector is highly weather-dependent. The cases of floods and droughts tend to result into large

variations in agricultural and livestock production. As such prolonged and semi-permanent changes in the climatic conditions could roll back the gains made so far, leading to increased food insecurity, and worsening rural poverty. In addressing this risk, the Bank will, in collaboration with the government and other cooperating partners continue to support climate resilience programs, in addition to climate-proofing the rest of the planned interventions.

v) Governance and Corruption

3.5.7 Developments during 2008 and 2009 in the areas of public financial management which compelled the government to commission special audits in the health and roads sectors send negative signals for transparency and accountability in the management of public resources. The government is to be commended for the corrective actions taken including prosecuting the culprits. However, if stronger and sustainable safeguards are not put in place this could derail the ongoing poverty reduction activities. The Bank will in this respect continue to work closely with the government and other cooperating partners, and where necessary the civil society in building the requisite public sector capacity within the framework of general budget support.

IV. CONCLUSION AND RECOMMENDATION

4.1 The new RBCSP for Zambia comes at an important time when the country is about to launch the Sixth National Development Plan (2011-2015). The government has also just concluded conducting its fifth population and housing census. Moreover, Zambia will hold a general election in which the country will have a new government during 2011. In the last decade, much has been achieved in restructuring and stabilizing the economy, improving domestic resource mobilisation, quality of service provision, and

governance. However, much more needs to be done to reduce further rural poverty and to attain the middle income status aspiration contained in the Zambia Vision 2030.

4.2. The 2011-2015 RBCSP has identified infrastructure development as key to growth, poverty reduction, and economic integration. This pillar also provides the framework within which the Bank will directly intervene in Zambia's private sector. The investments during the RBCSP period will be anchored into knowledge and capacity building processes that enhance Zambia's competitiveness. The Government is in agreement with the Bank regarding the overall assessment and with the strategic focus being proposed for the delivery of support to the country.

4.3. The Board is requested to consider and approve this Results Based Country Strategy Paper for Zambia, covering the period 2011-2015.

Annex.1: RBCSP Results Matrix

Strategic Objectives (MTP)	Constraints to achieving the desired outcomes	Final Outcome Indicators (2015)	Final Output Indicators (2015)	Mid-Term Outcome Indicators (2013)	Key Actions and Mid-term Output Indicators (2013)	AfDB Interventions Ongoing and proposed in the CSP
PILLAR I - Support to Infrastructure Development						
Transport						
<p>1.To improve the quality of transport infrastructure and enhance efficiency in its development</p>	<ul style="list-style-type: none"> • Poor Infrastructure and High Transport Cost • Lack of Adequate Resources for Periodic Maintenance • Lack of updated Transport Policy, backed by an investment plan and a financing strategy • Need for enhancing public sector capacity • Need for enhancing private sector capacity (contractors and consultants) • Insufficient knowledge on gender gaps 	<p>Outcome 1: Reduced Transport Cost</p> <p>Outcome 2: Improved Nationwide Connectivity</p> <p>Outcome 3: Improved Transport safety</p> <p>Outcome 4: Transport infrastructure that responds to the needs of and creates equal opportunities for men and women</p>	<ul style="list-style-type: none"> • Improved Core Road Network • Improved institutional road sector capacity • Improved private sector capacity • Improved capacity of Mpulungu Port 	<ul style="list-style-type: none"> • Household expenditures devoted to transport in the project's area of influence • VOC savings and travel time cost savings • % of Increased income levels; and production of key agricultural crops in area of intervention • Traffic Accidents and mortality along the transport project • Increased capacity of Mpulungu Port from 150 million tonnes per year in 2011 to 250 tonnes per year in 2015 	<p>Lending Activities:</p> <ul style="list-style-type: none"> • Rehabilitation of 600 km road link from Serenje – Nakonde, linking Lusaka with Dar-es-Salaam Port in Tanzania • Rehabilitation of Nakonde-Chipata Road (85km) linking Malawi to Zambia and connecting the northern tip of lake Malawi to the southern tip of Lake Tanganyika • Construction of Kazungula Bridge and Border facilities • Mpulungu Port Infrastructure Development <p>Non-lending Activities:</p> <ul style="list-style-type: none"> • Assistance to preparation of a multi-modal Transport Sector Master Plan • Assistance to the establishment of a Public-Private Partnership arrangement with the National Council for Construction to enhance domestic contractor capacity • Financing of preparation of Detailed Design of the 600 km road link from Serenje – Nakonde, linking Lusaka with Dar-es- Salaam Port in Tanzania • Feasibility study and Detailed Design of railway line linking Livingstone – Kazungula bridge-Sesheke • Feasibility study and Detailed Design of railway spar linking Mpulungu – Seluka. • Gender audit of transport sector 	<p>Ongoing</p> <ul style="list-style-type: none"> • Feasibility Study for Kazungula Bridge Construction. • Consultancy Design for Mpulungu Port Rehabilitation. • Study for the Development of Shire-Zambezi Water way. <p>Pipeline</p> <ul style="list-style-type: none"> • NACALA Corridor Development Project. • Kazungula Bridge Construction. • Mpulungu Port Rehabilitation. • One-Stop-Border Post at Mwami. • Support to the preparation of the Zambia Transport Master Plan.
Energy Sector						

