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Zambia
Country Assistance Evaluation

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Acronyms

ACF	Agricultural Consultative Forum
AIDS	Acquired immunodeficiency syndrome
ASIP	Agriculture Sector Investment Program
BESSIP	Basic Education Sub-sector Investment Program
CAE	Country Assistance Evaluation
CAR	Country Assistance Review
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CSO	Central Statistical Office
CU	Commercialized Utility
ERIP	Economic Recovery and Investment Promotion Credit
ESAC	Economic and Social Adjustment Credit
ESAF	Enhanced Structural Adjustment Facility
FISSUC	Fiscal Sustainability Credit
GDI	Gross domestic investment
GDP	Gross domestic product
GNP	Gross national product
GRZ	Government of the Republic of Zambia
HIAL	Higher Impact Adjustment Lending
HIPC	Highly Indebted Poor Countries Initiative
HIV	Human immunodeficiency virus
HSSP	Health Sector Support Project
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDI	Institutional Development Impact
IFC	International Finance Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
M&E	Monitoring and evaluation
MMD	Movement for Multiparty Democracy
MOH	Ministry of Health
NGO	Nongovernmental organization
ODA	Official Development Assistance
OED	Operations Evaluation Department
PIRC	Privatization and Industrial Reform Credit
PRA	Privatization Revenue Account
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Service Capacity Building Project
PSREP	Public Sector Reform and Export Promotion
ROADSIP	National Roads Sector Investment Program
SAP	Social Action Program
SIP	Sector Investment Program
SOE	State-owned enterprise
SRP	Social Recovery Project
SWAPs	Sector-wide approaches
TDP	Technical, Vocational Education and Training Development Program
URWSP	Urban Restructuring and Water Supply Project
ZAMSIF	Zambian Social Investment Fund
ZCCM	Zambian Consolidated Copper Mines
ZERP	Zambia Education Rehabilitation Project
ZESCO	Zambian Electricity Supply Company
ZPA	Zambian Privatization Agency

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Zambia Country Assistance Evaluation

This Country Assistance Evaluation (CAE) focuses on the development effectiveness of the World Bank program in Zambia from FY96 onwards, as a follow-up to an earlier OED evaluation. Zambia's landlocked situation and mining-dominated economy have made it exceedingly vulnerable to exogenous factors such as regional conflict and world copper prices. A change of regime in Zambia in 1991 initiated a transition from a socialist to a market-oriented economy. The Bank was instrumental in supporting liberalization and legal reform in the early 1990s that contributed to the restoration of modest, private sector-led growth in the second half of the 1990s, as non-mining GDP grew at 3.2 percent per annum—the fastest since independence. Nonetheless, overall growth was insufficient to reverse the twenty-five year decline in per capita income (US$300 in 2000) or reduce the high national incidence of poverty (above 70 percent). Agricultural growth of over four percent per annum in the 1990s contributed to a modest decline in the depth and severity of rural poverty, but urban poverty rose sharply.

Strategies for privatization and private sector development, as well as public sector reform, were substantially relevant. However, the emphasis on exceptional levels of adjustment lending to finance an unsustainable debt overhang along with the delayed response to the HIV/AIDS pandemic were significant weaknesses, which are now being addressed through HIPC and the Africa Region-wide HIV/AIDS initiative. Implementation of IDA-supported programs also faced serious problems. Creditor pressure for balance of payments support weakened the design and supervision of successive adjustment operations. Moreover, the large levels of balance of payments support, in the absence of results-based conditionality, cushioned the country from enormous mining losses and contributed to the delay of nearly three years in privatizing the mines. Following privatization in 2000, copper prices slumped, and the largest investor announced at the end of 2001 a decision to postpone new investments and withdraw from ongoing loss-making operations. The supply response from the extensive privatization of small and medium enterprises was limited by constraints in the investment climate that inhibited diversification, including inefficient infrastructure and utilities, labor market rigidities, bureaucratic interference and a protectionist regional trade regime. Although progress was made in the FY96–01 period, outcomes could have been significantly better—in terms of faster and stronger resumption of economic growth and reversal in per capita income and poverty trends—if the relevance and efficacy of Bank strategy had been higher. Outcomes of many Bank operations, and of the overall Bank program, were unsatisfactory.

The institutional development impact of the Bank program needs to be assessed in the context of the severe human capital attrition resulting from the HIV/AIDS pandemic. Significant progress was made in legal reform and district-level management, but the impact was constrained by a lack of institutional development related to public sector reform and public expenditure management. Participation in sector-wide approaches (SWAPs) resulted in closer adherence to CDF principles, but so far has not produced better outcomes. Institutional development needed to implement 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 were limited and below expectations in the FY96–01 period. Benefits that did accrue, including progress in transition to a market economy and modest economic diversification, are likely to be sustained.

Looking forward, this CAE makes a number of recommendations to improve the Bank's development effectiveness in Zambia, among which:

- 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), 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.

This evaluation was discussed by the Informal Subcommittee of the Committee on Development Effectiveness on October 21, 2002 and a report of the discussion is included as Attachment 4.

Gregory K. Ingram

Contents

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Contents (cont.)

Figures

Tables

Reference Figures and Tables

Annexes

Contents (cont.)

Attachments

Preface

This Country Assistance Evaluation assesses the development effectiveness of the World Bank's program in Zambia from FY96 onwards, as a follow-up to an earlier OED evaluation (*Zambia Country Assistance Review*, Report No. 15675). This follow-up evaluation presents the findings of an OED team that worked in Zambia during the period from February to May 2001, under the guidance of an OED staff member based in Zambia from 1999 to 2002.

The team conducted several hundred interviews with current and former Government officials, entrepreneurs, investors, workers, social service providers, community groups, non-governmental organizations, and villagers. In addition, the team interviewed diplomatic and donor representatives, and a large number of current and former Bank staff on the Zambia country team. OED also reviewed the IDA files and documents, as well as an array of reports by Zambian and international researchers. The team prepared background reports and notes on agriculture and rural poverty, education, energy, privatization, social protection, transport, and water supply. These are available upon request from the evaluation files.

The report was discussed with the Zambian authorities in May 2002 and their written comments are in Attachment 1 to the report. In addition, the report was reviewed by an external panel, and a summary of their comments is in Attachment 2 (full comments available in the evaluation files). Discussion with Regional Management of the evaluation took place in the January–April 2002 period, and the Management Action Record is included as Attachment 3. This report was discussed by the Informal Subcommittee of the Committee on Development Effectiveness on October 21, 2002, and a report of that discussion is included as Attachment 4 at the end of the report.

1. Overview of Economic and Social Development

Introduction

1.1 Zambia is a landlocked country in Southern Africa of 10 million inhabitants, with an economy historically dominated by copper mining. In the mid-1970s, the world price of copper plummeted by 65 percent in real terms, and has never recovered (Figure R.3). Coupled with gross mismanagement of the state-owned mines, this led to a twenty-five year decline of the mining industry into insolvency, dragging an undiversified economy down with it. The growth record has been dismal, with nominal GNP per capita falling from US$630 in 1980 to US$450 in 1990 and US$300 in 2000. A change of regime in 1991 launched a transition from socialist to market-oriented economy, which was accompanied by an initial contraction of real GDP in the 1991–95 period. The Bank was instrumental in supporting liberalization and legal reforms during the early transition which helped to restore modest, private sector-led growth in the second half of the decade. Although stronger than at any time since 1965–75, real growth of 1.4 percent per annum in this period was insufficient to increase average per capita income or reduce the exceedingly high incidence of poverty (above 70 percent). Coupled with an HIV/AIDS prevalence rate of 20 percent or more, most social welfare indicators deteriorated, with life expectancy falling from 51 years in 1980 to only 38 years in 2000.

1.2 This Country Assistance Evaluation (CAE) focuses on the development effectiveness of the World Bank's program in Zambia from FY96 onwards, as a follow-up to an earlier OED Country Assistance Review that assessed Bank activities through FY95. Annex I presents the conclusions and recommendations of the earlier CAR. Only a few of these earlier recommendations were rendered irrelevant in the FY96–01 period: e.g., addressing prolonged suspensions in disbursement. Most were relevant—some prescient—and many were acted upon to varying degrees. For example, significant progress was made in privatization and in increasing investment in physical and social infrastructure. Only limited progress was made in developing entrepreneurs (particularly female) and building public sector institutions to support the private sector. A number of recommendations were insufficiently heeded, with negative consequences to be explored in this evaluation: e.g., avoiding a "one option" assistance scenario, keeping bilateral donors fully engaged, eliminating excessive optimism in projections, relying on adjustment lending to persuade an indecisive client, and relying on pilot projects in agriculture and social sectors.

1.3 This evaluation argues that the relevance of strategies to pursue some of the Bank's key objectives was weak. This, coupled with poor implementation of many IDA-supported programs, did little to promote the nascent economic recovery in the FY96–01 period. Outcomes of the Bank's program during this period are judged unsatisfactory, based on a "bottom-up" evaluation of the Bank's products and services (Chapter II) as well as a "top-down" assessment of aggregate economic and social indicators (Chapter III). Among the weaknesses in strategic relevance and poor implementation performance that contributed to unsatisfactory outcomes were: (i) inadequate progress on macroeconomic stabilization, and support for an external debt management strategy that undermined stabilization and structural reform; (ii) poor sequencing of privatization and lengthy delays in privatization of the copper mines; (iii) insufficient advocacy and response to the devastating effects of HIV/AIDS; (iv) negligible progress on public sector reform and expenditure management; and (v) inadequate attention to targeted social safety net programs. Although outcomes were unsatisfactory, institutional development impact is deemed 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. However, these areas were constrained by a marked lack of institutional development related to public sector reform, decentralization and public expenditure management. While net benefits of the program were limited and below expectations, those that did accrue (mostly transition to a market economy and modest diversification) are likely to be sustained.

Policy Directions

1.4 Annex II summarizes shifts in the political landscape since independence.[1] The post-independence First Republic (1964–73) was characterized by import-substituting industrialization, involving nationalization of enterprises. Development was fueled by abundant mining revenues, as mining constituted half of GDP and virtually all foreign exchange earnings. The Second Republic (1973–91) was an era of exogenous shocks—collapsing copper prices and soaring oil prices—coupled with weak efforts at adjustment. The GRZ responded to its "temporary" crisis through extensive external borrowing on commercial terms. The foreign exchange shortage deepened, and was met with exchange and trade restrictions. Price and interest rate controls were adopted to curb inflation—countered by inflationary measures to stimulate supply response. By the early 1980s, commercial credit had dried up, and the country began experiencing debt servicing difficulties. GRZ turned to the international community for financial support. The following decade saw repeated attempts at stabilization and structural reform with IMF and Bank support, but ownership was weak, capacities were limited, and programs quickly abandoned. Bank support was suspended for the 1987–89 period when suggested reforms were rejected in the face of social unrest. Although the Kaunda regime reopened the dialogue in the 1989–90 period, public dissatisfaction with the economy and civil liberties resulted in a regime change in 1991.

1.5 The Third Republic (1991 to the present) under the MMD government embarked on a transition 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. Many reforms were implemented swiftly. Measures to restore fiscal and monetary discipline in the first few years included elimination of a wide range of agriculture and parastatal subsidies, introduction of a cash budget system, establishment of an auction for Treasury bills, creation of the Zambian Revenue authority and introduction of a value-added tax. Substantial progress was made in restoring macroeconomic stability by 1994, but stabilization was not consolidated and strengthened in the second half of the decade.

[1] For a more detailed summary of policy directions in the 1970s and 1980s, see the earlier Country Assistance Review as well as Rakner, et al., *Aid and Reform in Zambia: Country Case Study*, September 1999.

1.6 Between 1992 and 1995, the GRZ decontrolled the foreign exchange market, introducing a market-determined exchange rate and full convertibility of the local currency. Restrictions on bank lending and deposit rates were eliminated in 1993, as were all licensing and quantitative restrictions on exports and imports. Through 1997, tariff rates were gradually reduced and streamlined. In agriculture, the state ostensibly withdrew from marketing of agricultural inputs and price supports through monopoly grain boards. Initially, this created an institutional vacuum that was detrimental to smallholders in remote areas. As a result, GRZ policy wavered, and state intervention remained sporadic and unpredictable throughout the decade.

1.7 Privatization gathered speed in mid-decade, with the dominant transaction—the mines—reaching completion in early 2000. At that point, most of the 100 manufacturing and commercial parastatals approved for sale had been privatized as nearly 250 companies. As the decade progressed, legal and regulatory frameworks were revised to accommodate private sector activity in virtually all sectors. However, increased private sector involvement in utilities and infrastructure is only now becoming a major focus of reform. Public sector reform was also launched in 1993. The second half of the decade was marked by a slowdown in the reform process without significant changes in policy directions.

Economic Growth and Diversification

1.8 Table 1.1 summarizes investment levels and economic growth rates in Zambia for the past three decades.

Table 1.1: GDP Growth and Investment, 1971–00

	1971–80	1981–90	1991–00	1991–95	1996–00
Average annual growth rate:					
GDP at market prices	1.0	1.0	0.6	-1.6	1.4
Agriculture	2.0	3.7	4.4	7.0	1.7
Industry	1.6	2.5	-0.5	-6.3	4.5
Of which: manufacturing	1.5	4.3	1.3	-3.0	4.9
Mining and quarrying	-0.6	-3.5	-13.3	-12.3	-17.9
Services	-2.4	-0.6	2.8	-2.9	5.1
Non-mining GDP	1.2	1.4	2.2	-1.9	3.2
Percent of GDP					
Gross Domestic Investment	28	15	16	13	17
Public	n.a.	5	8	5	9
Private	n.a.	5	6	7	6
Change in stocks	n.a.	4	2	1	2

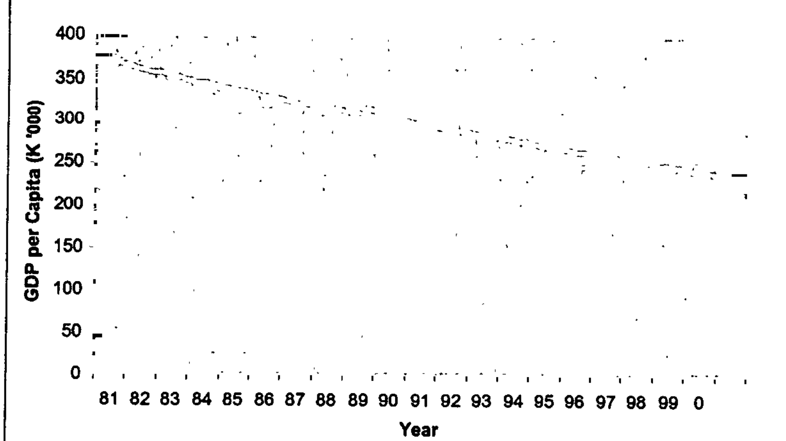
Source: Africa Region database, taken from Government of Zambia Central Statistics Office data. 1971–90 rates are based on a 1977 constant price GDP series. 1991–00 rates are based on a 1994 constant price series. Growth rates determined by trend line analysis. Weaknesses in underlying data and changes resulting from periodic rebasing suggest that results should be interpreted with caution.

1.9 The following points are salient with respect to real growth:

- The 1990s were a decade of negligible aggregate growth (0.6 percent per annum), dragged down by the prolonged decline of the mining sector, but buoyed by the agricultural response to economic liberalization.
- Growth in the 1990s reflects two distinct periods: contraction due to initial transition during the 1991–95 period, and modest growth (1.4 percent per annum) in the 1996–00 period.
- Growth in the 1996–00 period surpassed growth in all but the first years following independence. Nonetheless, it was insufficient to reverse the decline in per capita income, which fell by 55 percent in real terms between 1970 and 2000 (Figure 1.1).
- Growth in non-mining GDP accelerated in the second half of the 1990s to 3.2 percent per annum, surpassing earlier decades.

1.10 The sectoral composition of GDP shifted away from mining, with agriculture doubling as a share of GDP during the 1990s. Export data also provide evidence of diversification away from the mining industry. Metal exports fell from around 90 percent of total merchandise export earnings in the early 1990s to only 65 percent by the end of the decade. Non-traditional, non-manufacturing exports (mostly agricultural products) rose from 4 to 12 percent of total merchandise export earnings during the decade.

Figure 1.1: Trend in Per Capita GDP (1994 prices)



1.11 To some extent, these figures reflect the collapse of the mining industry. However, evidence also points to moderate diversification within agriculture towards higher-value and export crops, among both small-scale farmers (moving especially into oilseeds, groundnuts and tubers) and medium- to large-scale farmers (moving especially into cotton, coffee, tobacco, vegetables and flowers).[2] As a result, cropped area devoted to maize, the staple crop, has declined from 70 percent of total cropped area in 1980 to only 55 percent in the 1996–00 period.

[2] Zulu Ballard, J.J. Nijhoff, T.S. Jayne and Asfaw Negassa, *Is the Glass Half Empty or Half Full? An Analysis of Agricultural Production Trends in Zambia*, Working Paper No. 3, Food Security Research Project, Lusaka Zambia. See also: Zambia Export Growers' Association, *Informational Brochure*, Lusaka, Zambia.

Poverty and Social Welfare

1.12 Four household surveys have been conducted by the Central Statistical Office (CSO) during the 1990s, providing a rich source of data for estimating the incidence, depth and severity of poverty, as well as the degree of inequality.

Table 1.2: Poverty and Inequality in Zambia, 1991–98

	1991	1993	1996	1998
Incidence of poverty	70	74	69	73
Rural	88	92	.83	83
Urban	49	45	46	56
Depth of poverty	62	58	51	55
Rural	70	65	56	60
Urban	46	35	38	43
Severity of poverty	47	41	32	37
Rural	55	48	37	42
Urban	30	17	19	24
Inequality (Gini coefficient)	0.59	0.51	0.50	0.53
Rural	0.60	0.45	0.47	0.52
Urban	0.50	0.40	0.44	0.48

Source: The Evolution of Poverty in Zambia, 1991–96, Central Statistics Office, Lusaka, December 1997, page 25; and Living Conditions in Zambia (1998) – Final Report, Central Bureau of Statistics, Lusaka, Zambia.

By any measure, these are very high levels of poverty. Incidence levels of 70 percent are higher than for most countries in the world and Sub-Saharan Africa.[3] In addition, the proportion of extremely poor outnumbers the moderately poor by four to one. The available data for the 1990s show some significant trends:

- A modest decline in the incidence of rural poverty in the first half of the decade, countered by a rapidly rising incidence of poverty in urban areas in later years.
- A moderate decline in the depth and severity of poverty, particularly in rural areas.
- A decline in inequality as measured by the Gini coefficient, and a narrowing of the differences in inequality between rural and urban areas.

1.13 These changes are consistent with a positive supply response in agriculture following price increases due to liberalization and the 1992 drought, coupled with the more urban-based impacts of delayed mining privatization, extensive enterprise restructuring and high HIV/AIDS prevalence in later years.

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[3] The evaluation team raised questions about the extraordinarily high rates of poverty in Zambia. CSO has conducted a study based on 1996 data using more regionally-differentiated prices. It indicates that poverty incidence may be overestimated by about 8 percentage points. Even assuming modest overestimation, poverty levels in Zambia would remain very high compared with other countries in Sub-Saharan Africa. See: Miti, Phillip, Stanley Kamocha, Themba Munalula, Efrida Chulu, *A Comparative Poverty Profile: Adjusted Expenditure vs. Unadjusted Expenditure*, report financed by The Study Fund, Social Recovery Project, Ministry of Finance and Economic Development, Lusaka, Zambia, April 1999.

1.14 A look at other social welfare indicators is equally sobering (Table 1.3). The combined impact of widespread poverty, declining per capita incomes and high HIV/AIDS prevalence has led to a deterioration in most social welfare indicators. Life expectancy has dropped by more than a decade. Evidence also points to rising malnutrition and faltering public health efforts such as basic immunization—even in a context of rising adult literacy and with primary school enrollment rates that are relatively high by Sub-Saharan African standards.

Table 1.3: Selected Social Welfare Indicators, 1980–00

/----------data from available year-----------/

	1980–83	1990–93	1994–96	1997–00
Life expectancy at birth (years)	51	49	46	38
Infant mortality rate (per 1,000 births)	90	79	109	114
Under-5 mortality rate (per 1,000 births	149	120	n.a.	187
Immunization coverage (% at 12 mos.)	n.a.	75	n.a.	58
Stunted for under 5 (%)	n.a.	41	48	50
Adult HIV/AIDS prevalence	n.a.	17.5	19.9	20.0
Access to improved water source (%)	n.a.	52	n.a	64
Access to improved sanitation facilities	n.a.	63	n.a.	78
Primary School Enrollment rates				
Gross enrollment rate	90	99	85	78
Net enrollment rate	77	n.a.	70	66
Secondary School gross enrollment rate	16	24	27	n.a.
Adult illiteracy (% age 15+)	(1985 data)	31	n.a.	23
Male	25	22	n.a	15
Female	47	41	n.a.	30

Sources: World Bank, World Development Indicators, and World Development Report, various years; Republic of Zambia, Sector Wide Approach to Health: Joint Identification and Formulation Mission for Zambia, draft report, February 2000; Republic of Zambia, Ministry of Education, Trends in Primary Education, 1996–99, November, 2000; Republic of Zambia, Central Statistical Office, Priority Survey II, 1999; Living Conditions Monitoring Survey Report, 1996 and Living Conditions Monitoring Survey, 1998; Kanywanga-Luma, Joyce et. al., Household Food Security and Child Nutrition in Zambia: Status Trends and Key Determinants

External Debt and Aid

1.15 Initial recourse to commercial borrowing in the 1970s gave way to bilateral creditors in the 1980s (Figure R.4). By 1990, commercial debt was a disproportionate share of debt service, and bilateral debt servicing began to rise rapidly. Multilateral debt stock rose in the 1990s, particularly as IDA was used to buy back commercial debt and service bilateral and private debt. Overall, external debt outstanding and disbursed rose to a peak of 220 percent of GDP in 1990, falling modestly thereafter. Debt service due rose to nearly half of export earnings by the middle of the 1990s, severely compromising imports for investment and growth.

