



OED REACH

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ZAMBIA: Country Assistance Evaluation

- Zambia experienced modest growth during 1996-01, but it was insufficient to reverse a 25-year decline in per capita income or reduce the high incidence of poverty (above 70 percent). Coupled with high HIV/AIDS prevalence, this led to a dramatic decline in life expectancy and other measures of social welfare.
- The Bank was instrumental in supporting liberalization in the early 1990s that helped restore private sector growth. But during 1996-01, the relevance of IDA strategies to support external debt management was weak, and the response to HIV/AIDS belated. Poor implementation undermined IDA-supported programs for privatization, private sector development, and public sector reform. Overall, these weaknesses did little to promote the nascent economic recovery in the 1996-01 period.
- Future Bank assistance should focus on reviewing the HIPC program to ensure return to a sustainable external position. It should also focus on adjustment lending linked to measurable improvements in governance and public expenditure management, development of implementation capacity for sector-wide approaches, enhancing the multi-sectoral response to HIV/AIDS and providing analytic leadership in the area of social protection policy.

Background

Landlocked and historically dependent on copper mining to fuel its economy, Zambia has been extremely vulnerable to exogenous factors such as regional conflict and world copper prices. In the mid-1970s, copper prices plunged by 65 percent in real terms, and have never recovered. Coupled with mismanagement of the state-owned mines, this led to a 25-year decline of the mining industry into insolvency, dragging an undiversified economy with it. GNP per capita fell from \$630 in 1980, to \$450 in 1990, and to \$300 in 2000.

A change in regime in 1991 initiated a transition from a socialist to a market-oriented economy. With enhanced support from the international community, a committed group of reformers launched a policy agenda aimed at stabilization, liberalization, privatization, and diversification. Bank support was instrumental in supporting liberalization and legal reforms that helped restore modest, private-sector led growth in the second half of the decade. Non-mining GDP grew at 3.2 percent annually, the fastest since independence, and agriculture grew at 4 percent, which contributed to a modest decline

in the depth and severity of rural poverty, although urban poverty rose sharply. However, overall growth was insufficient to increase average per capita income or reduce the high incidence of poverty. With a HIV/AIDS prevalence rate of 20 percent, most social welfare indicators deteriorated, with life expectancy falling from 51 years in 1980 to 38 years in 2000.

Bank Assistance

The current evaluation focuses on the development effectiveness of the Bank's program in Zambia from FY96 on, as a follow-up to an OED Country Assistance Review through FY95. The recommendations of the earlier CAR were only partially implemented, but many remain relevant. For example, progress was significant in privatization and increasing investment in physical and social infrastructure, as suggested, but limited in developing entrepreneurs and building public sector institutions to support the private sector. Some recommendations were insufficiently heeded—including avoiding a one-scenario country assistance strategy and relying on adjustment lending to persuade an indecisive client.

In the FY96-01 period, OED found that Bank strategies for privatization and private sector development, as well as public sector reform, were substantially relevant. But the emphasis on exceptional levels of adjustment lending to finance an unsustainable debt overhang, combined with a delayed response to the HIV/AIDS pandemic (first addressed in 2000), were significant weaknesses in the relevance of the Bank's strategy. Implementation of IDA-supported programs also faced difficulties. Creditor pressure for balance of payments support weakened the design and supervision of a series of adjustment operations. Exceptional adjustment lending cushioned the country from enormous mining losses, contributing to a delay of nearly three years in privatizing the copper mines—a delay that had significant consequences for both short-term growth and long-term investment decisions in the sector. Insufficient attention was paid to the climate for private sector development, and progress in public sector reform was negligible. Overall, outcomes of the Bank program in the FY96-01 period are rated as unsatisfactory.

The institutional development impact of the Bank's work in Zambia is rated as modest—a laudable achievement considering the impact of HIV/AIDS on institutional continuity. Significant progress was made in transformation of ownership, legal reform, and district-level management, but these areas were constrained by a marked lack of institutional development related to public sector reform, decentralization, and public expenditure management. Participation in sector-wide approaches (SWAPs) led to closer adherence to the principles of the Comprehensive Development Framework, but this has not produced better outcomes within this timeframe. The institutional capacity required to implement the SWAPs was severely underestimated, implementation and expenditure management were poor, and monitoring and evaluation systems were too weak to assess performance

and guide adaptation. Net benefits of the Bank's program in terms of growth and social welfare were quite limited and below expectations. However, benefits that

did accrue—progress in transition to a market economy and very modest diversification—are likely to be sustained.

Recommendations

Evaluation of the FY96-01 period leads to the following recommendations:

- Revise Zambia's debt sustainability analysis based on realistic assumptions for growth and exports. Outline the implications for enhanced HIPC debt relief accordingly, to ensure a sustainable external position.
- Enhance the impact of structural adjustment lending through operational designs that focus on results, with a clearer link between objectives and conditions.
- In line with Zambia's PRSP, give priority to public expenditure management and improving governance, enhancing the investment climate to promote diversification (including infrastructure and energy reform and regional trade issues), and scaling-up the response to HIV/AIDS.
- Improve the effectiveness of Bank support for SWAPs through greater emphasis on (a) institutional development and capacity building to strengthen implementation; (b) improved expenditure frameworks and accountability; and (c) timely development of monitoring and evaluation systems.

Government and Management Response

The Bank's Regional management broadly agreed with the recommendations for future assistance, but objected to the unsatisfactory outcome rating for assistance in the 1996-01 period. The report was discussed with the Zambian authorities, who also provided written comments (attached to the report). In them, Government described the report as "comprehensive," disagreeing only with the conclusion that the Bank should reduce lending if the pre-conditions for high-case IDA lending are not met. Apart from this, Government accepted the ratings and recommendations of the report.



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