



<b>1. Project Data :</b>
<b>OEDID:</b> C2910
<b>Project ID:</b> P003224
<b>Project Name:</b> Second Economic and Social Adjustment
<b>Country:</b> Zambia
<b>Sector:</b> Economic Management
<b>L/C Number:</b> C2910
<b>Partners involved :</b> None
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<b>Date Posted :</b> 08/21/1998

**2. Project Objectives, Financing, Costs and Components :**

The Credit -SDR62.4 million equivalent to US\$90 million- was approved in FY96 and closed on December 31 1997, on schedule. The Credit provided support for Zambia's economic reform program designed to address the serious levels of poverty through promoting widely shared, private sector -led economic growth and improving the delivery of vitally needed social services. The project's objectives were to (a) ensure a stable macroeconomic environment; (b) foster private sector growth by continuing the privatization process and rationalizing the tariff structure; (c) strengthen factor markets by accelerating the implementation of land and labor market reforms; and (d) improve the delivery of key social services by strengthening budget priorities for social sector ministries and by further developing and implementing reforms in health, education and social welfare programs

**3. Achievement of Relevant Objectives :**

The objectives of the project were substantially achieved. Macroeconomic stabilization and structural reforms progressed during 1996 and 1997. Fiscal management continued to improve and inflation reduced by adhering to monetary targets. The privatization of state-owned enterprises has continued. The public procurement system has been improved. Significant trade reforms have been made and the tariff structure has been rationalized. Amendments to the Industrial and Labor Relations Act have been enacted to allow collective bargaining at the enterprise level, rather than industry-wide. The new Land Act is being implemented. Informal urban settlements are being regularized. Targets for budgetary outlays to protect key social services have been established. The policy framework for delivery of these social services has been improved by issuance of a national drug policy, completing a study on the National Commission for Food and Nutrition, and beginning consultations with NGOs to foster improved collaboration in the delivery of social services.

**4. Significant Achievements :**

Despite unfavorable weather, suspension of program assistance by bilateral donors to Zambia in 1996-1997 because of their concerns about governance issues, a volatile international copper market with falling prices and declining copper exports and the government's limited implementation capacity, the reform program began to have positive impact on the economy: private investment increased, nontraditional exports grew and per capita income rose. Survey data also suggest that there was a beginning trend towards a decline in the incidence of poverty. The Government retained the overall share of social sectors in the national budget and earmarked kwacha allocations for priority items such as drugs. Privatization progressed apace: out of a working portfolio of 331 enterprises, 220 had been privatized as of the end of March 1997. Of the remainder, 41 were ready for privatization or under negotiation.

**5. Significant Shortcomings :**

Notwithstanding the general progress in privatization, the sale of Zambia Consolidated Copper Mines (ZCCM) has been facing serious difficulties, though four of the nine packages in which it was divided have been sold. While the fate of the three larger packages is still not resolved, the extended negotiations did not help ZCCM's production and finances which continued to deteriorate (copper exports dropped from 341,000 tons in 1995 to 301,000 tons in 1997). Governance issues still cause the deferment of donor support. Line ministries need to enhance their

capability for fiscal planning and management (especially the revenue collection capability ) so that social services are more efficiently delivered. Government/NGO relations also need to be judiciously fostered .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Partial	Modest	These are equivalent ratings .
<b>Sustainability :</b>	Uncertain	Uncertain	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

#### 7. Lessons of Broad Applicability :

Economic adjustment for low income countries, especially those facing external shocks like Zambia, is a long and arduous process. Projects should avoid taxing the government's administrative capacity by limiting the conditions to fewer and more critical issues. Alternatively, resources should be made available through, for example, a technical assistance loan to help enhance implementation capacity of the Government . Moreover, in order to protect social expenditures during adjustment process, it is important to institute a better revenue collection forecasting system so that the delivery of social services is not adversely affected .

8. Audit Recommended? ☐ Yes ☒ No

#### 9. Comments on Quality of ICR :

The ICR provides a candid and detailed account of the achievements of this project, all supported by macroeconomic tables. The Borrower's contribution is effectively contained in the Aide -Memoire, which goes into a comprehensive discussion of the project's achievements . The optimistic view of macro developments is judiciously tempered with the recognition of the fragility of the Zambian economy and its need for IDA structural adjustment assistance for some time to come. The ICR, however, lacks a more extensive discussion of a future plan to sustain project benefits.