1.16 In support of Zambia's transition, the international community made a strategic decision in 1991 to provide sufficient aid inflows to service debt, while contributing to development finance. Net ODA receipts were over US$1 billion per annum in the 1991–95 period, more than double the nominal level in the 1980s (Table R.9). However, this figure was halved in the second half of the 1990s, as donors reduced or suspended aid due to concerns over political governance and a perceived faltering of GRZ commitment to economic reform. Based on GRZ balance of payments data, net transfers on debt (i.e., disbursements minus principle and interest payments) including the IMF were increasingly negative in the 1990s (Table 1.4). Net transfers from IBRD/IDA were positive—thanks to exceptional IDA allocations—but these transfers contributed to servicing bilateral and, to a lesser extent, private debt. When one adds in grant aid, net transfers on debt and aid together become positive—i.e. the international community financed debt service and made a contribution to development through net transfers. However, the level of net transfers in the 1996–00 period was only around one- to two-fifths (depending on the data source) of net ODA commitments, which averaged around US$0.5 billion per annum.

Table 1.4: Net Transfers on Debt and Aid, 1970–00
(US$ millions)

			average per annum	
	1970	**1980**	**1991–95**	**1996–00**
Net transfers on LT & ST debt, incl. IMF	287	282	-90	-129
Of which: net transfers on IBRD/IDA	-2	-20	49	108
Official capital grants	0	23	430	224
Net transfers on debt and aid	287	305	340	95
Note: Total debt service paid	0	25	607	348

Source: Africa Region database.

1.17 The amount of external debt service actually paid by GRZ exceeded the level of net transfers throughout the 1990s. Based in part on experience with a unilateral moratorium in the early 1980s, the GRZ correctly perceived that the economic and political costs of a debt servicing moratorium were much higher than foregone aid revenues alone. The accompanying pariah status in the international community would affect trade opportunities, direct investment, worker remittances and a host of political issues. Thus, Zambia maintained minimal creditworthiness within the international community—but the development benefit in terms of net official resource flows was negligible.

1.18 The international community was slow to respond to the ineffectiveness of this debt strategy. The Zambian case was raised in debates over adoption of the Highly Indebted Poor Countries (HIPC) initiative. Zambia reached a decision point for the enhanced-HIPC initiative in FY01. If the country reaches completion point as planned in 2003, external debt stock is expected to decline by about two-thirds. Interim debt relief in the 2001–2002 period has been on the order of US$100–120 million annually. This has avoided a dramatic rise in debt service due, but has generated few additional budgetary resources relative to past years. Instead, GRZ has reallocated public spending modestly and increased domestic borrowing substantially to meet financing requirements for poverty reduction programs under the HIPC initiative. The PRSP is due to be finalized by mid-2002, and will hopefully provide a better framework to define public spending priorities for poverty reduction.

2. World Bank Products and Services

Assistance Strategy

2.1 The Bank program was guided by three country assistance strategies (FY94, FY96, and FY00) with a consistent objective of promoting sustainable growth to reduce poverty, through four main themes:

- Promoting a stable macroeconomic environment and providing balance of payments support to overcome severe external imbalances;
- Privatizing state-owned enterprises and creating an enabling environment for private sector development;
- Targeting assistance directly to poor and vulnerable groups; and
- Improving public sector efficiency and governance (emphasized increasingly toward the end of the decade).

2.2 These goals were—and remain—important in the Zambian context. However, the relevance of the strategies pursued by the Bank to achieve these goals was mixed. Strategies related to privatization and private sector development, as well as public sector reform, were substantially relevant (although suffered from implementation problems that undermined development effectiveness, as discussed in Chapter 3). Strategies related to macroeconomic and external debt management, as well as targeting of the poor, were flawed, and an appropriate response to HIV/AIDS was omitted from strategy until 2000.

Macroeconomic and External Debt Management

2.3 Both the FY94 and FY96 CASs presented a high performing/high lending scenario as the base case—explicitly calling for exceptional IDA allocations and predictable structural adjustment lending to finance Zambia's heavy debt burden and support minimum growth targets. The FY94 CAS aimed at "supporting policy reform and providing balance of payments support through adjustment operations" and went on to argue:

> *We expect to submit an average of one adjustment operation a year.... The high level of IDA lending proposed is* ***predicated on other donors also providing equivalently high levels of assistance*** *[original emphasis].... No high or low lending scenarios are presented in Zambia's case, since the only realistic scenarios are (i) a strong Zambian performance accompanied by large-scale international support, including IDAs, or (ii) a performance that does not warrant, or is not accompanied by large-scale international support, in which case there will be an inability to meet external debt service payments, including IDA's, and a cessation of international assistance, including IDA's.*[4]

2.4 The FY96 CAS made a similar case:

> *To continue to support the economic reform program and because of Zambia's high debt burden and limited prospects for copper exports in the short term, the Bank expects to*

[4] World Bank, CAS, FY94, pages 11–14.

> *support one adjustment operation a year.... High lending levels, well above the current IDA authorized lending allocations, are needed to sustain the program. Lending levels lower than those proposed are likely to trigger an insurmountable financing gap or a contraction of the domestic economy inconsistent with the goal of poverty alleviation and the already modest growth targets [4–5 percent real growth per annum]. Consequently, the base and high scenarios are the same in the Zambian case* (CAS, FY96, p. 14).

2.5 Under both CASs, the high scenario was predicated on progress in macroeconomic stabilization, strong performance on structural reforms and exceptional inflows from the international community to ensure burden-sharing for balance of payments financing. The Bank recognized that anything less than a high case scenario was insufficient in terms of growth and poverty reduction (and that the high case itself was barely sufficient). Yet, when the preconditions for the high scenario were not met, the Bank did not abide by its own strategic conclusion that lending into anything less would do little for growth and poverty reduction.[5]

2.6 The FY96–99 period was characterized by repeated slippage in IMF-agreed programs, delays in key structural reforms and a halving of net ODA commitments, including the withholding of virtually all balance of payments support from the international community. All three problems were already evident, and were raised during Board discussion of the FY96 CAS. Executive Directors questioned the realism of the financing assumptions and the growth targets, and cautioned that IDA should not try to compensate for reduced bilateral support, nor lend when the IMF program was not firmly on track. The CAS was approved, however, and the Bank remained in its high-case lending scenario (committing US$510 million against a planned US$485 million under the FY96 CAS) while international support waned. The result was an unenvisioned "muddle through" scenario in which exceptional allocations of IDA helped to service the debt while net transfers for development were small. Minimal creditworthiness was maintained, but stabilization was complicated by inflationary measures to service debt and the development impact was marginal.

2.7 The decision by the international community to deal with Zambia's debt overhang through concessional lending, rather than debt forgiveness, was not realistic, as was eventually recognized by launching HIPC[6]. This decision left the Bank with few and unattractive options, which led to large IDA transfers to off-set Zambia's repayments to IBRD and other creditors. Still, even with this limited room for maneuver, the Bank could have withheld disbursements when preconditions for the high case scenario were not being met. This could have forced issues of governance, structural reform and debt forgiveness to the forefront at an earlier stage. Late in the decade, one of the "lessons" drawn from CAS consultations in 1999 was that:

[5] The OED Country Assistance Review of FY96, which was submitted to the Board prior to CAS presentation, made the following recommendation: "In laying out a country and Bank strategy, a 'one option' approach is inadvisable. The Bank must be prepared to contemplate worse case and best case scenarios. The assumption that donors will always close the financing gap is not only dangerous, it shuts off the search for alternatives" (page 123).

[6] The Africa region noted that "until the HIPC initiative, it was not possible for the Bank to have reduction of debt owed to the Bank as part of its strategy, and that once HIPC was established, it came with a qualifying process for countries, which required time."

There was little basis for growth until the core reform agenda, especially on liberalization and privatization, was well advanced. Unfinished items on this core agenda—ZCCM privatization and HIPC debt relief—remain essential for sustained growth (World Bank, CAS FY00, page 13).

Privatization and Private Sector Development

2.8 At the beginning of this evaluation period, Zambia had one of the most liberalized economies in Africa, following extensive reform in the 1992-95 period. The country had also adopted a Privatization Act and established the Zambian Privatization Agency in 1992 in order to transform a parastatal sector that accounted for 80 percent of GDP in 1991. This included state ownership of most commercial, extractive and manufacturing entities, as well as infrastructure and utilities. This public ownership structure, coupled with a lack of legal and regulatory frameworks for private investment and activity, hindered private sector-led economic diversification. GRZ had a poor track record of parastatal management, and was sustaining large parastatal losses, especially in the mining sector. Thus, Bank strategy to support extensive privatization and to focus on the legal and regulatory framework for private sector development in the FY96-01 period was substantially relevant, although there were implementation problems associated with weak government commitment, as discussed in Chapter 3.

Public Sector Efficiency

2.9 Strategy focused on providing complementary inputs to GRZ for a UNDP-supported process of comprehensive public sector reform. The Bank initially used adjustment lending to provide incentives for civil service downsizing, within a broader program to redefine government functions, restructure the civil service and reform human resources policies related to remuneration, performance evaluation and promotions. The relevance of this strategy was substantial in positioning the public sector to facilitate private sector-led growth. Civil service downsizing did occur. However, negligible progress was made on the broader agenda, with no demonstrable improvement in public sector efficiency. Later efforts by the Bank to encourage public sector policy reforms directly through adjustment lending were overshadowed by the need to privatize the copper mines. Thus, the development effectiveness of the Bank's strategy in this area fell short, as described in Chapter 3.

Targeting of Poor and Vulnerable Groups

2.10 Each CAS has included as a key objective the targeting of poor and vulnerable groups, and/or support for targeted poverty interventions. One element of this strategy was to target the poor through lending to expand basic social services in rural and peri-urban areas. A related effort has been support for a social fund that has had increasing success over time in targeting poorer rural communities for improvements in social infrastructure. However, the Bank paid little attention to financial barriers to social services in the 1990s. It has only been in the new decade that the Bank directly supported a bursary scheme to allow poor children to attend school. With this recent exception, the

Bank has not supported direct targeting of households or individuals in Zambia—i.e., social safety net programs that transfer income to the poor in order to meet basic needs.

2.11 The limitations of social safety net programs in a low-income, slow-growing country with widespread poverty are evident—but do not negate the usefulness and feasibility of some level of intervention in order to alleviate short-term suffering and allow human development over the longer-run. To date, Zambia has not engaged in a national debate on the role, scope and nature of safety net programs.[7] The costs and benefits of bursaries for orphans to attend school, or lean-season food transfers to poor, female-headed households, for example, have not been assessed to allow consensus-building on safety net policy and strategy. Lack of agreed strategy, institutional rivalry within GRZ and an underdeveloped relationship between GRZ and NGOs means that such efforts have lacked coherence, and remain fragmented and under-funded.

2.12 A success for the Bank in the 1990s was to help promote periodic poverty monitoring and analysis in Zambia. Hence, the level and depth of poverty have been relatively well known, as are the characteristics of the poor. However, the Bank has neither funded safety net programs, nor provided the intellectual leadership that it could have in order to stimulate national debate on the role of redistributive programs and to assess competing options for safety net interventions. This, despite reference in virtually every structural adjustment loan to GRZ efforts to strengthen the social safety net. It is in the failure to provide intellectual leadership on social safety net design that Bank strategy to target the poor and vulnerable has been weakest. This remains true in the ongoing preparation of the Poverty Reduction Strategy Paper.

Response to HIV/AIDS

2.13 Relevance of the Bank's assistance strategy also suffered from omissions, including an inadequate response to the HIV/AIDS pandemic. Adult HIV prevalence in Zambia rose to 20 percent by the mid-1990s, reducing life expectancy dramatically and creating a cumulative 650,000 orphans.[8] The pandemic has had a devastating impact on household welfare, labor force productivity and economic growth. Recent cross-country analytic work by the Bank allows an estimation of the impact of HIV/AIDS on economic growth in Zambia during the 1990s (Figure 2.1). In the absence of HIV/AIDS, real GDP growth would have been an estimated 2.8 percent per annum, rather than the negligible growth actually achieved. It would have been no exaggeration to place combating HIV/AIDS on par with privatization of the mines as a priority for stimulating economic growth.

2.14 The Bank was well aware of these alarming trends. The FY95 Poverty Assessment contains considerable analysis and concludes:

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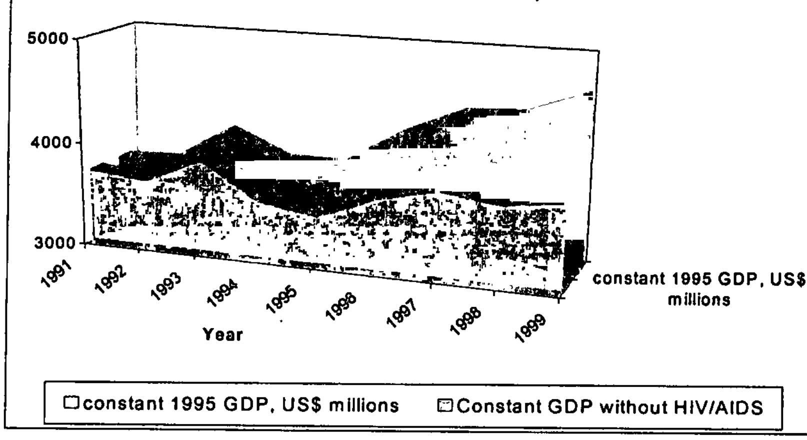
[7] For an indication of how a low-income country might approach this debate, see William James Smith, *Spending on Safety Nets for the Poor: How Much, For How Many? The Case of Malawi*, January 2001.

[8] UNAIDS, *Epidemiological Fact Sheet, 2000 Update*; and Republic of Zambia, *Situation Analysis of Orphans in Zambia*, 1999 (draft).

The major threat to the welfare of Zambians and to future growth prospects of the country, irrespective of policy regime, is the AIDS emergency.... Because Zambia is likely to lose a large share of its labor force every year, national growth projections must be reconsidered.... Direct recognition of this problem, bringing this disease to the center of the development debate and encouraging a political commitment to AIDS prevention are necessary first steps in developing a cross-sectoral program to combat AIDS.[9]

2.15 Unfortunately, this analysis was not fully integrated into subsequent economic work, nor reflected adequately in the FY96 CAS. Board discussion of the CAS raised the devastating impact of HIV/AIDS, and requested more explicit analysis and strategic integration. Despite the Board's concerns and encouragement from donors, the Bank's health specialists were not successful in persuading the Ministry of Health to reallocate IDA resources to combat HIV/AIDS, nor in persuading Bank management to use its influence to bring HIV/AIDS control to the top of the reform agenda through advocacy and inclusion in the macroeconomic dialogue. The reasons for this are multiple and inter-related. To a great extent, mining privatization and the liberalization/privatization agenda came to dominate the Bank/GRZ discourse, leaving little energy and political capital for other priorities. Short-term debt management created a crisis atmosphere, crowding out other issues. A particularly unproductive dialogue in the health sector became an obstacle—as did earlier cross-country analytic work that underestimated the economic impact of HIV/AIDS at high prevalence rates and slowed Bank response globally. GRZ tended to avoid this culturally-sensitive topic, and the Bank followed suit. Within the 1996–01 period, GRZ inched forward to define an institutional and strategic framework for a multisectoral response to HIV/AIDS. The Bank's publication of "Intensifying Action Against HIV/AIDS in Africa" in September 1999 was a harbinger of change for country strategy as well.

Figure 2.1. Zambia: Estimated Impact of HIV/AIDS on Gross Domestic Product, 1991-99



Estimation based on: Bonnel, Rene, *HIV/AIDS: Does It Increase or Decrease Growth in Africa?*, ACTAfrica, World Bank (November 2000), using HIV adult prevalence rates from the Ministry of Health/Central Board of Health, *HIV/AIDS in Zambia: Background, Projections, Impacts, Interventions* (September 1999).

2.16 The FY00 CAS noted that IDA would "use its aid coordination role to heighten awareness and galvanize expanded assistance" to combat HIV/AIDS and included retrofitting of the portfolio to combat HIV/AIDS as well as a credit to scale up community-based HIV/AIDS interventions. The inclusion of progress on the HIV/AIDS

[9] World Bank, *Poverty Assessment*, page v.

institutional framework among the benchmarks for the HIPC decision help overcome GRZ resistance to these actions. However, a history of poor dialogue in the health sector in the late 1990s and continuing dissension within government still hampers the Bank's ability to effectively assist GRZ. Earlier advocacy by the Bank, in collaboration with a highly active donor community, might have resulted in a more vigorous and inclusive multisectoral response to HIV/AIDS by the GRZ. Otherwise, given the magnitude of the problem, the disjuncture in the dialogue on this issue should have been discussed prominently in the CAS and factored into decisions about high-case lending.

Analytic and Advisory Services

2.17 Overall, the Bank's analytic work in the second half of the 1990s is judged moderately satisfactory, reflecting substantial relevance and modest efficacy. A poverty assessment (FY94) was highly relevant, comprehensive and of high-quality, with a substantial impact on the poverty focus of subsequent CAS. However, its analysis of HIV/AIDS impact failed to influence subsequent economic work or CAS, and it gave insufficient attention to analysis of social safety net options. A country economic memorandum in early FY97 was of substantial relevance, providing particularly thorough analysis of macroeconomic and private sector development issues. The report clearly demonstrates the lack of sustainability of the external account under a minimum growth scenario, and calls for consideration of greater debt reduction—although this message deserved greater prominence in the report. Incorporating this debt sustainability analysis would have injected more realism in CAS scenarios and provided greater impetus for debt relief. The findings of analytic work in the mid-1990s were not fully incorporated in Bank strategy, nor were they sufficiently disseminated and discussed in order to shape public and international opinion and influence GRZ policies.

2.18 No formal analytic work was finalized in the FY97–01 period, including a completed Fiscal Management Report (FY99) that could have been useful if published and widely disseminated. A participatory Public Expenditure Review (PER) was completed in mid-FY02, leaving a six-year gap from the previous PER. Government ownership was increased through the participatory process, but greater time was needed to complete the joint product. Considering the importance of public expenditure management to enhance the efficiency of the state, channel HIPC resources appropriately and implement the upcoming Poverty Reduction Strategy, the PER is of substantial relevance. It makes a strong contribution to revision of the cash budgeting system, to reallocation of public resources among and within sectors and to development of expenditure monitoring systems. It highlighted, in particular, the links between public expenditures, growth and poverty, as well as the fiscal and quasi-fiscal deficits that remain a barrier to macroeconomic stabilization. However, the adequacy of the enhanced HIPC initiative in alleviating the discretionary budget constraint was not sufficiently addressed. In addition, it was completed just before the global slowdown derailed mining recovery. As a result, underlying assumptions of the base case were overly-optimistic, although the adverse impact of a copper price shock on growth and on poor households were anticipated in alternative scenarios using innovative macroeconomic modeling. Ultimately, less favorable growth prospects will reinforce the relevance of the report's recommendations.

Aid Coordination and Resource Mobilization

2.19 Bank support for aid coordination and resource mobilization was unsatisfactory in the second half of the 1990s, with improvement toward the end of the decade. Beginning in 1996, the bilateral community suspended balance of payments support for Zambia due to poor political governance, and later also concerns over economic governance—in general—and the speed of mining privatization—in particular. This contributed to a halving of net ODA receipts in the 1996–99 period. The Bank, however, continued to give Zambia preferential treatment, relying on exceptional IDA allocations to provide virtually all balance of payments support to Zambia during the 1996–99 period.[10] Although the Bank's structural adjustment program was predicated on a satisfactory macroeconomic framework under an IMF-monitored program, there was a severe disconnect between the two institutions disbursement behavior. Disbursements by the IMF were limited to around US$54 million between 1996–00, with programs suspended soon after approval for non-compliance. Bank balance of payments disbursements totaled US$492 million under five adjustment credits completed in the same period. Often the IMF provided "comfort letters" to encourage IDA disbursements at critical debt-servicing periods, even though it was premature to assess progress under the IMF program. Many of the donors who withheld balance of payments support on governance grounds were also Zambia's leading bilateral creditors, as well as the Bank's leading shareholders. Exceptional IDA disbursements thus served to alleviate creditor pressure on Zambia, at a time when the IMF and donor community were withholding other sources of balance of payments support. Overall, the Bank was not very effective in helping to coordinate donors and IFIs at the macroeconomic level in order to mobilize resources, especially in the 1996–99 period. As a result, IDA bore much of the financing burden within an underfunded program. Towards the end of the decade, the Bank was better able to support aid coordination and resource mobilization through a strategic shift toward debt reduction, and support for a Comprehensive Development Framework. Throughout the FY96–01 period, the Bank was also more effective in supporting aid coordination and resource mobilization at the sector level, particularly as a partner in sector-wide approaches.