<p>2. To exploit the hydropower potential of the country for meeting domestic demand and exporting power to neighboring countries efficiently and sustainably.</p>	<ul style="list-style-type: none"> Lack of electricity infrastructure, namely power plant, transmission line and substation Insufficient knowledge in the energy sector 	<p><i>Outcome 1:</i> Increased power generation and equitable distribution</p>	<ul style="list-style-type: none"> Improved energy infrastructure (energy production and delivery) Improved supply of electricity to mining, manufacturing, tourism, etc Gender gaps in energy sector known and addressed in AFDB interventions 	<ul style="list-style-type: none"> New connections Total production of power 	<ul style="list-style-type: none"> 120 MW generated by 2015 146 km of 220 kV connection by 2015 145 km of 330 kV connections by 2015 One new substation of 330/220/33 kV 125 MVA commissioned by 2015 Gender audit of Energy sector 	<p><u>Ongoing</u></p> <ul style="list-style-type: none"> Support to preparation of the Feasibility Studies and Detailed Designs for Kafue Gorge Lower Hydro Power Project. <p><u>Pipeline</u></p> <ul style="list-style-type: none"> Support to the financing of Itezhi-Tezhi Hydro Power Transmission Project. Support to Itezhi-Tezhi Hydro Power Generation Project. Support to Development of Kafue Gorge Hydro Power Station. Support to the ZIZABONA Regional Interconnector between Zambia and Zimbabwe.
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Promoting Business Environment

<p>6. To improve export diversification and private sector development</p>	<ul style="list-style-type: none"> • Poor business enabling environment • Lack of access to credit, particularly for MSMEs • Low entrepreneurship • Lack of knowledge on opportunities and constraints of women entrepreneurs 	<ul style="list-style-type: none"> • Improved business enabling environment • Increased credit to private sector Improved entrepreneurship skills <ul style="list-style-type: none"> • Small and medium scale women entrepreneurs empowered 	<ul style="list-style-type: none"> • Rank in Doing Business Report improved to 80 in 2015 from 93 in 2010 (source : Doing business report 2015) • Private sector credit to GDP increase from 14.5% in 2009 before the crisis level, to 40% in 2015 (Source : IMF) • Number of MSMEs in formal sector increases by 200% by 2015 (source : Ministry of Commerce) <p>Number of women entrepreneurs increased</p>	<ul style="list-style-type: none"> • Ranking of business licensing and trade across borders report improved by 10 ranks (source : Doing business report 2013) • 1% of participating commercial bank loan book (by value) is to small enterprises by 2012 increasing to 5% by 2013 (source: Bank of Zambia) • Number of MSMEs in formal sector increases by 100% by 2013 (source : Ministry of Commerce) 	<ul style="list-style-type: none"> • Two One Stop border posts are fully operational by 2013 • Time to start a business reduced by 10% in 2013 • Interest rate reduce from 25-30% in 2010 to 15-20% in 2013 <p>Credit reference bureau is fully effective by 2013</p> <p>%age of population with bank accounts increased from 40% in 2010 to 60% by 2013</p> <p>MSME plan is implemented</p> <p>Number of businesses owned by women increased</p> <p>Inventory of Women entrepreneurs and study on cross-border traders completed and results disseminated</p>	<p>Ongoing</p> <ul style="list-style-type: none"> • Zambia Third Poverty Reduction Budget Support Programme. <p>Pipeline</p> <ul style="list-style-type: none"> • Support the Zambia Private Sector Profile Study.
<p>Social Development</p>						