Lending Program

2.20 In terms of satisfactory outcomes, Zambia is below the Africa region average and Bankwide average for credits closing in the FY96–01 period (Table 2.1). Of the 16 IDA credits that closed in FY96–01 period in Zambia—totaling US$920 million in net commitments—61 percent were rated in the satisfactory range on outcomes. Only 7 percent were fully satisfactory (most notably, the Social Recovery Fund credits), with the bulk of the portfolio found to have only marginally satisfactory or unsatisfactory outcomes (Reference Table R.5).[11] Likely sustainability is strikingly below the regional and Bankwide averages, although institutional development impact is modestly above the Africa average. Based on the latest ratings in the Annual Review of Portfolio Progress,

[10] For example, actual IDA lending to Zambia was 136 percent above the agreed IDA allocation in the FY98–00 period, while overall IDA lending to Africa was 19 percent below agreed allocation during this period.

[11] Rating scale terminology of "marginally satisfactory" throughout the 1990s was replaced with "moderately satisfactory" in 2000.

the ongoing portfolio is on par with the Africa region and Bankwide averages for satisfactory implementation progress, but falls short on satisfactory achievement of development objectives. If recent history is a guide, these weak ratings of development objectives may still be optimistic. For operations exiting in FY96–01, the region tended to rate achievement of development objectives more positively than OED, with a "net disconnect rate" that is more than twice the Bankwide average for the same period.

Table 2.1: OED Summary Evaluation of Exiting Operations, FY96–01

(percent of exits, in commitment terms)	Zambia	Africa Region	Bankwide
Marginally to highly satisfactory outcome	61	68	80
Substantial institutional development impact	34	31	43
Likely sustainability of net benefits	29	43	61
Net disconnect at exit[1/]	23	15	10

1/ The net disconnect is the percentage difference between the ARPP percent satisfactory at exit and the OED percent satisfactory outcome rating.

Structural Adjustment Lending

2.21 The five structural adjustment credits that exited between FY96–01 represent three-quarters of closed commitments. During Board discussion of the FY94 and FY96 CASs, the Executive Directors highlighted the need for greater specificity in adjustment lending conditions and a clearer definition of satisfactory performance. Two of the past three structural adjustment credits have been rated in the unsatisfactory range for outcomes.[12] In hindsight, even those adjustment operations initially rated marginally satisfactory have had less robust outcomes than expected. While conditions were fulfilled, pressure for timely balance of payments support led to less results-oriented, weak or vaguely-worded conditions. Often, the relevance of the conditions to fulfilling the stated objectives was poor.[13] Development effectiveness in key areas addressed within adjustment lending is discussed in Chapter 3.

Investment Lending

2.22 Within the investment portfolio, the evaluation focused on sectors where active IDA commitments were largest during the FY96–01 period—namely, agriculture and rural development, social protection, human development, energy, transport and urban water supply (Annexes III to IX).

2.23 ***Agriculture sector***. Despite two droughts and transition problems associated with abrupt and erratic market reforms, the sector grew relatively quickly in the 1990s (4.4 percent per annum), as the private sector responded to general economic liberalization. Unfortunately, this had little to do with the Bank's investment lending in the FY96–01 period. Outcomes of Bank lending for agriculture and rural development in this period

[12] See also: *Lessons from Recent Adjustment Lending to Zambia and Three Project Performance Assessment Reports*, World Bank, OED, forthcoming.

[13] Examples include ESAC II second tranche condition: "Make progress satisfactory to IDA in carrying out the action plan for the privatization of ZCCM" or the PSREP (ESAC III) second tranche condition "Agreement on an action plan to streamline investment promotion."

were moderately unsatisfactory, with most major objectives not achieved. Three credits, supporting the coffee industry, research and extension, rural finance and rural infrastructure were closed, and their activities absorbed into the Agricultural Sector Investment Program (ASIP), an early sector-wide approach with support from around a dozen donors. ASIP was a flagship project for the Bank in Zambia, and it was substantially relevant to the needs of the country. However, implementation has been very poor. Although a few components (e.g., the Rural Investment Fund) were well implemented, the institutional framework and capacity to implement most of the program were not in place at approval, and took much longer to develop than envisioned. The major achievement of ASIP will probably be institutional strengthening of the Ministry of Agriculture—with little to show in terms of developing agricultural strategy, reforming sector policies, strengthening support services and targeting smallholders, particularly female farmers.

2.24 ***Transport sector***. Outcomes in the transport sector are judged to be moderately satisfactory. Most positive has been progress made under the ongoing National Road Sector Investment Program (ROADSIP, FY98–03) to rehabilitate and maintain the core road network. This has involved establishment of an autonomous public/private National Road Board, and successful resource reallocation towards road maintenance through an earmarked fuel levy. Leakage of revenues and lack of progress in streamlining the public sector institutional framework remain serious problems. The sub-sectoral nature of ROADSIP has contributed to delays in development of a comprehensive sector strategy that addresses inter- and intra-modal transport issues. Road improvements have been undermined by excessive heavy-load trucking, exacerbated by delayed restructuring of the railway system and unsuccessful attempts to reform the petroleum sector. The FY01 Railway Restructuring Project supports limited rehabilitation and concessioning of Zambian Railways. However, earlier and more decisive action on the railways was needed to provide timely support for mining recovery, and more detailed analysis of alternative routes (especially Tazara) was also warranted. The Bank could have played a greater role in analytic work and advice to help formulate a sector strategy at an earlier stage.

2.25 ***Health sector***. IDA contributed to the Health Sector Support Project (HSSP, FY93–02), an early SWAP with the aim of providing "equity of access to cost-effective health care as close to the family as possible."[14] The Bank is recognized as having played a critical role in its technical development. Eight years later, the SWAP has made significant progress on institutional reform and capacity-building at the district level, as well as resource reallocation toward district-level basic health services. The SWAP has been less successful in addressing systemic issues such as drug supply, building central capacity to implement reforms and maintaining an expenditure framework. During the period under review, outcome indicators in the health sector were either deteriorating, or not measurable due to the breakdown of the health management information system. Standard indicators of health status all deteriorated. While this was inevitable due to HIV/AIDS and declining per capita income, it was compounded by declining service in areas such as immunization coverage. Facilities-level data were largely unavailable—undermining the ability to evaluate impact during a period of substantial reform.

[14] Republic of Zambia, *National Health Policy*, 1991.

2.26 Looking only at the results of IDA-supported activities, outcomes of the IDA credit are deemed unsatisfactory and unsustainable. Over 90 percent of the credit was allocated to civil works, equipment and drug supplies. However, MOH did not have—and only slowly built—capacity to design and supervise a major civil works program. The bulk of the program was never implemented, and sustainability of completed works is unlikely. Procurement of equipment and drugs was fraught with problems, including instances of misprocurement. During the 1997–99 period, dialogue between MOH and the Bank deteriorated and, without day-to-day technical representation in the field, the Bank did not play a leadership role in critical policy discussions. In the absence of a clear expenditure framework, IDA resources were not channeled toward high priority financing gaps. At its closing date in FY00, the credit was only half disbursed. Considering the demonstrably weak GRZ commitment, the Bank showed poor judgment in extending the closing date, with little subsequent improvement in performance.

2.27 ***Education sector***. IDA credits during the FY96–01 period supported the Zambian Education Rehabilitation Project (ZERP, FY93–98) and the ongoing Basic Education Sub-Sector Investment Program (BESSIP, FY99–02). Bank objectives in the sector from the early 1990s were to expand access, improve equity and upgrade the quality of basic education. The relevance of these objectives was substantial, but was weakened by a strategy that was initially insufficiently poverty-focused, over-emphasized the provision of physical inputs, underemphasized financial barriers to educational access and failed to address the profound impact of HIV/AIDS on the sector. While most ZERP outputs were completed (e.g., classroom rehabilitation), outcomes relative to objectives are judged as moderately unsatisfactory. Trends in enrollment and attendance—especially in poorer rural areas—have deteriorated during the 1990s. In addition, the quality of basic education was shown to be dismal in the first National Assessment of Learning Achievement in 1999.

2.28 A strengthened Exam Council of Zambia was a successful aspect of institutional development under ZERP. However, institutional development was weakest where it was most necessary—building the capacity of the Ministry of Education (MOE) and related institutions for sector planning, program management, resource allocation and aid coordination. The BESSIP process has sought to remedy many of these weaknesses—emphasizing ownership by GRZ, investing in more capacity-building, retrofitting a HIV/AIDS component and focusing more on rural areas, non-formal education and elimination of financial barriers. Early indicators are promising, but it is too soon to assess outcomes.

2.29 ***Social fund***. GRZ launched a Social Action Program (SAP) in the early 1990s to accompany structural adjustment. In support of the SAP, the Bank approved the Social Recovery Project (SRP I) in FY91, joining the European Union in support for community-driven development of social infrastructure. SRP II followed in FY95, with greater emphasis on targeting of poor communities, empowering community groups and encouraging gender-balanced participation. A third credit supported the renamed Zambia Social Investment Fund (ZAMSIF) in FY00, with similar objectives but increased emphasis on capacity building at local and district levels. Outcomes of the social fund credits have been satisfactory, with targeting of poor communities improving over time. Institutional development impact is judged as modest. The social fund has made significant progress in capacity building at local and district levels. It has also been successful in promoting poverty monitoring and in development of project-specific monitoring and evaluation systems. Less favorable has been the success of SRP/ZAMSIF in building public sector capacity to assume responsibility for social fund activities. Donor funding and "temporary" SRP institutions have compensated for weak public sector reform and delayed decision-making on fiscal and administrative decentralization. A draft Decentralization Policy was presented to Cabinet nearly three years ago, but no action has been taken on it to date.

2.30 ***Energy sector***. With petroleum product prices the highest in Southern Africa, the IDA-supported Petroleum Rehabilitation Project (FY94–00) was highly relevant for private sector development and growth in Zambia. Unfortunately, implementation was ineffective, with poor GRZ commitment to agreed reforms. This led to a highly unsatisfactory outcome and cancellation of the credit. The Tazama pipeline—the least-cost method of importing oil—was not rehabilitated, contributing to over-reliance on high-cost road transport. Indeed, a major weakness of the project was its failure to reach closure at design phase on government strategy for cost-effective use of the pipeline and the Indeni refinery. Closing the refinery and converting the pipeline to finished product use would have been most cost-effective, but the Bank underutilized opportunities—particularly after a 1999 fire at the refinery—to influence GRZ policies. Policy reforms are now being supported through adjustment lending—but will be less effective if not accompanied by the capacity-building and rehabilitation of the earlier credit.

2.31 The relevance of the ongoing Power Rehabilitation Project (FY98–02) is substantial, both because an efficient power sector is critical for private sector development, and because export of electricity could contribute significantly to export diversification in coming years. However, project design could have been strengthened in three ways. First, the project did not adequately address the need to reform the electricity parastatal, which is now being pursued through adjustment lending. Second, a greater emphasis on urban electrification could have enhanced the overall poverty focus of the project, beyond the targeted interventions for resettlement of the Gwembe Tonga communities displaced by Kariba Dam. Third, the project missed an opportunity to help define a strategy to develop Zambia as an exporter of electricity into the Southern African Power Pool.

2.32 ***Urban water sector***. IDA credits are ongoing, and include support for the Urban Restructuring and Water Supply Project (URWSP, FY95) and the Mining Township Services Project (MTSP, FY00). Preliminary evaluation suggests a moderately satisfactory outcome for the URWSP. The project sought to rehabilitate water and sewerage infrastructure in nine urban areas, pilot community-based approaches to water supply in peri-urban areas and contribute to municipal reforms in anticipation of decentralizing water services through "commercialized utilities" (CUs) established in 2000. While the infrastructure rehabilitation has been well-executed, its relevance to ensuring reliable water and sanitation services was undermined by an exclusive focus on upstream assets, with little attention to downstream investments (e.g., metering) necessary for demand management and revenue collection. In addition, management and maintenance of the rehabilitated infrastructure is far from assured given the severe institutional and financial constraints now faced by the CUs. Implementation of the pilot schemes was poorly conceived and severely delayed. Outcomes have been largely disappointing—although the pilots served their purpose of testing alternatives.

2.33 The main objective of the Mining Townships Services Project was to facilitate completion of ZCCM privatization by spinning off municipal water services. While the relevance of the privatization was high, one can question the need for IDA involvement in this area to conclude the deal. Apart from this objective, the credit does not represent a poverty-focused use of IDA resources within the sector.

2.34 ***Sector-wide approaches***. Zambia was an early innovator in adopting sector-wide approaches (SWAPs) in the 1990s, in an effort to take greater ownership, clarify strategic directions and coordinate the myriad donor-funded programs at the sector level. As the concept of a Comprehensive Development Framework (CDF) was articulated, SWAPs were perceived as a vehicle for moving closer to CDF principles of long-term vision, country ownership, strategic partnerships and accountability for results—a move expected to enhance the development effectiveness of Bank assistance. Annex X reviews the implementation experience to date with SWAPs in Zambia. It concludes that IDA's participation in SWAPs has resulted in closer adherence to CDF principles, with indicators that hold out the promise of enhanced development effectiveness in the longer-run. Within the timeframe of this evaluation, however, the SWAPs do not provide evidence of superior outcomes or sustainability.

2.35 Among the positive developments within the Zambian SWAPs have been: (i) greater emphasis on strategy formulation as a prerequisite for national programs and donor support; (ii) reallocation of budgetary resources toward stated priority areas; (iii) deeper ownership that keeps reforms moving in agreed directions despite frequent changes of political leadership; (iv) more active public/private sector partnerships, although links with non-governmental and other civil society organizations remain underdeveloped; and (v) standardized progress reporting and periodic review for more coordinated actions. Despite these developments, early outcomes have been disappointing or difficult to measure. This reflects a number of weaknesses, particularly: (i) gross underestimation of institutional constraints and the need for capacity building to implement complex SWAPs; (ii) lack of a national planning mechanism to address critical cross-sectoral issues; (iii) neglect of expenditure frameworks and poor expenditure management and financial accountability (resulting in sub-optimal use of IDA); and (iv) a paucity of measurable performance indicators, due to the weakness of monitoring and evaluation systems. An inability to assess progress and evaluate the impact of major reforms is one of the most striking features of the earlier SWAPs.

2.36 The experience with SWAPs in Zambia highlights the difficulty of the Bank's role as partner: juggling financial leverage with a desire to be responsive to client needs and flexible in collaborating with external partners and other stakeholders. Often, the client and other partners turn to the Bank for leadership on analytic work and policy dialogue. At the same time, the perception of a dominant Bank—as at the inception of the agriculture SWAP—can undermine ownership and donor collaboration. As one Zambian commentator concluded: "the Bank must learn to use its weight well." This is not easy, particularly in sectors where the Bank lacks technical representation at the local level. To avoid "parachuting" into ongoing policy dialogues, the Bank needs to strengthen local technical capacity and shift greater supervision responsibility to the country office.

Administrative Efficiency

2.37 On a per capita basis, the Bank's operational budget for Zambia in FY96–00 was high relative to budgets in comparators such as Burkina Faso, Zimbabwe and Uganda. This is unsurprising, as operational budgets tend to reflect lending levels—which were exceptional for Zambia in the FY96–01 period. As indicated in Reference Table R.8, preparation and supervision costs per approved project were roughly similar to Africa region averages. However, because of exceptionally high adjustment lending, preparation and supervision costs per million US$ of commitment were very low, between 50–60 percent of Africa region averages. For investment lending alone, preparation and supervision costs per million US$ of commitment were roughly equal to Africa region averages—confirming that it is high-volume adjustment lending that gives Zambia the appearance of above-average administrative efficiency. In marked contrast, preparation of SWAPs was long (typically three to five years) and costly—the Bank spent twice the average for other investment lending in Zambia.

3. Development Effectiveness

3.1 The preceding chapter provides a "bottom-up" evaluation of outcomes for Bank products and services. This chapter assesses development effectiveness by looking at outcomes from the "top-down" perspective of aggregate performance indicators. It focuses on four important areas of Bank assistance: macroeconomic management, privatization and private sector development, public sector efficiency and social policy.

Outcomes and Alternatives

3.2 Tables 3.1 and 3.2 examine growth and social welfare outcomes in Zambia and comparator countries. The data indicate that:

- Investment and economic growth in Zambia in the 1990s was at or below levels of the 1980s, below Bank projections and below what was necessary to increase per capita income and reduce poverty. Most social welfare indicators deteriorated relative to the 1980s, thus falling far short of targets. Growth and social welfare indicators for Zambia were mostly below the average for Sub-Saharan Africa and below selected comparator countries.

- Improvement was seen in investment levels and economic growth in the second half of the 1990s, particularly with respect to growth of non-mining GDP. Although growth was faster than since 1965–75, it remained insufficient to reverse the decline in per capita income.

- The Bank's economic projections were overly optimistic—they failed to reflect the initial contraction associated with transition and the impact of the failing mines, and the negative impact of HIV/AIDS was not incorporated.

Table 3.1: Growth and Social Welfare, Before vs. After and Projections vs. Actuals

(period average)	1981–90	1991–00		1991–95		1996–00	
	Actual	*Actual*	*Projected*	*Actual*	*Projected*	*Actual*	*Projected*
Real GDP growth (% pa)	1.0	0.6	4.9	-1.6	4.4	1.4	5.4
Non-mining GDP growth	1.4	2.2		-1.9		3.2	
GDI/GDP (%)	15	16	19	13	21	17	17

(last available year in period)	1980–83	1990–93	1994–96	1997–00	2000 Target
Real GNP pc (1987 US$)	415	322	258	227	
Incidence of poverty		70	69	73	
Depth of poverty		62	51	55	
Life Expectancy	51	49	46	38	
Infant Mortality Rate	90	79	109	114	65
Immunization coverage		75		58	85
1er School enrollment rate	87	83	98	90	

Sources: Actual growth and investment: Africa Region database.
Growth and investment projections: 1991–93 data from Report No. P–5483–ZA, *President's Report for an Economic Recovery Program*, February 1991; 1994–96 data from Report No. 11570–ZA, *Zambia: Prospects for Sustainable and Equitable Growth*, 1992; 1997–00 data from Report No. 15477–ZA *Zambia: Prospects for Sustainable Growth, 1995–2000*, August 1996.

Table 3.2: Growth and Social Welfare in Comparator Countries, 1998–00

	GNP per cap.	Avg. % growth 1990-00	GCF/ GDP (%)	% < pov. Line (1990s)	Gini coefficient	1999 life expect.	1999 under 5 mortality (per 1,000)	1er gross enrol. rate (%)	2er gross enrol. rate (%)
Zambia	300	0.5	18	73	53	38	187	78	27
Sub-Saharan Africa avg.	480	2.4	16	..	..	47	159	78	27
Selected comparators									
Burkina Faso	230	4.1	28	n.a.	48	45	210	40	n.a.
Mongolia	390	1	26	36	33	67	73	88	56
Nicaragua	420	3.5	38	50	60	69	43	102	55
Sri Lanka	870	5.3	27	25	34	73	19	109	75
Uganda	310	7.1	16	35	37	42	162	74	12
Zimbabwe	480	2.4	2	26	57	40	118	112	50

Source: World Development Indicators 2001; World Development Report 2002.

3.3 Zambia's growth and stabilization record has been poor in comparison with other Higher Impact Adjustment Lending (HIAL) countries in Africa.[15] While on average,

[15] The Higher Impact Adjustment Lending (HIAL) initiative was introduced in the Africa region in 1995 with an aim to enhance the results of the Bank's adjustment lending by applying greater country selectivity and improving the design of adjustment lending programs. Zambia was a HIAL participant See Report No. 19797, *Higher Impact Adjustment Lending (HIAL): Initial Evaluation*, Operations Evaluation Department, June 1999.

HIAL countries achieved better macroeconomic outcomes than non-HIAL countries during the 1990s, Zambia's outcomes for growth, investment and inflation reduction were less favorable than both HIAL and non-HIAL countries.

Macroeconomic Management

3.4 The earlier CAR and an independent evaluation of the IMF's ESAF program (1991–97) identify sequencing problems with macroeconomic policy reforms in the 1992–95 period that delayed initial stabilization.[16] Liberalization of the foreign exchange and financial markets before fiscal adjustment succeeded in lowering inflation led to capital flight that reignited inflation and led to more stringent fiscal tightening, exacting high social costs and undermining public investment. Nonetheless, the reforms of the 1992-95 period led to marked improvement in macroeconomic fundamentals which was sustained in 1996-01. Large quasi-fiscal deficits and the reduction in assistance from other aid partners led to only limited progress in the latter period, which fell far short of Bank targets. As other donors reduced their support, IDA became the main source of balance of payments financing.

3.5 Toward the end of the decade, the Bank was instrumental in moving Zambia toward an FY01 decision point under the enhanced HIPC initiative. If the country reaches completion point as planned in 2003, the ratio of net present value of debt-to-exports is expected to drop from around 450 percent in 2000 to below the 150 percent threshold deemed sustainable under HIPC. However, this sustainability rests on assumptions for real income and export growth (5.6 and 9.6 percent per annum, respectively, in 2000–10) that are beyond reach, particularly in light of the current problems in mining. Revising the debt sustainability analysis that underpins the HIPC decision is warranted as the basis for modification of the decision. HIPC is a long-awaited opportunity to significantly reduce debt stock. However, in the absence of increased aid flows, it will require better prioritization of public expenditures to allow for the higher social expenditures agreed with external partners as part of the conditions for debt relief.

3.6 Incomplete stabilization, including the large quasi-fiscal deficits, in the second half of the 1990s resulted in annual inflation of 20–30 percent, high real interest rates and exchange rate appreciation that undermined private sector response to structural reforms at the most critical time. Private investment was hampered at the peak of non-mining privatization and during the immediate post-privatization period (1996–99 for most enterprises). Although foreign direct investment as a share of GDP rose in response to privatization opportunities, this was offset by declining private domestic investment. In the 1990s, gross domestic investment (GDI) as a share of GDP remained at roughly the same level as the 1980s. Modest improvement is evident in the 1996–00 period, as GDI rose to 17 percent from the trough of the early 1990s. Of concern for government's private sector-led growth strategy, however, is that this increase in investment was due entirely to public expenditure.

[16] World Bank, *Zambia: Country Assistance Review,* Report No. 15675, June 1996 and IMF, *External Evaluation of the ESAF : Report by a Group of Independent Experts,* 1998.

Privatization and Private Sector Development

3.7 Zambia has—with some justification—been hailed as a model within Africa for effective establishment of legal and institutional frameworks for privatization of state-owned enterprises (SOEs).[17] The country has also made substantial progress in creating an enabling environment for private investment through legal and regulatory reform and reduction of state intervention in various factor and product markets. The World Bank played a critical role in this progress. By end-1999, nearly all non-mining commercial and manufacturing entities had been privatized—unquestionably a fundamental change in the institutional structure of the economy. However, the economic impact of this has been small, and less than it could have been had the country moved swiftly to privatize the copper mines, which was the most critical reform to restore short-term, export-led growth in the 1990s.

3.8 Despite twenty years of continuous decline, mining exports still represented 85 percent of export earnings in the early 1990s. By 1996–99, the mining parastatal, ZCCM, was suffering catastrophic operating losses equivalent to 6–10 percent of GDP per annum. Large sums of export earnings from the mines were unaccounted for, as well. After IDA-supported attempts to improve parastatal efficiency proved futile, GRZ announced in 1995 a decision to privatize the mines, setting a deadline of June 1997. The process (with technical support from IDA) was largely on track, including privatization contracts signed for smaller asset packages, until late 1997, when GRZ changed the leader of its negotiating team and broke off negotiations with the bidding consortium (Annex XI). Despite expressing concern, the Bank chose to stay the course. The following month the Bank released the second tranche of ESAC II, which called for "progress satisfactory to IDA in carrying out the action plan for the privatization of ZCCM." This decision by the Bank reduced GRZ financial needs and the urgency to complete the privatization.

3.9 In 1998, as it became clear that the bidding process had been derailed, the Bank shifted its stance and withheld and redesigned the next adjustment operation (PSREP) to include conditions and incentives to complete the privatization, which was concluded in 2000. The delayed privatization was extremely costly for Zambia in terms of foregone economic growth, as well as in the terms of the sales (including GRZ's assumption of debt and fiscal concessions). Strong global conditions throughout much of the 1990s, and a modest rally in world copper prices in mid-decade, would have buoyed earlier mining recovery. When the deal was concluded, initial investment in existing mines were sizable. Economic growth in 2001 was over five percent, spurred by these investments and their multiplier effects.

3.10 The delay may have dealt a critical blow to the industry's future. World copper prices slumped below expectations in the 2000–02 period. At end-2001, Zambia Copper Investments Limited, the largest investor, announced a decision to defer new investments and withdraw support for loss-making going concerns.[18] Until this, short-term growth

[17] Oliver Campbell White and Anita Bhatia, *Privatization in Africa*, World Bank Directions in Development, April 1998.

[18] Anglo American is the majority shareholder in Zambia Copper Investments Limited (ZCI). ZCI holds a 65 percent share in Konkola Copper Mines (KCM) which is the mine operating company in Zambia. IFC and the Commonwealth

prospects had been considered more promising than at any time since 1975. Now, the country is bracing for a significant economic contraction.[19] The Bank may not have been able to prevent government decisions that delayed privatization, but it could have made further disbursements of adjustment loans contingent on the completion of the sale. More generally, results-based conditionality in adjustment loans and better design of technical assistance loans may have led to faster and better outcomes.

3.11 Delayed mining privatization also had an adverse effect on post-privatization performance of other SOEs, as indicated in Annex XIII. Survey results suggest that privatization stemmed a steep pre-privatization deterioration in SOE performance, except in companies highly inter-dependent with the mines, where deterioration continued throughout the decade. Turnover for most companies increased for two years following privatization but declined thereafter, with the initial benefits of privatization proving difficult to sustain. Aggregate turnover has never recovered in real terms to early 1990 levels. The rebound following privatization has been strongest for the twenty largest companies. The few companies that were heavily export-oriented began recovering prior to privatization and have rebounded to levels of the early 1990s. Thus, privatization appears to have made some contribution to export-led growth. Nonetheless, assuming the survey is fairly representative, it suggests that growth in trade and industry since the mid-1990s has derived more from private start-ups than from privatization.

3.12 Through interviews with entrepreneurs and managers, the following factors were identified as undermining recovery of privatized firms: (a) tariff distortions that disfavor local production, marketing and exporting; (b) weak regional economies; (c) regional trade barriers and unfair practices; (d) poor infrastructure and utilities; (e) erratic macroeconomic policies; (f) labor market rigidities ; (g) cumbersome judicial processes; and h) bureaucratic interference and corruption. The Bank focused on trade reform—particularly simplification and reduction of tariff rates—aimed at eliminating anti-export bias. However, insufficient attention was paid to the anti-import bias of regional trading partners. Other trade reforms supported by the Bank, such as changes to the duty drawback and manufactured under bond schemes, have been less relevant to broader objectives, and have had minimal impact.

3.13 Overall, the Bank's greatest effort in the second half of the 1990s was to promote privatization and private sector development in Zambia. Substantial progress was made: the country succeeded in a fundamental transformation to a market economy. However, the experience of structural adjustment lending in this period indicates that a more selective approach to privatization, appropriately sequenced, would have had a bigger impact on investment and growth. While privatization of each enterprise makes its marginal contribution to transformation of the economy, World Bank resources might best have been devoted to rapid implementation of a select group of high-impact

Development Corporation (CDC) are minority shareholders in KCM. For a discussion of IFC's role in mining privatization and other investments in Zambia, see Annex XII.

[19] The Africa Region noted that "As to the charge that delayed privatization was bad for Zambia, it is true that it cost Zambia financially, but it is also true that two of the early mines to be privatized—before the Government broke off negotiations with the Kafue Consortium on other mines—have also experienced difficulties, with one of them closed. So the evidence shows that privatizing before or after the Kafue Consortium episode is no predictor of post-privatization performance of mines."

privatizations—the mines, first and foremost, but also larger, export-oriented SOEs—as well as greater private sector involvement in infrastructure at an earlier stage. Simultaneously, to benefit all privatized and new private entities, and provide an environment more conducive to diversification, the Bank would have needed to take a more intensive approach to improving the investment climate.

Public Sector Efficiency

3.14 Annex XIV provides a summary evaluation of public sector reforms within adjustment lending. The appraisal document for the FY00 Public Service Capacity Building Project (PSCAP, an adaptable program loan) describes a public sector in which very little progress has been made towards the CAS objective of enhancing efficiency and improving governance. Poor progress is also reflected in Zambia's continual ranking in the bottom quintile of the Transparency International's Corruption Perception Index. Progress has been particularly weak in recasting the role of the state, revising human resources and remuneration policies, promoting administrative and fiscal decentralization and enhancing planning, budgeting and expenditure management. With respect to public service reform, adjustment lending supported civil service downsizing alone until late in the 1990s. The FY99 PSREP was the first adjustment operation to include a broader public service reform objective, namely "to improve the performance of the public service by reforming pay and employment practices and improving management controls." Despite high relevance, efficacy of implementation was negligible. Conditions were not results-oriented, and objectives other than mining privatization were not achieved within this operation. The holistic PSCAP approach is promising, but too early to evaluate.

3.15 With respect to budgetary reform, adjustment lending has been instrumental in helping GRZ modify a cash budgeting system that has largely outlived its usefulness, and is now an impediment to decentralized, results-based budgeting and medium-term planning. Budgetary reform and expenditure management should remain top priorities for adjustment lending and capacity building in coming years. Considering the Bank's prominent role in supporting privatization and providing balance of payments funds in Zambia, it is surprising that the Bank undertook no oversight on the disposition of gross privatization proceeds totaling nearly half a billion dollars. Transfers to the general budget were small, but the Bank never asked GRZ to review independent audits commissioned by ZPA to review the disposition of these funds—a significant lapse in supervision. Finally, restructuring of parastatals—mostly public utilities and infrastructure providers—would have been highly relevant, but did not make much progress in the FY96–01 period. Adjustment lending focused on privatization of commercial and industrial companies. For the electricity parastatal, restructuring was unavoidably delayed by the mines. For the railway and petroleum sectors, however, more rapid progress was feasible and desirable to stimulate economic growth, in general, and mining recovery, in particular. In hindsight, an earlier and more effective focus on high-impact parastatal restructurings was warranted.

Social Policy

3.16 Structural adjustment lending in the FY96–01 period supported selected social policy reforms in the following areas: (i) social expenditure protection; (ii) employment and labor markets; (iii) social security; (iv) social services (health, nutrition and education); and (v) social assistance. Annex XV provides a summary evaluation of these areas. Outcomes ranged from satisfactory to highly unsatisfactory depending on the area, but are judged on balance as moderately unsatisfactory. Social expenditure protection succeeded in increasing the share of the discretionary budget devoted to social sectors, but with a shrinking discretionary budget and poor expenditure management, this translated into declining per capita real expenditures at a time of increased needs due to HIV/AIDS. With respect to employment and labor markets, the financing of retrenchment costs facilitated privatization of ZCCM. However, the failure to address retrenchment policy more broadly within adjustment lending contributed to inequitable treatment of retrenched workers, reduced welfare for households denied benefits and created a perception of political favoritism that undermined public support for further privatization. Social security reforms were quite effectively implemented, but their relevance to CAS objectives and country needs is judged as only modest, regardless of whether one considers the impact on fiscal balances, social safety nets or capital market development. The few reforms related to social services (e.g., health, education) were implemented satisfactorily, but adjustment lending was not used as the Bank's main instrument for supporting social services reform. Adjustment lending documentation makes reference to necessary strengthening of social assistance, but adjustment operations themselves, and their associated technical assistance credits, did little to support the design of an appropriate social safety net through analytic work, policy advice, conditions or financial resources. This is unfortunate considering the high relevance of social safety net policy to stated CAS and adjustment lending objectives.

Institutional Development Impact

3.17 The political and economic transition begun in the 1990s has substantially altered the "rules of the game" in Zambia, with far-reaching changes to the legal and regulatory frameworks for private sector participation in the economy. Dissemination of laws and regulations has improved and a number of important strategies (e.g., education) and national policies (e.g., gender) have been adopted. Institutional development impact (IDI) related to organizational restructuring and capacity-building has been significant in FY96–01 in a number of areas, including: (i) transfer of ownership to the private sector; (ii) community-driven development of social infrastructure; (iii) district-based planning and management for basic social services; (iv) development of the National Pension Scheme Authority; (v) establishment of professional regulatory bodies for energy and water supply; and (vi) earmarking of revenues and coordination of national road maintenance. However, these areas of progress are constrained by the marked lack of IDI related to public service and public expenditure reform, including the need to reach closure on decentralization policies. These weaknesses undermine public sector service provision and render the interface between the public and private sectors inefficient and discouraging to investors. On balance, IDI can be considered modest in the FY96–01 period—which is a notable achievement considering the impact of HIV/AIDS on institutional continuity.

Sustainability of Net Benefits

3.18 Net benefits in terms of growth and social welfare fell short of what was expected and feasible in the FY96–01 period. However, the net benefits of the Bank's program that did accrue to Zambia in this period are—on balance—likely to be sustained. The greatest benefit was progress made in the fundamental transformation to a market economy—with substantial changes to the legal and regulatory framework, a reduction in state intervention in markets and the transfer of ownership to the private sector, including the critical mining privatization. These benefits are unlikely to be reversed, even taking into account potential political change. Likewise the modest diversification of the economy from a limited base is unlikely to be reversed—although needs to be accelerated. The likelihood of sustaining these benefits is counterbalanced by two areas of uncertainty. First, modest progress in building institutional capacity is jeopardized by continued weakness of public sector reform and by insufficient response to the HIV/AIDS pandemic, which continues to decimate the labor force. Second, the financial sustainability of many policy reforms and investments (e.g., maintenance of social infrastructure) hinges on considerable strengthening of public expenditure management and maintaining a sustainable external account—only feasible if both Government and creditors remain committed to the enhanced HIPC initiative.

Summary Results

3.19 The Bank has been an unusually important source of external financing in Zambia, and a major contributor to the agenda for policy reform. During the FY96–01 period, the Bank played a valuable role in encouraging continued progress down the path of economic liberalization, privatization and diversification initiated in the early 1990s. This was so despite a laxity with respect to macroeconomic stabilization that undermined faster progress in these areas. Although progress was made, outcomes could have been significantly better—in terms of faster and stronger resumption of economic growth and reversal in per capita income and poverty trends—if the relevance and efficacy of Bank strategy had been higher. Outcomes of many Bank operations, and of the overall program, were unsatisfactory. On the other hand, institutional development was modest, but laudable. The limited net benefits of the program are judged to have likely sustainability.

4. Contribution of Partners

4.1 Outcomes of the Bank's program depend on the contributions of the Bank and the borrower, as well as the influence of other partners and of important exogenous factors.

Bank Contribution

4.2 The Bank's role in shaping the policy agenda in Zambia was significant, reflecting both a high degree of financial leverage and a diversified portfolio. Because of limited implementation capacity, the GRZ often focused almost exclusively on the policy agenda agreed with the donor community, particularly the IFIs. Bank strategy and performance have, therefore, affected outcomes in major reform areas. They reflect both the Bank's preoccupations (e.g., extensive privatization) and the Bank's lacunae (e.g., social safety nets). Failure to fully incorporate the findings of economic and sector work in the Bank's assistance strategy resulted in weaknesses in strategic relevance during the FY96–01 period, particularly with respect to external debt management, combating HIV/AIDS and targeting the poor. Efforts at aid coordination and resource mobilization with the IMF and other donors were unsuccessful in the 1996–99 period, with better performance within the context of sector-wide approaches and toward the end of the decade, as Bankwide strategy evolved toward enhanced HIPC debt relief. The Bank's high case lending scenario was predicated on progress in macroeconomic stabilization, strong performance on structural reform and exceptional inflows from the international community. When these preconditions were not met, the Bank nonetheless remained in its high case lending scenario, with limited development impact. Diversification of the portfolio to include greater emphasis on economic infrastructure and social services occurred, but investment lending was heavily oriented toward infrastructure rehabilitation, with little emphasis on—or success in—promoting relevant sector reforms.

Borrower Contribution

4.3 While making substantial progress on liberalization and privatization, the GRZ must bear responsibility for costly delays in mining privatization. Indeed, this key issue reflects a broader pattern of foot-dragging, opaque decision-making and weak implementation by GRZ that is a main contributor to unsatisfactory outcomes in this period. GRZ largely fulfilled the conditions of successive structural adjustment credits, but if this failed to significantly advance policy reform in some areas, it is a reflection of poor ownership and weak conditionality, driven by the time-sensitivity of balance of payments support. GRZ compliance with covenants under investment lending was not nearly as favorable—and was egregiously poor with respect to counterpart funding, undermining implementation in many sectors.

Aid Partners

4.4 This evaluation does not extend to Zambia's aid partners, some of whom have undertaken similar evaluations (see Annex XVI). It will, however, mention some areas where the actions of aid partners have most affected outcomes of the Bank's assistance strategy. The most prominent area is with respect to external financing during FY96–01. Major aid partners, who are also some of Zambia's main bilateral creditors and the Bank's leading shareholders, bear significant responsibility for encouraging the Bank to remain in a high-case lending scenario when the preconditions for achieving minimum growth rates—sustained macroeconomic stabilization, progress on key structural reforms and exceptional aid flows—were not being met. Discussion of the FY96 CAS and ESAC II highlights this. The region's agenda asked the Board to consider, inter alia:

> *"Should alternate projections be made with lower growth rates or with larger financing gaps , or presuming more radical debt relief?.... Zambia will need to depend on high external support and extra debt relief to close the projected financing gap and there are no firm indications that these will be forthcoming. Given this situation, is the CAS realistic?"*[20]

A number of Executive Directors, including several representing Zambia's main aid partners cum creditors, believed the base case scenario to be unachievable due to insufficient external financing. Concerns were expressed over slippages in adhering to the IMF program, the IMF's inability to endorse ESAF reforms during a mid-term review a month earlier, delays in ZCCM privatization, poor economic governance and the implicit attempt of the CAS to compensate for reduced balance of payments support from other aid partners. It was noted that the IMF appeared to be asking the Bank to prevent accumulation of arrears while struggling to get the program on track—in short, asking the Bank to do what it would not do. It was acknowledged that Zambia was a clear example of the need for a comprehensive debt reduction program. Despite these concerns, the CAS was approved and lending remained in the high case. Although the aid partners' political governance concerns had merit, when their aid flows fell below levels needed to service debt and support minimum growth targets, the Bank's exceptional lending eased pressure on creditors, while failing to compensate for lower-than-anticipated development resources: Zambia's "muddle through" scenario.

4.5 A related concern has been the need for more coordinated support by aid partners, not only IFIs, for improved public expenditure management and financial accountability. Future development effectiveness depends on this, but the recent past suggests weak mechanisms for addressing cross-sectoral issues of this nature. The participatory PRSP process, supported by UNDP and the IFIs, has highlighted the critical need for improved public resource allocation and tracking.

Exogenous Factors

4.6 Zambia's landlocked situation and undiversified economy have made it extremely vulnerable to exogenous factors, including regional events and world copper prices. In the FY96–01 period, regional factors included the end of apartheid rule in South Africa, the collapse of the Zimbabwean economy since 1998 and continuing instability in the Democratic Republic of Congo. The end of apartheid reinforced South Africa's dominance of the regional economy, as a source of direct investment, importer of skilled labor and exporter of consumer goods to the region. The lackluster performance of the

[20] World Bank Report No. 15761-ZA, *Country Assistance Strategy for Zambia*, June 1996, p. 24–25.

South African economy and its continued protectionism have limited the impact on export-led growth in Zambia. The net impact in the short-term is difficult to judge, although the prospects for greater investment and regional economic integration in the long-run are clear. The collapse of the Zimbabwean economy—with its severe impact on foreign investment and tourism in the sub-region—has undermined recent growth in Zambia, as well as short-term prospects. Strong global economic conditions throughout much of the 1990s, including a mid-decade rally of copper prices to over US$1.00 per pound, would have benefited earlier mining privatization and recovery. Likewise, the 2001 global slowdown exacerbated a three-year slump in copper prices, which fell to below US$0.70 per pound by end-2001. This was the most critical factor in Konkola Consolidated Mines' decision to defer new mining investments and withdraw financing from going concerns.

5. Conclusions and Recommendations

5.1 Evaluation of the FY96–01 period leads to conclusions and recommendations in a number of areas, many of which build on the findings of the FY96 Country Assistance Review (Annex I). Main conclusions and recommendations are as follows:

Debt management and adjustment lending. Adjustment lending proved to be an inadequate instrument to deal with the dual objectives of timely debt servicing and deepening of structural reform. 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.

Aid coordination and macroeconomic stabilization. Weak progress on macroeconomic stabilization, coupled with inadequate development resources, have undermined supply response. If the pre-conditions for high-case IDA lending are not met—with respect to GRZ performance or burden-sharing by the donor community—the Bank should reduce lending.[21] Not doing so undermines Bank credibility and results in poor use of IDA resources and outcomes below CAS expectations. Recommendations:

- Strengthen coordination with the IMF and donor community to provide consistent support for macroeconomic stabilization and sufficient burden-sharing to enhance the impact of IDA resources.