<p>8. To improve the quality of public finance management emphasizing efficiency, transparency and accountability of public funds.</p>	<ul style="list-style-type: none"> Lack of effective financial system and oversight mechanism that ensure expenditure control and public resources management. 	<p>Outcome 2: Strengthened economic and financial Governance</p> <p>Outcome 3: Gender-responsive public finance management</p>	<ul style="list-style-type: none"> Credible budget Transparent and efficient procurement system Improved financial management Effective oversight institutions Improved tax administration and the expansion of the tax base. Increased domestic revenue Reduced corruption Gender-responsive budgeting 	<ul style="list-style-type: none"> %age of Expenditure variance to original budget Number of contracts awarded on the basis of open competition as a %age of all contracts awarded in a given year Auditor General's report Debt level Increased tax revenue Timely submission of the budget to the Legislature; (b) Action on recommendations of the Auditor General. Increased domestic revenue as a %age of GDP. Corruption perception index; Better sex-disaggregated data collection enable gender-responsive public finance management 	<ul style="list-style-type: none"> Expenditure aligned to approved budget. Completion and Adoption of procurement regulations and general bidding documents. Rollout of IFMIS to all MPSAs and use of all modules; and (b) Effective use of the treasury single account system. Effective use of treasury single account system Debt levels maintained at below 30% of GDP Reviewed tax system with a view to identify additional revenue sources Improved performance of oversight institutions Revised tax system with a view to identify additional revenue sources. Implementation of the anticorruption policy Action taken on recommendations by the auditor general. No of ministries that incorporate gender-responsive budget mechanisms 	<p><u>Ongoing</u></p> <ul style="list-style-type: none"> Zambia Third Poverty Reduction Budget Support Programme. Regional Enhancing Procurement Reforms and Capacity Project. <p><u>Pipeline</u></p> <ul style="list-style-type: none"> Zambia Fourth Poverty Reduction Budget Support Programme. Zambia Fifth Poverty Reduction Budget Support Programme. Support a Study on Zambia's Domestic Resource Mobilization Potential.
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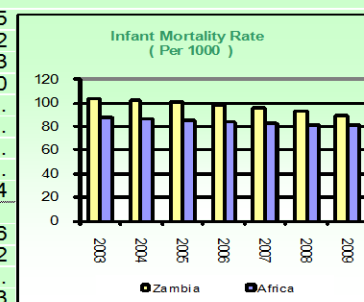
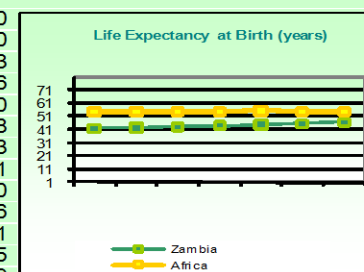
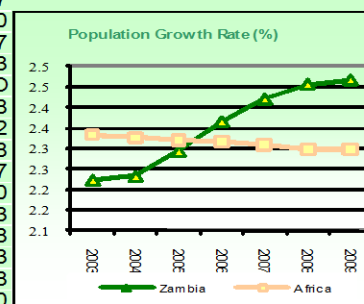
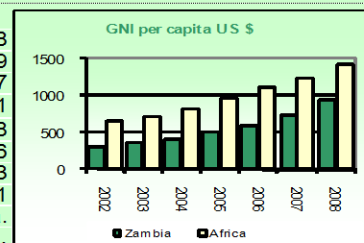
Annex.II: Bank's Indicative Non-Lending Program for 2011-2015