- Articulate downside scenarios within the upcoming CAS, and advise the Board of the limits to growth and poverty reduction in the absence of complementary support from the international community.

[21] GRZ disagrees (see Attachment 1), but OED stands by this conclusion.

Analytic and advisory services. The relevance of Bank strategy has been weakened by not fully incorporating the findings of economic and sector work, nor disseminating them broadly. Recommendation:

- Precede the FY02 CAS with participatory analytic work on constraints to diversification and growth, and ensure that the CAS is fully consistent with analytic findings.

Structural reforms. The Bank needs to focus on reforms with the greatest potential impact on growth and poverty reduction. Recommendation:

- 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.

Sector investment lending. Physical investments have been insufficiently linked to implementation of relevant sector reforms. Support for SWAPs is promising, but has not provided evidence of better outcomes. Recommendations:

- Link investment lending explicitly to sector strategy development and policy reforms. Where sector reform is supported by adjustment lending, ensure complementary support is in place for technical advice and critical investments.

- Improve the effectiveness of Bank support for SWAPs through greater emphasis on: (a) institutional development and capacity building to strengthen implementation;[22] (b) improved expenditure frameworks and accountability; and (c) timely development of monitoring and evaluation systems. Support national planning mechanisms to resolve cross-sectoral issues. Enhance field office supervision capabilities.

Social safety nets. Despite high relevance, the Bank missed an opportunity to provide leadership on the design of appropriate social safety net policy and the role of redistributive programs in a low-income country. Recommendation:

- Take advantage of the PRSP process to stimulate national debate on safety net policy, analyze safety net options and assess resource needs.

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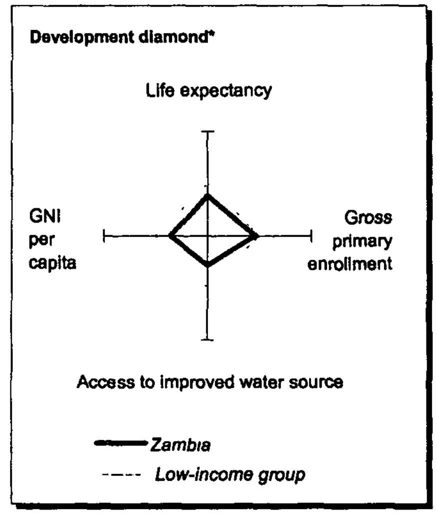
[22] Modified to reflect GRZ comments (see Attachment 1).

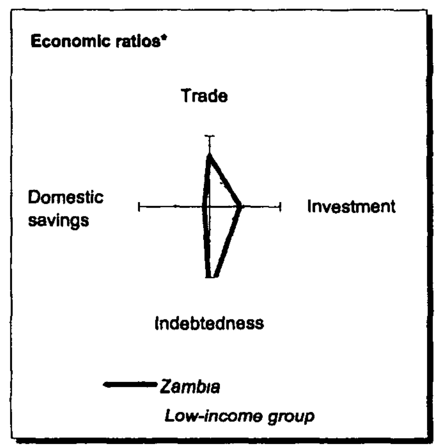
Table R.1: Zambia at a glance

POVERTY and SOCIAL	Zambia	Sub-Saharan Africa	Low-income
2000			
Population, mid-year *(millions)*	10.1	659	2,459
GNI per capita *(Atlas method, US$)*	300	480	420
GNI *(Atlas method, US$ billions)*	3.0	313	1,030
Average annual growth, 1994-00			
Population *(%)*	2.4	2.6	1.9
Labor force *(%)*	2.8	2.6	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty *(% of population below national poverty line)*	73	..	..
Urban population *(% of total population)*	44	34	32
Life expectancy at birth *(years)*	45	47	59
Infant mortality *(per 1,000 live births)*	114	92	77
Child malnutrition *(% of children under 5)*	27	.	..
Access to an improved water source *(% of population)*	43	55	76
Illiteracy *(% of population age 15+)*	22	38	38
Gross primary enrollment *(% of school-age population)*	89	78	96
Male	92	85	102
Female	86	71	86

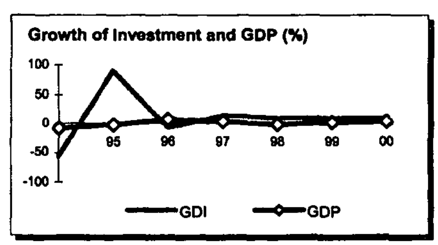


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1980	1990	1999	2000
GDP *(US$ billions)*	3.8	3.7	3.1	2.9
Gross domestic investment/GDP	23.4	17.3	17.9	18.3
Exports of goods and services/GDP	42.2	35.9	22.6	30 6
Gross domestic savings/GDP	19.4	16.6	-0.9	3.1
Gross national savings/GDP	9.5	6.9	-6.5	-1.8
Current account balance/GDP	-14.1	-10.4	-15 5	-19.6
Interest payments/GDP	3.0	1.9	5.3	..
Total debt/GDP	85.4	220.4	188.6	192.6
Total debt service/exports	25.3	15.1	37.4	35.5
Present value of debt/GDP	..	..	130.4	143.9
Present value of debt/exports	..	.	456.7	452.3

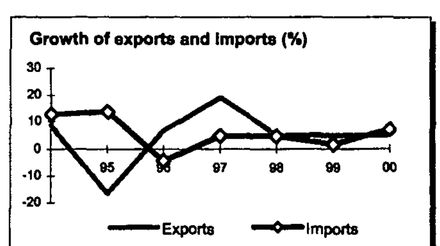
	1980-90	1990-00	1999	2000	2000-04
(average annual growth)					
GDP	1.0	0.5	2 0	3.5	5.2
GDP per capita	-2.0	-2.1	-0.2	1.4	3.2
Exports of goods and services	-3.3	3.8	4.9	4.9	12.0



STRUCTURE of the ECONOMY	1980	1990	1999	2000
(% of GDP)				
Agriculture	15.3	20.6	24 1	27.3
Industry	42.8	51.3	25.3	24.1
Manufacturing	18.5	36 1	12.2	12.7
Services	41.9	28 1	50.6	48.6
Private consumption	54.6	64.4	91 2	86 3
General government consumption	25.9	19.0	9.7	10.6
Imports of goods and services	46.2	36.6	41.5	45.8



	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	3.6	3.9	6.9	1.8
Industry	1.0	-4 0	-5.1	4.6
Manufacturing	4.1	1.2	2 8	13.5
Services	-0.7	2.6	6.6	6.0
Private consumption	3.6	1.1	1.8	3.6
General government consumption	-3.4	-6.6	-15.8	2.4
Gross domestic investment	-4.3	5.2	9.4	8.9
Imports of goods and services	-2.0	2.9	1.6	7.2

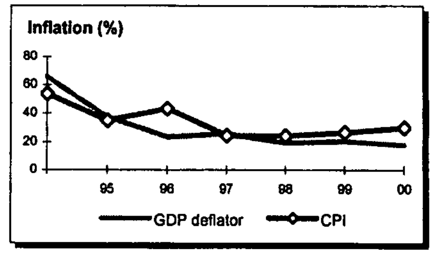


Note: 2000 data are preliminary estimates

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

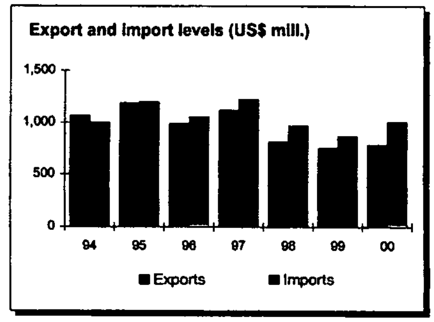
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	11.6	117 4	26 8	30.1
Implicit GDP deflator	10 5	106 4	20 5	18.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	24 1	. 20 3	17.9	21 6
Current budget balance	-10 6	-6 4	2.6	' 4 7
Overall surplus/deficit		-12 7	-10 1	-11 7



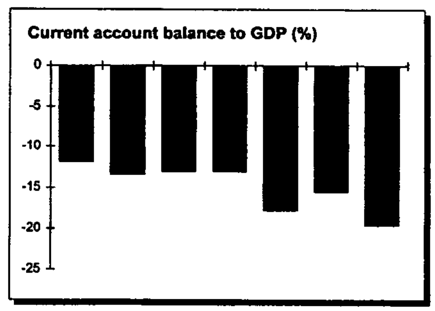
TRADE

	1980	1990	1999	2000
(US$ millions)				
Total exports (fob)	1,457	1,264	756	789
Copper		1,055	372	445
Cobalt	..	77	95	76
Manufactures	.	67	189	175
Total imports (cif)	1,114	889	871	1,008
Food	.	9	0	9
Fuel and energy	.	119	115	177
Capital goods		346	253	292
Export price index *(1995=100)*		94	64	70
Import price index *(1995=100)*	62	86	88	93
Terms of trade *(1995=100)*		110	73	75



BALANCE of PAYMENTS

	1980	1990	1999	2000
(US$ millions)				
Exports of goods and services	1,609	1,343	860	907
Imports of goods and services	1,765	1,369	1,169	1,333
Resource balance	-157	-26	-309	-426
Net income	-205	-319	-156	-144
Net current transfers	-176	-43	-16	-1
Current account balance	-538	-388	-481	-571
Financing items (net)	376	504	500	622
Changes in net reserves	162	-116	-19	-51
Memo:				
Reserves including gold *(US$ millions)*	206	201	50	130
Conversion rate *(DEC, local/US$)*	0.8	30 3	2,388 0	3,110 8



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US$ millions)				
Total debt outstanding and disbursed	3,261	8,247	5,853	5,607
IBRD	346	539	33	24
IDA	2	274	1,714	1,823
Total debt service	411	202	331	329
IBRD	48	5	12	10
IDA	0	0	16	18
Composition of net resource flows				
Official grants	23	296	214	185
Official creditors	278	73	66	172
Private creditors	113	-9	-12	-9
Foreign direct investment	62	0	163	126
Portfolio equity	0	0	0	0
World Bank program				
Commitments	40	0	213	330
Disbursements	29	3	156	210
Principal repayments	18	5	13	12
Net flows	12	-2	143	198
Interest payments	31	1	15	15
Net transfers	-19	-3	128	183

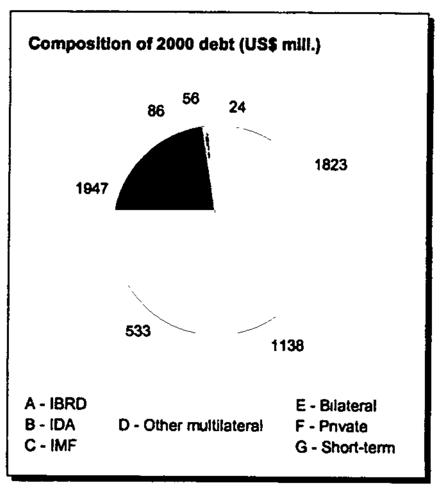
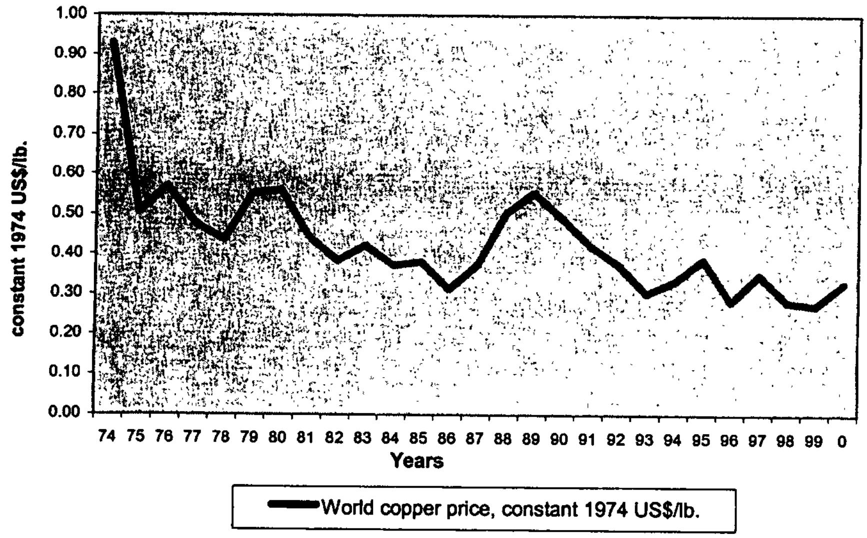


Table R.2: Zambia - Selected Economic and Social Indicators

Indicator	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Zambia Average 1990-2000	Burkina Faso Average 1990-2000	Mongolia Average 1990-2000	Nicaragua Average 1990-2000	Sri Lanka Average 1990-2000	Uganda Average 1990-2000	Zimbabwe Average 1990-2000
GDP growth (annual %)	-0.5	0.0	-1.7	6.8	-8.7	-2.5	6.6	3.3	-1.9	2.0	3.5	0.6	4.0	-0.2	3.0	5.3	6.7	2.3
GNP per capita growth (annual %)	-2.3	-5.8	-2.0	6.2	-5.5	-4.9	4.8	1.4	-4.1	-2.1	2.6	-1.3	1.5	-1.3	2.2	4.0	3.6	-0.3
GNP per capita, Atlas method (current US$)	450.0	400.0	370.0	390.0	360.0	350.0	370.0	370.0	330.0	330.0	330.0	362.7	250.9	393.3	377.0	751.0	271.8	693.6
GNP per capita, PPP (current international $)	770.0	760.0	750.0	790.0	720.0	700.0	740.0	750.0	710.0	720.0	750.0	741.8	916.7	1638.8	1369.0	2040.0	968.9	2098.9
Agriculture, value added (% of GDP)	20.6	17.4	23.8	34.1	15.5	18.4	17.6	18.7	21.1	24.1	17.0	22.8	33.4	30.3	32.6	23.6	48.7	16.6
Manufacturing, value added (% of GDP)	14.0	14.3	14.5	10.9	11.3	11.3	13.4	13.2	13.0	12.2	12.0	14.0	18.4	0.0	16.3	15.7	7.1	20.6
Services, etc., value added (% of GDP)	30.3	33.7	29.3	25.8	44.7	45.7	47.7	47.1	49.7	50.6	57.0	46.2	41.8	37.9	45.4	50.1	36.5	54.3
Exports of goods and services (% of GDP)	35.9	34.6	36.1	32.0	36.0	36.1	31.3	30.1	26.7	22.6	30.0	35.1	12.0	52.1	31.2	33.7	9.8	33.6
Imports of goods and services (% of GDP)	36.6	37.3	48.0	38.0	36.8	39.8	38.9	35.3	39.2	41.5	40.0	43.1	27.4	59.5	63.4	42.5	21.4	35.8
Resource balance (% of GDP)	-0.7	-2.6	-11.9	-6.0	-0.8	-3.8	-7.5	-5.2	-12.5	-18.9	-10.0	-7.0	-15.4	-8.1	-35.4	-8.8	-12.0	-2.2
Current account balance (% of GDP)	-12.0	-15.0	-24.0	-14.0	-12.0	-13.0	-13.0	-11.0	-15.0	-18.0	-17.0	-82.0	-5.4	1.5	-28.6	-4.3	-10.1	-4.8
Total debt service (% of exports of goods and services)	15.0	47.0	27.0	31.0	29.0	182.0	20.0	17.0	20.0	46.0		43.4	10.9	8.4	40.8	9.2	39.8	25.5
Gross international reserves in months of imports	1.0	1.3		1.4	1.9	1.4	1.6	1.4	0.5	0.4		1.2	5.6	2.5	1.8	3.3	3.1	2.1
Gross domestic investment (% of GDP)	17.3	11.0	11.9	15.0	8.2	15.9	12.8	14.6	16.4	17.9	18.3	14.5	26.8	28.1	30.1	24.9	15.6	18.1
Gross domestic savings (% of GDP)	16.6	8.4	0.0	9.0	7.4	12.2	5.3	9.4	3.9	-0.9		7.1	8.5	20.9	-4.8	16.0	3.7	15.9
Inflation, consumer prices (annual %)	107.0	93.2	169.0	188.1	53.6	34.2	46.3	24.8	24.0	27.0	26.0	72.1	41.0	73.6	1053.7	11.3	14.7	28.6
Current revenue, excluding grants (% of GDP)	20.0	19.0	18.0	16.0	20.0	20.0	21.0	20.0	18.0			19.1	14.0	21.7	0.0	19.3	0.0	25.0
Expenditure, total (% of GDP)	0.2	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.2	16.7	22.9	37.8	27.0	0.0	31.0
Overall budget deficit, including grants (% of GDP)	-13	-16	-13	-14	-12	-10	-7	-5	-10	-10		-11.0	1.2	-9.5	-6.2	-7.3	0.0	-6.7
Population, total	7.8	8.0	8.3	8.5	8.7	9.0	9.2	9.4	9.7	9.9	10.1	9.0	11.0	2.3	4.4	18.1	19.2	10.9
Population growth (annual %)	3.1	3.0	2.9	2.9	2.8	2.7	2.6	2.5	2.3	2.2	2.1	2.6	2.4	1.3	2.7	1.2	3.4	2.2
Urban population (% of total)	39.4	39.4	39.3	39.3	39.2	39.2	39.3	39.4	39.4	39.5	39.6	39.4	16.0	60.8	54.6	22.3	13.9	31.8
Illiteracy rate, adult total (% of people 15+)	31.9	30.8	29.7	28.7	27.7	26.8	25.7	24.7	23.7	22.8	21.9	26.8	80.1	41.8	33.3	9.7	42.1	15.2
School enrollment, primary (% gross)	98.7	99.0	100.2		90.8	88.5						95.4	36.0	84.6	100.3	108.8	74.2	115.5
Immunization, DPT (% of children under 12 months)	71.0	91.0	61.0	67.0	86.0	82.0	83.0	70.0		92.0		63.9	45.8	83.0	80.2	91.3	67.8	79.1
Sanitation (% of population with access)	63.0										78.0	70.5	23.7	30.0	80.0	82.5	79.5	66.0
Life expectancy at birth, total (years)	49.1		48.8			45.4		43.1		38.5		45.0	45.2	64.7	66.9	72.5	44.2	49.1
Mortality rate, infant (per 1,000 live births)	107.3		108.0		109.0	110.3		113.0		114.0		110.3	108.0	65.6	42.0	16.7	95.0	60.5

Source World Bank SIMA and Region.

Figure R.3: World Copper Prices, 1974-00



Source: Regional database. Based on nominal prices and MUV deflator.

Figure R.4: Long-term External Debt and Debt Service

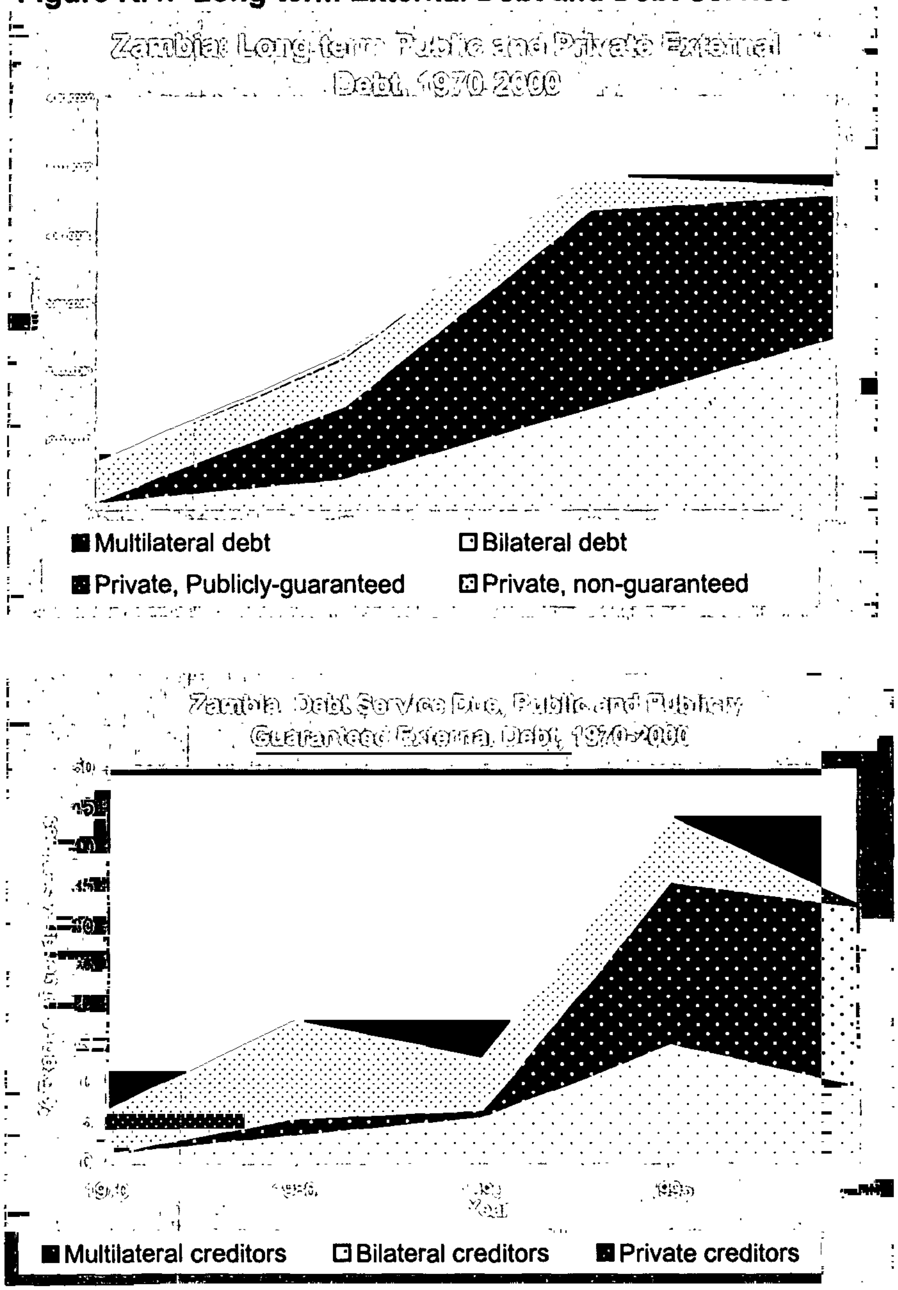


Table R.5: OED Summary Ratings, FY91-95 and FY96-01

PROJECTS CLOSED, TOTAL	Number		Percent		Net Commitments $m		Percent	
	FY91-95	*FY96-01*	*FY91-95*	*FY96-01*	*FY91-95*	*FY96-01*	*FY91-95*	*FY96-01*
Adjustment Credits	3	5	30	31	515	690	81	75
Non-Adjustment Credits	7	11	70	71	121	230	19	25
Total	10	16	100	102	636	920	100	100
PROJECTS EVALUATED: OED OUTCOME RATINGS								
Satisfactory Outcome								
Adjustment Credits	2	3	67	60	461	423	89	61
Non-Adjustment Credits	0	7	0	64	0	135	0	59
Total	2	10	20	63	461	558	72	61
AFR Region	211	219	52	60	8,573	9,870	61	68
Bankwide	762	878	65	72	58,416	96,527	74	80
OED SUSTAINABILITY RATINGS								
Likely Sustainability								
Adjustment Credits	0	1	0	20	0	175	0	25
Non-Adjustment Credits	0	5	0	45	0	100	35	43
Total	0	6	0	37	0	274	4	29
AFR Region	105	135	26	36	3,563	5,274	25	43
Bankwide	523	618	44	51	45,675	58,483	58	61
OED INSTITUTIONAL DEVELOPMENT RATINGS								
Substantial ID								
Adjustment Credits	1	2	33	40	226	258	44	37
Non-Adjustment Credits	1	4	14	36	8.09	51	6	22
Total	2	6	20	38	234	309	37	34
AFR Region	79	118	19	32	3,089	3,840	22	31
Bankwide	337	469	29	39	28,202	40,689	36	43

DISCONNECT RATIO FOR PROJECTS CLOSED[2]	ARPP % Sat		OED % Sat		Net disconnect at exit	
	FY91-95	*FY96-01*	*FY91-95*	*FY96-01*	*FY91-95*	*FY96-01*
Zambia	60	100	20	77	40	23
AFR Region	70	74	53	60	18	15
Bankwide	82	83	66	73	16	10

AGGREGATE PROJECT PERFORMANCE INDICATOR (APPI)[3]	FY96-01			FY98-01		
	No	APPI	Std. Dev.	No	APPI	Std. Dev.
Zambia	12	6.60	1.12	9	6.08	1.26
Region	358	6.04	1.84	225	6.11	1.85
Bankwide	1,184	6.68	1.70	721	6.78	1.80

ARPP RATINGS OF ONGOING PROJECTS[4]	Number	Percent	Net Commitment $m	Percent
Development Objectives Satisfactory				
Adjustment	1	100	173	100
Non-Adjustment Credits	10	71	373	64
Total	11	73	546	73
AFR Region	374	90	13,662	92
Bankwide	1,566	93	100,863	94
Implementation Progress Satisfactory				
Adjustment	1	100	173	100
Non-Adjustment Credits	12	86	484	83
Total	13	87	657	87
AFR Region	368	87	13,610	86
Bankwide	1,552	89	100,723	90

As of October 2001.

Notes:

[1] Computations are based on ARPP Exit FY from OED data as of June, 2000.

[2] The net disconnect is the difference between ARPP % SAT at exit and OED % SAT of the Outcome rating; the region and Bank-wide Net Disconnect is for the period FY90-97 (ARPP Review);

[3] See Table R 3 for an explanation of this indicator.

[4] ARPP ratings for ongoing projects as of June 2000.

Source: OED database.

Table K.6: Active Portfolio of Bank Lending to Zambia, FY90-01

Project ID	Project Name	Approval Date	Closing Date	Commitment ($m)	Lending Type	Outcome	Sustainability	ID Impact	Bank Performance: At Appraisal	Bank Performance: Supervision	Bank Performance: Overall	Borrower Performance	Development Objective	Implementation Progress
	Agriculture													
P003194	Coffee II	11/25/1986	12/31/1996	142.8	Investment	Mod. Sat.	Likely	Modest	Sat.	Sat.	Sat.	Sat.	Sat.	Sat
P003190	Agriculture Research & Extension Project	12/9/1986	12/31/1996	78.0	Investment	Mod. Unsat.	Unlikely	Substantial	Unsat.	Sat.	Sat.	Unsat.	Sat.	Sat
P003221	Agricultural Marketing & Processing Infrastructure	9/8/1992	6/30/1999	33.0	Investment	Unsat.	Likely	Negligible	Unsat.	Unsat.	Unsat	Unsat.	Sat.	Unsat.
P003218	Agriculture Sector I	3/30/1995	12/31/2001	60.0	Investment								Sat.	Sat
	Percentage Total			*17.1*										
	Total			*313.8*										
	Economic Management													
P003226	Privatization & Industrial Reform Credit II (PIRC II)	6/24/1993	6/30/1997	100.0	Adjustment	Mod. Sat.	Unlikely	Substantial	Sat.	Sat.	Highly Sat.	Sat.	Sat.	Sat.
P003222	Economic and Social Adjustment	3/10/1994	12/31/1995	150.0	Adjustment	Mod. Sat.	Unlikely	Modest	Sat.	Highly Sat.	Sat.	Sat.	Sat.	Sat
P003240	Economic Recovery & Investment Promotion	7/11/1995	12/31/1997	140.0	Adjustment	Mod. Unsat.	Likely	Substantial	Sat.	Sat.	Sat.	Sat.	Sat.	Sat
P003224	Second Economic and Social Project	8/1/1996	1/9/1998	97.8	Adjustment	Unsat.	Likely	Modest	Sat.	Sat.	Sat.	Sat.	Sat.	Sat
P035641	Public Sector Reform & Export Promotion Credit Project (ESAC III)	1/26/1999	12/31/2000	172.8	Adjustment	Mod. Sat.	Likely	Modest	Sat.	Sat.	Sat.	Sat.	Sat.	Sat
P039016	Fiscal Sustainability Credit Project	6/27/2000	12/31/2001	140.0	Adjustment								Sat.	Sat
	Percentage Total			*43.6*										
	Total			*800.6*										
	Education/HNP													
P003200	Education Rehabilitation I	10/27/1992	6/30/1998	32.0	Investment	Mod. Sat	Unlikely	Modest	Unsat.	Sat.	Sat.	Unsat.	Sat.	Sat
P003239	Health Sector	11/15/1994	6/30/2002	56.0	Investment								Unsat.	Unsat.
P003249	Basic Education Sub-Sector Investment Program	4/8/1999	6/30/2002	40.0	Investment								Sat.	Sat
P057167	Technical Education Vocation & Enterprise	6/14/2001	12/30/2006	25.0	Investment								N/A	N/A
	Percentage Total			*8.3*										
	Total			*153.0*										
	Energy													
P003238	Mining Technical Assistance Project	6/13/1991	6/30/1997	21.0	Investment	Unsat.	Unlikely	Substantial	Sat.	Sat.	Sat.	Sat.	Sat.	Sat.
P003252	Petroleum Rehabilitation	5/31/1994	12/31/2001	30.0	Investment								Highly Unsat.	Unsat.
P035076	Power Rehabilitation	2/19/1998	12/31/2002	75.0	Investment								Unsat.	Sat.
	Percentage Total			*6.9*										
	Total			*126.0*										
	Environment													
P003253	Environmental Support Program	6/10/1997	12/31/2003	13.0	Investment								Unsat.	Unsat.
	Percentage Total			*0.7*										
	Total			*13.0*										
	Finance													
P044324	Enterprise Development	5/27/1997	6/30/2002	45.0	Investment								Sat.	Sat.
P070122	Regional Trade Fac. Proj. - Zambia	4/3/2001	6/30/2011	15.0	Investment								Sat.	Sat.
	Percentage Total			*3.3*										
	Total			*60.0*										
	Social Protection													
P003242	Social Recovery	6/19/1991	7/31/1998	20.0	Investment	Sat.	Unlikely	Modest	Not Rated	Sat.	Sat.	Sat.	Sat.	Highly Sat.
P003210	Social Recovery II	6/28/1995	12/31/2000	30.0	Investment								Sat.	Sat.
P063584	Social Investment Fund (ZAMSIF)	5/25/2000	12/31/2005	65.0	Investment								Sat.	Sat.
	Percentage Total			*6.3*										
	Total			*115.0*										
	Private Sector Development													
P003251	PIRC Technical Assistance	6/30/1992	12/31/1999	10.0	Investment	Sat.	Likely	Substantial	Unsat.	Sat.	Sat.	Sat.	Sat.	Sat.
	Percentage Total			*0.5*										
	Total			*10.0*										
	Public Sector Management													
P003258	Fin. & Legal Management Upgrading	7/13/1993	6/30/2000	18.0	Investment	Mod. Sat.	Unlikely	Modest	Sat.	Sat.	Sat.	Unsat.	Sat.	Sat.
P040642	Economic Recovery & Investment Promotion TA (ERIPTA)	6/4/1996	12/31/2001	23.0	Investment								Sat.	Sat.
P050400	PUB SVC CAP (PSCAP)	3/28/2000	12/31/2003	28.0	Investment								Sat.	Sat.
	Percentage Total			*3.8*										
	Total			*69.0*										
	Transportation													
P003246	Transport Engineering	6/17/1993	6/30/1998	9.0	Investment	Sat.	Likely	Substantial	Sat.	Sat.	Sat.	Sat.	Sat.	Sat.
P003227	Railways Restructuring Project	11/16/2000	6/30/2004	27.0	Investment								Sat.	Sat.
P003236	National Road	10/14/1997	3/31/2003	70.0	Investment								Unsat.	Sat.
	Percentage Total			*5.8*										
	Total			*106.0*										
	Urban Sector													
P003241	Urban Restructuring & Water Supply Project	5/16/1995	12/31/2001	33.0	Investment								Sat.	Unsat.
P064064	Mine Township Services Project	6/20/2000	12/31/2004	38.0	Investment								Sat.	Sat.
	Percentage Total			*3.9*										
	Total			*71.0*										
	GRAND TOTAL			1,837.4										

As of November 2001

N/A - Not Assigned

Source OED Database and World Bank Business Warehouse.

Table R.7: Zambia - Economic and Sector Works

Title	Date	No.
Board Report		
Zambia - Preliminary Document on the Initiative for Heavily Indebted Poor Countries (HIPC)	07/20/00	21442
Country Assistance Strategy Documents		
Zambia - Country Assistance Strategy	06/25/96	15761
Zambia - Country Assistance Strategy	08/13/99	19582
Zambia - Country Assistance Strategy Public Information Notice (CPIN)	11/17/99	PIN25
Zambia - Country Assistance Strategy	11/17/99	19889
Department Working Paper		
Participation in Poverty Assessments	06/01/95	18178
Participation in Social Funds	07/01/95	18180
Regulation of Petroleum Product Pricing in Africa - a Proposed System Based on Studies of Four Sub-Saharan Countries	08/01/96	17608
Constraints and Innovations in Training Policy Reform in Zambia	10/01/98	19782
The Voice of the Farmer in Agricultural Extension - a Review of Beneficiary Assessments of Agricultural Extrension and an Inquiry into their Potential as a Management Tool	11/18/99	22305
Economic Reports		
Zambia - Public Expenditure Review (Vol.1)	12/01/92	11420
Zambia - Public Expenditure Review (Vol 2)	12/01/92	11420
Zambia - Prospects for Sustainable and Equitable Growth	08/23/93	11570
Zambia - Prospects for Sustainable Growth : 1995-2005	08/01/96	15477
World Bank Institute Paper		
Education in a Declining Economy · the Case of Zambia, 1975-1985	03/01/91	9532
The Evaluation of Public Expenditure in Africa	12/01/96	16270
Sustainable Health Care Financing in Southern Africa : Papers from an EDI Health Policy Seminar Held in Johnannesburg, South Africa, June 1996	05/01/98	17908
Sector Reports		
Zambia - Urban Household Energy Strategy	08/01/90	ESM121
Zambia - Agricultural Sector Strategy . Issues and Options	01/20/92	9517
Zambia - Financial Performance of the Government-Owned Transport Sector	11/01/92	10667
SADC Region - Special Programme for African Agricultural Research (SPAAR) Information System	09/01/94	13926
Zambia - Poverty Assessment (Vol 1)	11/10/94	12985
Zambia - Poverty Assessment (Vol.2)	11/10/94	12985
Zambia - Poverty Assessment (Vol.5)	11/10/94	12985
Zambia - Poverty Assessment (Vol 4)	11/10/94	12985
Zambia - Poverty Assessment (Vol.3)	11/10/94	12985
The Impact of Female Schooling on Fertility and Contraceptive Use : a Study of Fourteen sub-Saharan Countries	02/01/95	LSM110

Title	Date	No.
Confronting Crisis : A Summary of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities	03/01/96	15462
Zambia - Mine Township Services Project Environmental Assessment (Vol 1)	01/01/00	E321
Zambia - Mine Township Services Project Environmental Assessment (Vol 2)	01/01/00	E321
Zambia - Railway Restructuring Project . Environmental Assessment	04/01/00	E391
Zambia - Social Investment Fund Project : Environmental Impact Study and Guidelines	07/06/00	E368
Operation Evaluation Department Papers		
Industrial Sector Reorientation in East Africa · The Experience in Kenya, Malawi, Tanzania and Zambia	04/01/94	12922
Bank Lending for African Transport Corridors : An OED Review	05/31/94	13099
Zambia - Country Assistance Review	06/03/96	15675
Zambia Country Assistance Review : Turning an Economy Around	03/01/97	16415
Policy Research Working Paper		
Parallel Markets, the Foreign Exchange Auction, and Exchange Rate Unification in Zambia	05/01/92	WPS909
Administrative Charges in Pensions in Chile, Malaysia, Zambia, and the United States	10/01/94	WPS1372
A Typology of Foreign Auction Markets in sub-Saharan Africa	12/01/94	WPS1395
Foreign Exchange Auction Markets in sub-Saharan Africa : Dynamic Models for Auction Exchange Rates	12/01/94	WPS1396
Reforming Pensions in Zambia · An Analysis of Existing Schemes and Options for Reform	01/01/97	WPS1716
The Economic Analysis of Sector Investment Programs	09/01/98	WPS1973
Why Liberalization Alone has not Improved Agricultural Productivity in Zambia . the Role of Asset Ownership and Working Capital Constraints	03/01/00	WPS2302
Zambia - Interim Poverty Reduction Strategy Paper and Assessment	07/12/00	21183
Proceeding and Publication		
Africa's Management in the 1990s And beyond : Reconciling Indigenous and Transplanted Institutions	01/01/96	15306
Proceedings of the World Bank Sub-Saharan Africa Water Resources Technical Workshop Nairobi, Kenya	02/15/96	21032
Safety Net Programs and Poverty Reduction : Lessons from Cross-Country Experience	03/01/97	16560
Can the Poor Influence Policy? Participatory Poverty Assessments in the Developing World	02/01/98	19083
Privatization in Africa	04/01/98	17972
Vocational Education and Training Reform : Matching Skills to Markets and Budgets	03/01/00	20384
Reforming Business-Related Laws to Promote Private Sector Development . the World Bank Experience in Africa	04/01/00	20377
Education and health in Sub-Saharan Africa · A Review of Sector-Wide Approaches	01/01/01	21905
Aid and Reform in Africa	04/01/01	22118
Staff Working Paper		
Zambia - Public Investment Program	04/01/90	8721
Agricultural Research in Southern Africa : a Framework for Action - Summary	12/01/93	13686
Staff Loss and Retention at Selected African Universities : A Synthesis Report	09/01/94	13661
A Participative Approach to Preparing Donor Assisted Agriculture Programs in Zambia	11/01/94	13949
Social Funds : Strengths, Weaknesses, and Conditions for Success	01/01/95	20840

Title	Date	No.
Household Responses to Poverty and Vulnerability - volume 4 Confronting Crisis in Chawama, Lusaka, Zambia	03/01/97	16434
Perspectives on Indigenous Knowledge Systems in Southern Africa	04/01/98	20359
CARE Peri-Urban Lusaka Small Enterprise (PULSE) project : Case Study of a Microfinance Scheme	04/01/98	21079
Credit Management Services Limited - Zambia . Aase Study of a Microfinance Scheme	05/01/98	20786
Promoting Regional Power Trade - the Southern African Power Pool	06/01/98	18347
Poverty and Environment Evidence of Links and Integration Into the Country Assistance Strategy Process	01/01/99	20360
Child Labor and Schooling in Africa : A Comparative Study	07/01/99	20456
Defier le mal qui nous defie - comprendre et amplifier la riposte des universites africaines au VIH/SIDA	03/01/01	22149
World Bank Discussion and Technical Paper		
Implementing Educational Policies in Zambia	07/01/90	WDP90
Assessing Sector Institutions : Lessons of Experience from Zambia's Education Sector	09/01/95	WDP297
Transport and the Village : Findings from African Village-Level Travel and Transport Surveys and Related Studies	10/01/96	WDP344
Structural Aspects of Manufacturing in sub-Saharan Africa : Findings from a Seven Country Enterprise Survey	10/01/96	WDP346
Sector Investment Programs in Africa : Issues and Experience	09/01/97	WTP374
Listening to Farmers : Participatory Assessment of Policy Reform in Zambia's Agricultural Sector	09/01/97	WTP375
The Impact of Drought on sub-Saharan African Economies - A Preliminary Examination	03/01/98	WTP401
International Watercourses - Enhancing Cooperation and Managing Conflict - Proceedings of a World Bank Seminar	07/01/98	WTP414

Source: The ImageBank.

Table R.8: Zambia - Efficiency of Assistance Program Cost, FY91-95 and FY96-01

A: US$ per task

Countries	Preparation Cost (per approved project)		Supervision Cost (per approved project)		Cost per Scheduled ESW Report	
	US$(000's)		US$(000's)		US$(000's)	
	FY91-95	FY96-01	FY91-95	FY96-01	FY91-95	FY96-01
Zambia	**411**	**403**	**56**	**94**	**316**	**604**
Zimbabwe	582	868	81	78	165	290
Uganda	449	170	69	35	364	133
Burkina Faso	333	621	64	95	222	356
Mongolia	455	265	18	48	225	218
Nicaragua	389	236	69	63	295	297
Sri Lanka	604	495	47	95	223	253
Region/Bankwide						
AFR	478	467	65	84	323	382
Bankwide	623	486	72	93	394	393

B: US$ per million US$ of commitment, and average project size

Countries	Preparation cost (per million US$ of approved commitment)		Supervision Costs (per million US$ of commitment in projects under active supervision)		ESW Cost (per million US$ of approved Commitment)		Average project size	
	US$		US$		US$		US$m	
	FY91-95	FY96-00	FY91-95	FY96-00	FY91-95	FY96-00	FY91-95	FY96-00
Zambia	**5,925**	**6,094**	**3,184**	**8,171**	**2,275**	**1,142**	**74**	**66**
Zimbabwe	6,093	23,820	5,360	17,194	2,964	3,993	94	36
Uganda	7,707	3,661	7,730	4,682	2,625	1,299	59	46
Burkina Faso	11,753	18,418	13,688	22,988	2,235	5,280	30	34
Mongolia	21,419	14,150	13,336	10,346	10,566	6,979	21	19
Nicaragua	7,922	6,860	2,609	6,147	4,289	1,814	56	34
Sri Lanka	12,547	15,318	9,458	17,870	7,321	7,837	42	32
Region/Bankwide								
AFR	10,839	10,724	10,849	13,413	6,538	4,505	43	44
Bankwide	6,507	5,602	4,906	6,599	3,797	2,837	95	87

As of October 2001.

Note Computation are based on data generated from Business Warehouse.