Public Sector Window (in UA million) – National Operations			
Energy			
1. Itezhi-Tezhi hydro Power Project-Transmission line	Dec. 2011	30	Zambia
Multi Sector (Budget Support)			
2. Poverty Reduction budget Support (IV & V)	Nov. 2011 & 2013	35	Zambia
National Operations Sub-total		65	
Public Sector Window (in UA million) – Regional Operations			
Road /Transport			
3. Kazungula Bridge Construction	May 2012	50	Zambia/Botswana/Namibia
4. Mpulungu Port Rehabilitation	Feb 2012	30	Zambia/Tanzania
5. One-Stop Border Post at Mwami	June 2012	30	Zambia/Malawi
Energy			
6. ZIZABONA Interconnector	Nov 2014	30	Zambia/Zimbabwe
Regional Operations Sub-total		140	
Total ADF-XII Country Allocation			
Project Title	Planned Board Approval	Indicative Amount (UA million)	Area/Country/Region Covered
Private Sector Window (in US\$ million) – National Operations			
Transport			
7. Reconstruction of the Kapiri Mposhi – Nakonde Road (T2)	June 2012	42	Zambia
8. Upgrading Isoka-Kasama-Mansa-Mufulira Road, including bridge construction over Chambeshi River	January 2013	70	Zambia
Energy			
9. Itezhi-Tezhi Hydro Generation	July 2011	35	Zambia
10. Lusaka South Multi-Facility Economic Zone	Dec 2011	50	Zambia
National Operations Sub-total		197	
Private Sector Window (in US\$ million) – Regional Operations			
11. African Energy Resources	Nov 2011	50	Botswana/Zambia
Regional Operations Subtotal		50	

Annex.III

Zambia COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Zambia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		753	30 323	80 976	54 658
Total Population (millions)	2009	12.9	1,008	5,629	1,069
Urban Population (% of Total)	2009	35.5	39.6	44.8	77.7
Population Density (per Km ²)	2009	17.2	3.3	66.6	23.1
GNI per Capita (US \$)	2008	950	1 428	2 780	39 688
Labor Force Participation - Total (%)	2009	38.6	41.2	45.6	54.6
Labor Force Participation - Female (%)	2009	43.2	41.2	39.8	43.3
Gender-Related Development Index Value	2005	0.425	0.525	0.694	0.911
Human Develop. Index (Rank among 182 countries)	2007	164	0.514	n.a	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2007-08	51.0	50.8	25.0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2009	2.5	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2009	2.9	3.4	2.4	1.0
Population < 15 years (%)	2009	46.2	56.0	29.2	17.7
Population >= 65 years (%)	2009	3.0	4.5	6.0	15.3
Dependency Ratio (%)	2009	97.1	78.0	52.8	49.0
Sex Ratio (per 100 female)	2009	99.5	100.7	93.5	94.8
Female Population 15-49 years (% of total populati	2009	22.1	48.5	53.3	47.2
Life Expectancy at Birth - Total (years)	2009	46.4	55.7	66.9	79.8
Life Expectancy at Birth - Female (years)	2009	46.9	56.8	68.9	82.7
Crude Birth Rate (per 1,000)	2009	42.4	35.4	21.5	12.0
Crude Death Rate (per 1,000)	2009	16.6	12.2	8.2	8.3
Infant Mortality Rate (per 1,000)	2007	70.0	80.0	49.9	5.8
Child Mortality Rate (per 1,000)	2007	119.0	83.9	51.4	6.3
Total Fertility Rate (per woman)	2009	5.7	4.5	2.7	1.8
Maternal Mortality Rate (per 100,000)	2008	470.0	683.0	440.0	10.0
Women Using Contraception (%)	2005	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	11.2	42.9	78.0	287.0
Nurses (per 100,000 people)*	2004	168.7	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2007	46.5	50.5	63.4	99.3
Access to Safe Water (% of Population)	2008	60.0	64.0	84.0	99.6
Access to Health Services (% of Population)	2004	90.2	61.7	80.0	100.0
Access to Sanitation (% of Population)	2008	49.0	38.5	54.6	99.8
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	15.2	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2007	506.0	313.7	161.9	14.1
Child Immunization Against Tuberculosis (%)	2007	97.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2007	84.9	74.0	81.7	92.6
Underweight Children (% of children under 5 years)	2004	20.0	25.6	27.0	0.1
Daily Calorie Supply per Capita	2005	1 895	2 324	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	3.1	5.5	4.0	6.9
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2008	119.1	100.2	106.8	101.5
Primary School - Female	2008	117.9	91.7	104.6	101.2
Secondary School - Total	2008	45.6	35.1	62.3	100.3
Secondary School - Female	2008	41.4	30.5	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2008	50.1	47.5
Adult Illiteracy Rate - Total (%)	2006	30.0	59.4	19.0	...
Adult Illiteracy Rate - Male (%)	2006	...	69.8	13.4	...
Adult Illiteracy Rate - Female (%)	2006	...	57.4	24.4	...
Percentage of GDP Spent on Education	2008	1.4	4.5	...	5.4
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2007	7.1	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2006	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2006	...	10.9
Per Capita CO2 Emissions (metric tons)	2008	0.2	1.1	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : September 2010

UNAIDS; UNSD; WHO, UNICEF, WRI UNDP; Country Reports.