Source The World Bank Business Warehouse

C: Zambia - Efficiency of Assistance Program Cost on Investment and Adjustment, FY91-95 and FY96-01

Countries		US$ per million US$ of Project: Preparation Cost (per approved project)		US$ per million US$ of Project: Supervision Cost (per approved project)		US$ per million US$ of commitment: Preparation cost (per million US$ of approved commitment)		US$ per million US$ of commitment: Supervision Costs (per million US$ of commitment in projects under active supervision)	
		US$(000's)		US$(000's)		US$		US$	
		FY91-95	FY96-01	FY91-95	FY96-01	FY91-95	FY96-01	FY91-95	FY96-01
Country									
Zambia	**Total**	**411**	**403**	**56**	**94**	**5,925**	**6,094**	**3,184**	**8,171**
	Adjustment	**490**	**386**	**72**	**108**	**2,586**	**2,592**	**945**	**1,269**
	Investment	**385**	**409**	**53**	**93**	**13,133**	**10,594**	**8,016**	**17,039**
Zimbabwe*	Total	582	868	81	74	6,093	21,908	5,360	16,242
	Adjustment	325	0	70	0	2,169	0	1,159	0
	Investment	684	868	83	74	8,785	21,908	8,785	16,242
Region									
AFR	Total	478	467	65	84	10,839	10,724	10,849	13,413
	Adjustment	520	400	96	97	4,814	3,979	3,822	2,448
	Investment	471	478	62	83	14,351	13,942	14,945	18,645

As November 2001

*The average is only for FY1996-2000

Source. The World Bank Business Warehouse

D: Zambia - Cost of Assistance Program

	Total Costs[a]		Net Commitment of Projects rated Satisfactory[b]		Commitment of Non-risky, Active Projects[c]		Cost (in US$) per million US$ of Commitment (Evaluated + Active), rated Satisfactory	
	1991-95 US$m	1996-01 US$m	1991-95 US$m	1996-01 US$m	End-FY01 US$m	End-FY01 US$m	1991-95 US$	1996-01 US$
Zambia	**14**	**18**	**461**	**558**	**442**	**538**	**15,111**	**16,178**
Burkina Faso	11	13	166	298	331	282	22,102	22,444
Zimbabwee	10	11	507	434	349	200	11,328	16,693
Nicaragua	5	15	0	182	215	466	23,723	22,866
Mongolia	3	5	30	34	55	190	38,531	21,371
Sri Lanka	18	18	436	434	486	281	19,309	24,690
Uganda	20	30	292	646	463	1,064	26,518	17,621
AFR	445	472	8,382	9,870	8,686	12,083	26,091	21,505
Bankwide	1,695	1,674	58,934	96,527	86,771	93,292	11,634	8,821

[a] Total cost include cost of project preparation, portfolio supervision, dropped projects and ESWs.

[b] Net commitment of evaluated projects with marginally or satisfactory or better outcome rating by OED

[c] Commitment of ongoing projects rated by QAG as "non-risky "

Note Data computation were generated from Business Warehouse As of October 2001.

Sources · The World Bank Business Warehouse and OED database.

Table R.9: Zambia - Multilateral and Bilateral Donors

Donors	Average net receipts 1980-1990	Average net receipts 1991-1995	Average net receipts 1996-1998	1996	1997	1998
Bilateral	353.37	548.34	350.23	406.6	372.2	271.9
Multilateral	92.17	492.82	151.51	200.7	196.1	57.8
AfDB	14.19	-2.65	-11.86	-4.1	-15.4	-16.1
IBRD	4.16	-79.06	-34.22	-47.1	-34.5	-21.1
IDA	20.76	190.03	127.73	178.0	165.6	39.6
Others	14.09	0.00	-0.36	0.0	-0.1	-1.0
Total donors	459.63	1041.16	501.38	607.3	568.1	328.7
Memo item: GDP at market prices (current US$ million)				3286.3	3932.3	3351.6

As of November 2001.
Source: OECD.

Table R.10: Zambia - Portfolio Performance Indicators, FY93-01

As of October 2001

	Zambia									Zimbabwe	Burkina Faso	AFR	Bankwide
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2001	2001	2001	2001
No. of Projects Under Supervision	13	14	16	17	17	14	14	14	16	6	7	373	1,578
Projects at Risk (No.)	1	8	3	4	4	3	5	2	5	2	1	56	236
Projects at Risk (%)	8	57	19	24	24	21	36	14	31	33	14	15	15
Actual Problem Projects (No.)	1	2	..	2	3	2	3	1	5	2	1	49	185
Actual Problem Projects (%)	8	14	..	12	18	14	21	7	31	33	14	13	12
for Implementation	8	14	..	12	18	14	21	7	19	17	14	11	9
for Development Objectives	8	7	..	.	6	..	14	7	25	33	14	9	7
Net Commitment Amount ($m)	518	712	659	670	682	516	676	715	780	271	186	13393	117509
Commitment at Risk ($m)	194	244	217	116	156	123	239	131	242	71	5	1664	18934
Commitment at Risk (%)	54	34	3	17	23	24	35	18	31	26	3	12	16
Realism Index (%)	14	25	..	50	75	67	60	50	100	100	100	83	78
Proactivity Index (%)	.	..	..	..	.	33	50	67	..	..	100	88	84
Average Project Age (yrs)	3.5	2 9	2.7	3.4	3.3	3.3	3.3	2.7	2.9	3.1	4 1	3.4	3.4
Disbursement Ratio (%)	26	22	14	19	20	32	23	23	23	23	29	22	13

* As of October 2001

Source: Business Warehouse - The World Bank.

<u>Percent Proactivity</u>

Measures the proportion of projects rated as actual problem projects twelve months earlier which have been upgraded, restructured, suspended, or partially or fully cancelled. In order to have 100 percent proactivity, action must be taken on a project. Data is not available prior FY97. Calculated as follows (Proactivity action)/ Problem project 12 months ago)*100.

<u>Realism index</u>

Measures the ratio of actual problem projects to total actual and protential problem projects. In order to have 100 percent realism, the potential problem projects need to be given some attention. The first question to ask when a project has three or more flags, is whether the project really deserves the satisfactory IP and DO ratings that have been given to it. If after consultationwith CMU and SMU managment the Task Team decides that the project does deserve satisfacotry IP and DO ratings and that the ratings will no be downgraded, then the Task Team could intensify project supervision on the issues that are flagged, so that over time performance on those issues improves In some cases, a project will have two or even three flags because of country or subsector risks, even though project implementation is not satisfactory and the development objectives are being met. In these cases, the Country Director may decide to request the use of a golden flag. Data is not abailable prior to FY89 Calculated as follows. ((At Risk Actual Problem(IP/DO/GO))/(At Risk, no of Projects))*100

Table R.11: Millennium Development Goals

Goals/Indicators	1990	1994-96**	1997-99**	1996-99**					
	Zambia	Zambia	Zambia	Burkina	Mongolia	Nicaragua	Sri Lanka	Uganda	Zimbabwe
Goal 1. Reduce share of people in extreme poverty by half from 1990 to 2015									
Indicator: Poverty Incidence: people living on less than $2 a day (%)	98.1	n.a.	87.4	85.8[a]	50.0[a]		45.5[a]		64.2[a]
Goal 2. Enroll all children in primary school by 2015									
Indicator: School enrollment, primary (% net)	83.7	70.4	66.2	32.3	84.5	78.8	99.9	..	93.4
Goal 3. Make progress towards gender equality and empowering women, by eliminating gender disparities in primary and secondary education by 2005									
Indicator: Ratio of literate females to literate males (15-24 year olds)	0.9	0.9	0.9	0.5	0.8	1.1	1.0	0.8	1.0
Goal 4. Reduce infant/child mortality rates by 2/3 from 1990 to 2015									
Indicator: Mortality rate, infant (per 1,000 live births)	107.3	109.0	113.3	104.5	51.2	36.3	17.3	99.8	70.8
Goal 5. Reduce maternal mortality ratios by 3/4 from 1990 to 2015									
Indicator: Maternal mortality ratio (per 100,000 live births)	..	650.0	..	..	150.0	15.0	60.0	..	
Goal 6. Provide access for all who need reproductive health services by 2015									
Indicator: Contraceptive prevalence (% of women 15-49)	15.2*	25.9	26.0	12.0	60.0	60.4	..	15	
Goal 7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015									
Indicator a. Biodiversity: protected land area	..	8.6	..	10.5	10.3	7.4	13.3	9.6	7.9
Indicator b. Energy efficiency: GDP per unit of energy use	1.1	1.2	1.2	..	..	4.0	7.6	..	3.1
Indicator c. CO2 emissions, industrial (kg per PPP$ of GDP)	0.4	0.4	..	0.1	2.4	0.3	0.1	0.0	0.6

Note. data are for latest available year; those with * are for 1992, the earliest available data point.

**Data for latest available year within the period

[a] Latest year available since 1990

As of September 2001

Source World Bank SIMA database

Table R.12: Bank's Senior Management, Africa Region and Zambia, CY91-01

Year	*Vice President*	*Country Director*	*Chief/Resident Representative*
1991	Edward V. K. Jaycox	Stephen M. Denning	John A. Innes
1992	Edward V. K. Jaycox	Stephen M. Denning	John A. Innes
1993	Edward V. K. Jaycox	Stephen M. Denning	Fernando Mendoza
1994	Edward V. K. Jaycox	Stephen M. Denning	Gedion Nkojo
1995	Edward V. K. Jaycox	Katherine Marshall	Gedion Nkojo
1996	Callisto E. Madavo	Phyllis Pomerantz	Gedion Nkojo
1997	Callisto E. Madavo	Phyllis Pomerantz	Gedion Nkojo
1998	Callisto E. Madavo	Phyllis Pomerantz	Gedion Nkojo
1999	Callisto E. Madavo	Phyllis Pomerantz	Laurence Clarke
2000	Callisto E. Madavo	Yaw Ansu	Laurence Clarke
2001	Callisto E. Madavo	Yaw Ansu	Laurence Clarke

As of October 2001

Source: The World Bank Group Directory, 1990-2001

Annex I

Zambia Country Assistance Review, June 1996 (Report No. 15675)

Conclusions and Recommendations

On Key Strategic Issues

Privatization and Diversification Need More Attention

1. Liberalization, privatization and diversification are the three prongs of the strategy for renewed growth. But only in the first has substantial progress been made. Recent progress (in 1995) in privatization is a good step forward but much more is needed. And diversification requires a substantial increase in private investment which has not yet taken place. A careful review of the remaining obstacles to this private sector development should be a major element of the Bank's strategy.

Growth Requires Investment in Physical and Social Infrastructure

2. Achieving positive GDP growth in Zambia and checking the worsening poverty requires continued investment in physical and social infrastructure. These investments will rely on Bank, and other donors' support. The issue is that the mix of instruments and also the total of Bank/IDA financing, given the level of support from other donors, be consistent with the debt service requirement and the investment implications of the growth target.

Coordination and Consistency of Loan Conditions at Macro and Micro Levels Essential

3. The coordination between the macroeconomic conditions of structural adjustment operations and sectoral adjustment/investment projects should concern not only the content but also the pace and sequence of measures. This applies especially to measures affecting pricing policies of outputs and inputs and the removal of subsidies. All three affect the profitability of activities and hence the response of entrepreneurs to opportunities for diversification.

Need to Develop Entrepreneurs for a Vibrant Private Sector

4. Another serious constraint to private sector development in Zambia is, increasingly, the entrepreneurship, managerial abilities, and skills of the Zambian people. Where are the entrepreneurs? Among the many factors which impede the development of entrepreneurship and skills in people are the following: declining life expectancy; the burden of work women are already bearing; the traditional barriers to women's access to credit and land ownership; the low level of personal saving due to poverty; the inability of the poor to risk their income sources (the low risk route out of the ghetto, notably the public service, does not lead to entrepreneurship); the high percentage of youth as heads

of households due to early deaths of parents; and a lack of knowledge of alternative lines of production. The Bank's CAS should address this set of issues and propose specific measures.

Institutions to Serve the Private Sector Must be Developed

5. Institutional development in the public sector is a necessary complement to private sector development. There is a need to specify the role of the public sector, to identify the required complement of private sector service and support institutions, and to provide for meeting this requirement. Institutional development has had limited attention during the last fifteen years, with the result that the usual assessment in Zambia is that most ministries and agencies of government are simply not adequately staffed and supplied with the inputs to discharge their responsibilities effectively. Institutional development is a slow process and should now be given higher priority than hitherto. While privatization is proceeding the government can retain suitable officials in the public service, and re-train them for work in areas where institutional capacity is weak.

Bilateral Donors Must be Kept Engaged in Zambia's Development

6. Bilateral donors have been an important source of support to Zambia's development, and they will be indispensable to Zambia's future, especially as commercial lending sources have dried up. The issue is how to keep donors engaged now that the geopolitical reasons that justified their help in the past are no longer valid and may not be valid in the future. The answer seems to lie in fully involving donors in decisions on objectives and in the design of arrangements for the most effective use of the assistance they will provide. It may also lie partly in being mindful that the political/public relations benefits may be important to politicians in donor countries, hence the need to allow bilateral donors to play the lead donor role in as many sectors as possible.

The Political Implications of Reform Must be Anticipated

7. The political reaction to reform should be carefully studied and anticipated when planning the Bank's assistance strategy. The Bank's approach has often been to focus on the removal of distortions without much thought to the fact that behind each distortion lies a group of beneficiaries who may be expected to oppose the reform. In Zambia, a wide range of subsidies (e.g., on maize-meal, fertilizer) benefit the poor who comprise the majority of the population. The effect of a reform that affects such a large group of people has made the adjustment program politically difficult. In order to avoid a backlash some compensatory benefit with less distortionary impact should be considered. This approach will also favor the sustainability of reforms and investment programs. The reforms should also be accompanied by a suitable dialogue to foster understanding of the rationale behind them. In the absence of these and/or other means of assuaging those affected, there is increasing risk of reversal, particularly in an election year.

Careful Assessment of Options and Risks is Crucial in Formulating Strategy

8. In laying out a country and Bank strategy a "one option" approach is inadvisable. The Bank must be prepared to contemplate worse case and best case scenarios. The

assumption that donors will always close the financing gap is not only dangerous, it shuts off the search for alternatives.

Take measures to Mitigate the Negative Impact of Prolonged Suspensions of Disbursement

9. It has been seen that prolonged suspension of disbursements significantly compromise the efficacy of operations. The Zambia experience shows that arrangements can be devised to reduce the negative impact and even, at times, to reduce the duration of suspension.

More Effective Instruments

ESW

10. The recommendations on ESW are the following:

- ESW should be cognizant of, and sensitive to, the political implications of its economic and social policy recommendations.
- ESW should avoid excessive optimism in its assumptions and projections. Optimistic assumptions regarding copper prices led to a delay in adjustment efforts in the eighties. There is probably too much optimism in the nineties regarding growth and aid flows.
- More attention needs to be paid to the design of strategies for reducing the public sector deficit within the context of adjustment operations, both as regards timing of actions and the monitoring of implementation.
- The Bank should continue ESW even when arrears require the suspension of lending. Many ESW tasks were dropped after the suspension in May 1987, and the ESW agenda remained sparse for the next three years. This caused long lapses between updating memoranda on strategic sectors (e.g., agriculture and delayed re-start of operations).
- ESW for privatization needs to be strengthened. The lack of prior studies very likely has contributed to the slow pace of progress. Concerns about divestiture were not anticipated.
- Greater attention to sequencing of actions will also help to ensure the efficacy of advice and assistance (e.g., liberalization and infrastructure development should go hand in hand; cost recovery solutions to the fiscal problems should be consistent with social concerns; and the public investment plan should be fitted within an agreed medium term development plan).

Lending

11. The recommendations for lending are as follows:

- Adjustment lending should not be relied on to persuade an indecisive client to undertake a drawn-out reform agenda.
- In the Zambian context project success is likely to be favored by small size, appropriate and relatively unsophisticated technology, the inclusion of training

assistance, the linking of implementation authority and responsibility, and attention to improvement of complementary services (e.g., extension).

- In agriculture and the social sectors pilot projects should be tried whenever there is uncertainty regarding the information/experience basis for project design.
- The cost of disbursement suspensions is very high; few projects survive long interruptions in implementation. The Bank should examine the feasibility of shut-down strategies (e.g., timing, moth-balling, interim financing) that may minimize the extent to which a project is impaired by the suspension of disbursement.
- In aid coordination and debt management, the Bank should continue to provide assistance even when a suspension in lending is unavoidable.
- The new lending instrument of Sectoral Investment Project holds good promise but should be monitored carefully. Further attention should be given to full participation by donors and to avoid the impression of the Bank as a dominant player.

Resident Mission

12. The role of the Resident Mission should be further expanded, not only to reflect the general trend in the Bank's greater attention to results in the field, but also in the particular context of a program that relies on expanded aid coordination and sectoral investment programs. In the past, the Resident Mission has been understaffed and decisions have had to rely to heavily on missions from headquarters.

Annex II

Zambia's Political Landscape

1. In the 19th century, the territory that would become Zambia was established as the British Protectorate of Northern Rhodesia, and the British South Africa Company obtained monopoly mining rights over much of its copper-rich area. Northern Rhodesia remained predominantly a mining outpost for the empire, with a very small settler population relative to its neighbor, the colony of Southern Rhodesia (later, Zimbabwe).

2. In 1953, the British established the Federation of Southern and Northern Rhodesia and Nyasaland—but political and economic aspirations in the three territories were radically divergent, and the Federation was short-lived. By 1962, Northern Rhodesia succeeded in establishing majority rule, and by 1964 was declared the independent Republic of Zambia, with a coalition UNIP/ANC government led by Kenneth Kaunda. A year later, the minority-rule government of Southern Rhodesia made a Unilateral Declaration of Independence that would spark a fifteen-year civil war. The subsequent isolation of Southern Rhodesia—particularly the closure of trade and transport links—dramatically shaped Zambia's political and economic development.

3. UNIP was able to consolidate its power in 1973, with the establishment of the Second Republic as a one-party state under a powerful presidency. The Kaunda era would endure until 1991, with Zambia as a "front-line state" in the fight against apartheid. Economic policy continued to be a source of debate, but was influenced by pan-African socialist ideology. The other major influence of the time was the collapse in world copper prices. The subsequent decline of the nationalized mines, generally anemic economic performance and dissatisfaction with an increasingly centralized and unresponsive regime led to periodic unrest and failed coup attempts. As its economic fortunes declined, the country became increasingly dependent on foreign aid. By the 1980s, the country was under pressure from the international community to undertake structural reforms, but attempts at reform were repeatedly aborted through 1991.

4. With hyper-inflation, widespread rationing of basic goods and limited press and civil liberties, public dissatisfaction became overwhelming. The Movement for Multiparty Democracy (MMD) swept to power in general elections in 1991, under the leadership of Frederick Chiluba. Initially, the MMD government moved quickly on a market-oriented agenda of economic liberalization and privatization. In the second half of the decade, reforms became more complex, and early reformers left government in favor of those with strong party loyalty but less zeal for deepening reform. The 1996 election that returned MMD to power was viewed as flawed by national and international observers, and subsequent actions to suppress opposition activities and limit civil liberties were judged harshly by the international community. This had an important impact on aid flows in 1996–99 period. Today, with a decade of reforms behind them, Zambians have yet to see a sustained increase in per capita income. Thus, public dissatisfaction was high heading into presidential and parliamentary elections in December 2001. Debate over whether President Chiluba would run for a third term—requiring a change in the Constitution—shattered unity within MMD, and led to the formation of splinter

parties. With a highly-fragmented opposition, MMD narrowly regained the presidency with less than 30 percent of the popular vote, but fell short of a parliamentary majority.

Annex III

Development Effectiveness of World Bank Support for Agriculture and Rural Poverty Reduction

Summary Evaluation[1]

1. *High hopes at the beginning of the decade.* At the beginning of the 1990s Zambian agriculture was poised for rapid development and growth. The newly elected government had committed itself to continuing policies started in the late eighties by the previous government aimed at liberalizing agricultural markets. Despite two droughts and substantial transition problems resulting from abrupt and erratic market reform for maize cultivation and agricultural credit, growth in the agricultural sector over the decade was quite positive, contributing to a modest decline in rural poverty. However, urban poverty increased, and nationwide poverty remained extremely high in comparison with other countries in Sub-Saharan Africa.

The Bank's Products and Services

2. *Analytical and advisory services were satisfactory.* During the nineties the Bank completed a report on agricultural sector strategy (January 1992) and a poverty assessment (November 1994). The sector report was moderately satisfactory. It failed, however, to focus attention on the plight of small-scale farmers and their poverty. It also contained unrealistically high projections of the prospects for growth in agriculture, and was weak in its coverage of the institutional changes required to improve agricultural policy and services. The poverty assessment was relevant, comprehensive and high quality. It underlined the importance of rural development for poverty reduction as well as pointing to the need to focus increased attention on poverty reduction and HIV/AIDS in the Bank's operations. In addition, there was also a section on agriculture in the Country Economic Memorandum (1996) that was brief but relevant and of satisfactory quality. The Memorandum provided a frank analysis of the government's erratic agricultural price support and subsidy policies—policies that the government had vowed to eliminate earlier in the decade.