Note : n.a. : Not Applicable; ... : Data Not Available.

Annex IV



Annex V: Division of Labour Matrix under the Joint Assistance Strategy for Zambia

Sector from NDP	Lead Ministry	China	ADB	B A D E A	E C (ex cl. EI B)	I M F	K U W A I T F U N D	O P E C	U N S Y S T E M S	W B	C A N A D A	D E N M A R K	F I N L A N D	F R A N C E	G E R M A N Y	I R E L A N D	J A P A N	N E T H E R L A N D S	N O R W A Y	S W E D E N	U K	U S A	Total lead/active	
Agriculture	MACO		■		●				●	■			●				●		●	■		■	9	
Decentralization	MLGH								●	●					■	●	■	○						5
Education	MoE		○	○	○				●	●		●			○	■	●	■	○		○	●		7
Energy	MEWD		●		○				●	■							●		○	■				5
Gender	CO-GIDD								■							●		●	●			●		5
Governance	MOJ				●				■	●		●	○		●	●		●	●	☹	■	○		9
Health	MOH		○		●				■	●	●	☹				☹	●	☹		■	■	●		8
Housing	MLGH, MOL									○										☹		○		0
HIV/Aids	MOH								■	●	○				○	●	●	●	○			■	■	7
Macro-economics	MOFNP		●		■	●			●	■	●	●	●		●	○		●	●	●	■	●		14
Private Sector Dev.	CO-DSC/MCTI		●		●				●	■			●				●	●		☹	●	■		9
Social Protection	MCDSS		○						■	○						●					■			3
Science and Tech.	MTEVT								●	☹														1
Tourism	MTENR									■							●						●	3
Water (WR and WSS)	MEWD/MLGH		■		○				●	●		■			■	●	●	☹				○		7
Transport	MWS/MCT		●		■		●	●	●	●		●			☹		●		☹					7
Environment	MTENR								■	●		●	■						●					5
Total lead responsibilities			2		2				6	5		1	1		2	1	1	1	0	3	5	3		

Source: N Matshalaga and F Chigunta, F. Chigunta and N. Matshalaga; "Evaluation of the Implementation of the Paris Declaration in Zambia, 2010"

■ Non-signature to the WHIP MoU ■ Lead CP ● Active CP ○ Background CP ☹ Phasing out.

Annex VI Zambia: MDGs Progress and Attainment of National Development Targets

GOALS/TARGET	Indicator	Current Status	Year	Will the Goal or Target be Met?	State of National Support
Extreme Poverty Halve the proportion of people living in extreme poverty between 1990 and 2015	Proportion of population living below US\$ 1 per person per day	51%	2007/2008	Potentially	Strong
	Poverty gap ratio (Incidence x depth)	34%	2006/2007		
Hunger Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	Prevalence of underweight children	14.6%	2007	Likely	Strong
Universal Primary Education Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary school.	Net enrolment in primary	97%	2006	Likely	Strong
	Literacy rate (15-24 yrs)	70%	2006		
	Ratio of Literate females to males				
Gender equality Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015.	Ratio of literate women to men 15-24yrs	0.8%	2005	Likely	Good/Fair
	Ratio of girls to boys in primary sch.	0.97%	2006		
	Ratio of girls to boys in secondary schools	0.73%	2006		
	Ratio of girls to boys in tertiary institutions.	0.9***	2006		
	Share of women in wage employment in the non-agricultural sector.	34%	2005		
	Proportion of seats held by women in Parliament.	14%	1006		
Child mortality Reduce by two-thirds, between 1990 and 2015, the under five mortality rate.	Under five mortality ratio	119 per 1000 live births	2007	Potentially	Strong
	Infant mortality rate	70 per 1000 live births	2007		
	Proportion of 1 year children immunized against measles.	84.9%	2007		
Maternal Mortality	Maternal mortality ratio	449	2007	Potentially	Strong

Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.	Proportion of births attended to by skilled health personnel	46%	2007		
HIV/AIDS, Malaria & other major diseases Have halved, by 2015 and begun to reverse, the incidence of malaria and other major diseases	HIV prevalence rate among pregnant women	14.3%	2007	Likely	Good/Fair
	Access to contraceptives	24.6%	2002		
	Condom use at high risk sex				
Environmental Sustainability Reverse loss of environmental resources by 2015.	Degradation of natural resources			Unlikely	Good/Fair
Water & sanitation Halve, by 2015, the proportion of the population	Proportion of population without sustainable access to an improved water source (%)	40%	2006	Potentially	Good/Fair
	Proportion of population without access to improved sanitation (%)	36.1%	2006		
Global Partnerships Strengthen partnership between rich and poor countries	ODA, Market access, debt sustainability.	415 m (US\$)	2006		

Source: Zambia Central Statistics Office, Monitoring and Evaluation Dept, MoFNP and UNDP Progress Report 2008

Annex VII: ZAMBIA
LIST OF ON-GOING PROJECTS
 Status as at 31/08/10

Project and Sector	Project No.	Date Signed	Effect. date	Closing Date	Approved Amount (UA)	Amount Disbursed (UA)	% disbursed	
ADF RESOURCES								
MULTISECTOR								
1	POVERTY REDUCTION BUDGET SUPPORT III	2100150017794	-	-	31/12/11	31,900,000	0 0.00	
	Total Multisector				31,900,000	0	0.00	
AGRICULTURE								
4	SMALLSCALE IRRIGATION PROJECT	2100 1500 01106	6/2/2001	15/03/02	31/06/10	5,290,000	5,080,000 96.03	
	SMALLSCALE IRRIGATION PROJECT - Grant	2100155000489	6/2/2001	15/03/02	31/06/10	760,000	500,000 61.84	
5	LAKE TANGANYIKA INTEGRATED REGIONAL MANAGEMENT PRG	2100 1500 09044	18/05/05		31/12/12	3,260,000	80,000 0.02	
6	EMERGENCY ASSISTANCE TO ZAMBIA FOR FLOOD VICTIMS**	5000199001413				310,000	0 0.00	
7	AFRICA FOOD CRISIS RESPONSE FOR ZAMBIA.					2,117,727	2,117,727 100.00	
	Total Agriculture				11,737,727	7,777,727	66.26	
WATER AND SANITATION								
8	CENTRAL PROVINCE EIGHT CENTRES WATER SUPPLY	2100 1500 07222	22/04/04	16/12/04	31/12/10	16,250,000	16,150,000 99.38	
	CENTRAL PROVINCE EIGHT CENTRES WATER SUPPLY GRANT	2100 155002045	22/04/04	16/12/04	31/12/10	5,780,000	3,670,000 63.49	
9	RURAL WATER SUPPLY & SANITATION PROGRAM	2100 1500 13198	17/05/07	29/01/08	31/12/11	15,000,000	920,000 6.13	
10	NKANA WATER SUPPLY AND SANITATION PROGRAMME	2100 1500 18342	22/12/08	12/6/2009	31/12/13	35,000,000	240,000 0.01	
	Community Water Mgt improvement Project for traditional Farmers in Mkushi, Kapiri Mposhi, Masaiti and Chingola Districts							
	Total Water and Sanitation				72,030,000	20,980,000	29.13	
TOTAL - ADF RESOURCES National Projects						115,667,727	28,757,727	24.86
MULTINATIONAL PROJECTS								
11	Agricultural Marketing Promotion and Regional Integration Project	2100155002060	1/7/2004	28/02/05	31/12/09	3,736,000	2,770,000 74.14	
12	SADC North - South Corridor - Kazungula Bridge Study	2100155008918	01.12.06		13.12.10	1,450,000	400,000 27.59	
13	Enhancing Procurement Reforms and Capacity Project	2100155007373	14/08/06	19/12/06	31/12/11	5,660,000	2,870,000 50.71	
	Total				10,846,000	6,040,000	55.69	
TOTAL - ADF RESOURCES						126,513,727	34,797,727	27.51
ADB RESOURCES - PRIVATE SECTOR								
15	Zanaco Zambia**	2000 1200 01869	-	-	-	10,000,000USD	0 0.00	
16	Investrust Zambia**	2000 1200 01870	-	-	-	3,500,000USD	3,500,000 1.00	
18	FAPA TA Grant SMEs	5700155000502		4/9/2009		1,330,000	0	
TOTAL - ADB RESOURCES						14,830,000USD	3,500,000	23.60