3. On balance, the Bank's analysis and advisory services during the second half of the nineties were satisfactory, based on substantial relevance and satisfactory quality. Their impact, however, was not always as far-reaching as was possible. For example, while the poverty assessment drew attention to the economic and social impact of HIV/AIDS, the Bank virtually ignored the issue in its assistance program until years later. In addition, as explained below, the implementation of policy changes in agriculture were not adequately pursued through the second half of the decade.

4. *Lending assistance was moderately unsatisfactory.* Three Bank-assisted agricultural projects were closed during the nineties. They focused on development of

[1] Based on Jack van Holst Pellekaan, 2001, Background Paper, "Zambia Country Assistance Evaluation: Rural Development and Poverty Reduction." OED, Washington, D.C.: World Bank.

the coffee industry, agricultural research and extension, and on private sector development including rural finance, rural roads, and agricultural market development. Their funding and activities were absorbed into the Agricultural Sector Investment Program (ASIP) in March 1995. ASIP became the Bank's flagship agricultural project, and is still under implementation. ASIP is a sector-wide, multi-donor assistance program costing $350 million with a $60 million credit from the Bank. This project was intended to bring agricultural policy, institutional initiatives and development investment assistance in agriculture and rural communities from 11 donors under one umbrella with coordination by the Ministry of Agriculture, Forestry and Fisheries (MAFF). It was seen as the first phase of longer-term program assistance from donors for the agricultural sector. While ASIP was relevant to the strategy of the Bank and other donors, and could potentially lead to substantial improvements in the efficiency with which the government and donors assisted the agricultural sector, it has so far failed to achieve most of its objectives.

5. The main problem faced by ASIP was that the necessary institutional capacity to implement the program was not established before approval. This capacity was not firmly in place until three years after approval. The Bank, which had been the government's main advisor during the preparation and appraisal of ASIP, seriously misjudged the time required for the government to complete the reorganization of the MAFF. While some ASIP project components such as the Rural Investment Fund that financed community-identified rural projects were implemented satisfactorily, a large proportion of both the total project and the Bank-financed components was not implemented satisfactorily. In the end, the major achievement of ASIP will probably be the eventual strengthening of MAFF. A second phase of ASIP is being planned. Whether a second phase can be successfully implemented will depend on the extent to which the MAFF is strengthened and can carry out its mandate.

Development Effectiveness

6. *Disappointing impact.* The gross domestic product from agriculture grew at an average rate of 4.4 percent per annum between 1991 and 2000, surpassing all other sectors of the economy. This growth reflected diversification among both large and small-scale farmers, as well as an increase (from a very low base) in agricultural exports. These private sector developments benefited from relative price changes resulting from liberalization, as well as less oppressive—albeit more erratic—state intervention. Unfortunately, Bank support for the agriculture sector in the second half of the nineties contributed little to this growth, and some policy reforms from the early nineties were not sustained. The Bank-assisted ASIP, which included agricultural support services, was ineffective through most of the late nineties, and poverty remained at extraordinarily high levels. In summary, the net impact of Bank assistance during the second half of the decade was judged as moderately unsatisfactory on the basis of counterfactuals reflecting what might have been achieved in the absence of Bank support for ASIP.

Attribution

7. *Performance of the Bank.* This evaluation concludes that the Bank's advice on macroeconomic and agricultural sector reform for the economy in the late eighties and

early nineties was relevant and made important contributions to Zambia's economic recovery that can be attributed to the Bank. On the other hand, the quality at entry of the mid-decade ASIP was unsatisfactory, and this is to a large extent attributable to the Bank's inadequate assessment of government's preparedness to tackle the reorganization and strengthening of the MAFF. In other words, the Bank misjudged the readiness for implementation of ASIP, and as a result caused considerable problems for itself, the government and donors. Overall, a large shortfall exists between ASIP objectives and results. The evidence shows that there were no improvements in support services and credit for small-scale farmers. In addition, subsidies for agricultural inputs for maize production under the pretext of assisting poor and remote farmers were reintroduced during the second half of the nineties without any measurable net benefits. These shortcomings were to a large extent attributable to the Bank's actions or inaction regarding the policy dialogue and implementation performance by the government. Therefore, this evaluation judges Bank performance in supporting the agriculture sector and rural development to be unsatisfactory.

Overall Evaluation

8. On the basis of its products and services, development effectiveness, and the extent to which any positive changes can be attributed to the actions of the Bank, this paper evaluates the overall contribution of the Bank's program of support for agricultural development and poverty reduction in Zambia during the second half of the nineties as moderately unsatisfactory.

Annex IV

Development Effectiveness of World Bank Support to the Transport Sector

Summary Evaluation[2]

Sector Background

1. This summary covers transport projects active in the 1996–2000 period: the Transport Engineering and Technical Assistance Project (TETAP) approved in May 1993, the Road Sector Investment Program 1997–2002 (ROADSIP) approved in September 1997, and the Railway Restructuring Project approved in

2. October 2000. These three projects were approved after the economic reform process started in earnest in Zambia in 1991. Prior to TETAP approved in 1993, there was a lengthy period between 1978 and 1993 during which no new road projects was considered by the Bank in Zambia. All the earlier loans/credits (three road and railway projects each, starting in 1958) were closed before the 1996–2000 period. The Tanzania–Zambia Pipeline (Tazama) completed in 1968 is also included in the overall assessment as an important transport facility.

3. The dilapidated condition of Zambia's transport system at the time of approval of TETAP in 1993 reflected the long period of inactivity both by the Bank and the Government in the sector: the condition of the transport infrastructure had gradually deteriorated reaching its worst condition around 1993/94. It has been a gradual and long process of improvement since then, a process which is still only halfway through with the need to make both the institutional and physical improvements sustainable. The purpose of this background paper is to analyze the developments in the 1996–2000 period and identify what has been achieved and what the existing constraints and issues are, which still hamper the achievements of the objectives set.

Bank Strategy in Transport

4. Bank strategy in the transport sector has since 1996 focused on lending operations for the roads subsector and railways. The need for the Government to complete an overall transport policy and have an institutional capacity within the Ministry of Communications and Transport (MCT) to analyze transport sector issues has been included as a requirement in all the three lending operations active in the 1996–2000 period. However, the lack of progress in this area has not been an impediment for lending operations in the roads and railways sectors to proceed. The implications of this are addressed below.

5. The Bank's strategy in the transport sector has thus focused on important objectives within roads and railways sub-sectors. For **the roads sub-sector** the strategy

[2] Based on Ossi Rahkonen, 2001, Background Report, "Zambia Country Assistance Evaluation. Transport Sector." OED, Washington, D.C.: World Bank.

has built on the overall objectives of the Road Maintenance Initiative (RMI) which, as part of the Sub-Saharan Africa Transport Policy Program (SSATP), has been a key initiative for the Bank's lending for roads in Sub-Saharan Africa during the 1990s. The overall objective of RMI is to commercialize road management, bring the roads into the market place, charge for their use on a fee-for-service basis, and manage them as any other business. Since roads are a public monopoly and will remain in government ownership following four building blocks are needed for sustainable reforms in the sub-sector:

i. *Ownership*: involve road users in road management to get public support for adequate funding for affordable standards, achievement of efficiency by oversight of agencies with monopoly power.
ii. *Financing*: secure adequate and stable flow of funds for maintenance and road management, based on user charges (no support of new construction until maintenance and management is fully funded—does not exclude necessary rehabilitation/reconstruction to achieve required maintenance standards).
iii. *Responsibilities*: ensure that there exists clear definition, separation and assignment of responsibilities with matching authority and performance targets.
iv. *Management*: establish road management agencies that are organized and run according to sound business practices to obtain value for the money.

6. The more detailed objectives of ROADSIP are based on these overall objectives. There are of course additional objectives such as enhancing local participation and development of domestic construction industry, improvements in road safety and axle load control, etc.

7. The objectives for the railways are similar: the improvement of the efficiency of rail operations through improved management and accountability. The model how this can be achieved is different from the roads sub-sector as the railways earn revenue and can be operated on self financing basis without the need to continue as a parastatal agency, which has not been a workable solution in any of the African countries. The model, which has also been advanced under the TSSAP and applied in a few other neighboring countries is private concessioning in which the Government retains ownership, but a private concessionaire has the right to invest and operate the railway over a certain longer time period with all the incentives which derive from improved efficiency.

Development Effectiveness

8. The overall assessment of development effectiveness in the sector is considered moderately satisfactory. The most significant shortfall on the side of the Bank has been the insufficient recognition of Zambia's transport/logistics/trade facilitation needs as a land-locked country with significant transport needs resulting both from its mining/ agriculture based exports and imports. These are not only needed for private sector consumption, but to support the export industries (in terms of inputs of energy and raw materials for the copper extracting and processing). Transport and trade facilitation is significantly more important for landlocked than other countries, partly because they are

dependant on transit through other countries, but also because land transport distances are frequently much longer.

9. In respect to ROADSIP, there are serious questions regarding institutional impact and sustainability of the reform efforts, in spite of the success achieved since 1997 in improving the condition of the main, paved road network. The institutional setup in the roads sub-sector is unclear with overlapping functions and has not been endorsed by the Government. The National Roads Board (NRB) has been established primarily to manage and ensure adequate funding of the Road Fund (RF), but neither has a full legal status. Further, while the principle of funding of road maintenance and rehabilitation by road users through fuel and other levies has been accepted and a mechanism for transferring proceeds to the RF has been established, there is an increasing shortfall in these funds being passed on to RF. There seem not be a full agreement that **all earmarked funds** should be transferred. This has resulted in a cumbersome fund transfer mechanism that allows funds to be diverted by the Treasury for other purposes. While this situation is the responsibility of Government, the Bank probably should have insisted on legal covenants for both the institutional arrangements and the transfer mechanism for the RF fuel levy collections.

10. An additional issue is that the NRB has been given executive functions for implementation of ROADSIP, and this probably should have been retained by line ministries and agencies. NRB has at present spread its resources too thin and is not able to pay full attention to its primary function, which is to secure funding for the RF. Furthermore, NRB's role as an executing agency for ROADSIP is overlapping with the Roads Department of the Ministry for Works and Supply as well as the Department of Infrastructure and Support Services of the Ministry of Local Government and Housing. Their representatives are members of NRB, but have no vote. The existing agencies should be streamlined through establishment of a Highway Agency/Authority for the main roads, while responsibility for local roads should be with district and urban councils.

11. The borrower has not fulfilled all prior agreements and understandings under TETAP and ROADSIP, although it would have been the obligation of the Bank to draw up credit agreements to include realistic legal covenants with binding consequences. In retrospect, it is possible that the ROADSIP was appraised based on excessively high traffic and economic growth estimates: appraisal estimates for fuel and other road user levies are substantially higher than actual collections, quite apart from the issue that not all the levies are transferred to the RF. Zambia may simply not be able to afford the level of road maintenance requirements estimated earlier. There may be a need to revisit these estimates again when more recent traffic data are available.

12. Government has not acted on many of the key issues within their responsibility, as outlined in the Mid-Term Review documents for ROADSIP. There should perhaps have been tighter legal covenants at the outset on issues such as the level and agreed levies to be transferred to the RF. The same observation applies to the Railway Restructuring Project. All the documents and specifications have been prepared and cleared at the agency level to invite private concessioning tenders, but have experienced lengthy delays at the Ministry/Cabinet level. Meanwhile, Zambian Railways, Ltd. (ZRL) remains

underutilized, and heavy transport is carried out by trucks, in many cases to the detriment of the road network due to heavy overloading.

Inadequate Attention to Transport Sector Work

13. Insufficient appreciation for Zambia's transport constraints as a landlocked country has resulted in inadequate attention to transport policy dialogue, intermodal issues and sector work. This lack of attention to critical intermodal transport needs has resulted in:

i. inadequate attention being paid to a situation in which the Tazama pipeline is out of operation, causing fuel and other refined products to be transported by heavy trucks at high cost from South Africa;
ii. in addition to fuel, raw material inputs to the copper mines and their outputs are being transported inefficiently by truck either from southern parts of Zambia or from neighboring countries to the Copperbelt (except for copper concentrate which is being exported by the Tazara railway through Dar es Salaam port in Tanzania);
iii. overloading of trucks which is causing serious damage to the roads and undermining the efforts of ROADSIP to create sustainable improvements in the condition of the road network;
iv. the Railway Restructuring Project may suffer from serious quality of entry issues as it has not sufficiently taken into account Tazara and the rail transit issues to the south of Zambia in designing the private concessioning component; the project would probably have needed a full assessment and agreement with Tazara, as well as with the other transit railways, before proceeding with the project;
v. the Bank might have done better to suggest a Transport and Trade Facilitation (TTF) project to adequately address intermodal and logistics issues, and insist on establishment not only of an analytical unit to undertake transport sector work and work out transport policy, but a strong Trade and Transport Facilitation Unit, to act not only as the executing agency for a possible TTF project, but also to keep the Government abreast of intermodal issues requiring immediate attention.

Lessons Learned

14. The discussion above indicates that it is important for any lending operation but, in particular, a sector-wide approach, that the following requirements are met:

i. A transport policy framework exists and a sector strategy is adopted, which is based on adequate analytic/sector work and is integrated into national strategy;
ii. Committed and continued leadership guide sector ministries and agencies;
iii. Government and external and domestic partners agree on key policies and goals;
iv. Medium-term and Annual Expenditure Frameworks are established, agreed upon and adhered to;
v. Government funding for program implementation is agreed upon and adhered to; and

vi. An institutional framework within the sector and sub-sectors is established and agreed to by Government and all partners to ensure efficiency and clarity in program implementation.

Annex V

Development Effectiveness of World Bank Support for the Health Sector

Summary Evaluation[3]

1. IDA contributed to the Health Sector Support Project (HSSP, FY93–02), an early and ambitious sector-wide approach based on the 1991 National Health Policy. The policy aimed to provide "equity of access to cost-effective health care as close to the family as possible"—a vision that has guided a decentralization strategy for basic health services for the past decade. The Bank is widely recognized as having played a critical role in development of the SWAP, providing technical advice and policy analysis. In retrospect, the institutional reform agenda was overly-ambitious, particularly in light of declining real resources and the rising HIV/AIDS pandemic—which called for an intensive, emergency campaign at a time when disease-specific, vertical programs were being dismantled in favor of integrated care. During the period under review, outcome indicators in the health sector were either deteriorating, or not measurable due to the breakdown and gradual restructuring of the health management information system between 1995–00. Standard indicators of health status—infant, child, maternal and adult mortality—all deteriorated, cutting more than a decade off of life expectancy. While this was largely due to HIV/AIDS and declining per capita income, it was compounded by declining service in key areas such as immunization coverage. Facilities-level data on health status, health service utilization and health financing were negligible—severely undermining the ability to monitor and evaluate impact during a period of substantive reforms, decentralization and introduction of cost recovery.

2. Progress under the sector-wide approach has been largely in areas of institutional development. This includes:

- Broad and relatively deep consensus on a vision and strategy that has kept health reform largely on course, despite the vagaries of political leadership at the MOH (six ministers during the 1994–01 period).
- Establishment of "autonomous" district and hospital boards (albeit politically appointed) with greater devolved decision-making responsibility than elsewhere in government. However, three quarters of the boards were dismissed following their first term in 1998, and the majority remain vacant today.
- Establishment of district health management teams, and significant capacity building for district-level planning, budgeting and managing of health service delivery.

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[3] Author: Ellen Goldstein, Lead Evaluation Officer, OEDCR, World Bank.

- Multi-donor support (not including IDA) for "district basket funding"—a rare example of pooled resources within a SWAP—that has succeeded in channeling both donor and budgetary resources to the district level. Public resources (donor and budget) going to the districts has risen from 40 to 60 percent of the total in recent years, supporting primary health care and first level hospital referral.

- More reliable distribution of standardized drug kits to rural health centers—although drug budgets are still centralized.

3. Major weaknesses and lacunae of the health SWAP include the following:

- Focus on the district level has tended to de-emphasize reform of critical central systems—such as drug supply and tertiary hospital care. Monthly "district basket meetings" have served as the chief donor coordination mechanism—but have only recently been renamed and broadened in scope to deal holistically with sector-wide health reforms.

- The process of defining and updating a medium-term expenditure framework faltered, making it difficult to get a clear picture of funding sources for expenditure priorities. As the dialogue between GRZ and donors ebbed and flowed, financing gaps emerged and remained unfilled, despite the availability of IDA as "donor of last resort." In the absence of a detailed sector expenditure framework and a process for ensuring full-funding of high priorities, IDA and other donor resources were used sub-optimally and disbursements lagged.

- The effort needed for institutional development and capacity building to implement the SWAP was severely underestimated, and this was reflected in inadequate resource allocation for these purposes as well as lengthy implementation delays. The decision to develop a Central Board of Health for policy implementation—a model adapted from high-income countries—was insufficiently analyzed in the Zambian institutional context, where its effectiveness is in question.

- Lack of progress at the national level on decentralization policy, civil service reform and public expenditure management has created obstacles to implementing planned health sector reforms.

4. Due to HIV/AIDS alone, health status indicators would have deteriorated regardless of progress in health system reform and service delivery. Looking more narrowly at the results of IDA-supported activities within the SWAP, outcomes of the IDA credit are deemed unsatisfactory, with major shortcomings in the achievement of most specific goals, negligible impact on institutional development and unlikely sustainability of net benefits. Over 90 percent of the credit was allocated to civil works, medical equipment and drug supplies—with the lion's share for civil works to be implemented in the 1995–98 period. However, MOH spent most of this period trying to build in-house capacity to design and supervise civil works (rather than outsourcing as in other technical ministries). In the end, only 39 of 100 planned primary health centers were rehabilitated, of which nearly half still lack electricity (from planned solar power).

Most are over-dimensioned, and are only now developing plans for routine maintenance. Planned rehabilitation of district hospitals was not undertaken, and MOH capacity has not been sustained. Procurement of equipment and drugs was slow and fraught with problems, including instances of misprocurement for ineligible expenditures. During the 1997–99 period, dialogue between MOH and the Bank deteriorated and supervision declined, such that the Bank did not play a leadership role in critical areas such as drug policy and human resources management. Lacking day-to-day technical representation in the field and not participating in the district basket, the Bank was considered by most donors to be "out-of-the-loop" and inclined to unexpected, but heavy-handed, interventions in the health sector. Finally, IDA resources were not channeled toward higher priority expenditure gaps, such as overcoming critical drug shortages or supporting HIV/AIDS prevention. At its original closing date in FY00, the credit was only half disbursed, and GRZ commitment to implementation was demonstrably weak. Considering the state of the dialogue and poor record on implementation, the Bank showed poor judgment in extending the closing date twice. Subsequent implementation performance bears this out, with little additional disbursement by end-FY01.

Annex VI

Development Effectiveness of World Bank Support for the Education Sector

Summary Evaluation[4]

Sector Background and Bank Involvement

1. The period 1996 to 2000 saw stagnation of the Zambian lower and middle basic (primary) education sub-sector in terms of growth and student achievement. Gross and net enrollment rates were static while geographic and gender imbalances persisted. Minor gains were made in the percentage of qualified teachers employed, while some measures of internal efficiency improved modestly. Quality remained low, with most grade 5 students performing at grade 2 level. Sector funding declined in real terms and this affected allocations to basic education. However, a notable achievement was the increase of basic education's share of the sector budget from 45 percent to 64 percent. The government was unable to consolidate the earlier promise of an enabling environment for educational development. Development effectiveness was undermined by the overall economic decline and delays in the implementation of important policy decisions on public sector restructuring and decentralization. Growing poverty adversely affected demand for basic education while HIV/AIDS eroded the sector's available human capital both quantitatively and qualitatively and produced inefficiencies in education delivery.

2. The World Bank's FY96 and FY99 Country Assistance Strategies (CASs) for Zambia demonstrate an increasing poverty focus and a growing role of basic education in poverty reduction. This was in response to a comprehensive poverty assessment produced in 1994. However, the Bank's response was less forceful than the situation warranted and a determined effort to address poverty systematically through basic education came only in the penultimate year of the period under review. Similarly, HIV/AIDS was targeted too late. The World Bank increased its share of IDA lending to education from 3 percent in 1991–95 to 4 percent in 1996–00 and changed from a project approach (Zambian Education Rehabilitation Project—ZERP) to a sector-wide approach (Basic Education Sub-sector Investment Program—BESSIP). The adoption of a SWAP has led to improved donor coordination and resource mobilization, clearer poverty focus, targeted institutional development, the development of local partnerships and, potentially, more accountability—although it is too early to assess outcomes.

Development Effectiveness of World Bank Support in Education

3. Development effectiveness of World Bank support from 1996 to 2000 in the education sector is judged as moderately unsatisfactory. This overall rating is based on the following summary evaluations.

[4] Based on Eileen Nkwanga, Background Report, "Zambia Country Assistance Evaluation: Education Sector Review." OED, Lusaka, Zambia, World Bank.

4. *Outcomes: moderately unsatisfactory.* The Bank's strategic objectives were substantially relevant to the CAS and the needs of the sector. The main objectives were to expand access, improve equity and upgrade quality of primary education. However, strategic relevance was undermined by insufficient attention to demand-side barriers to access and equity and inadequate poverty focus, resulting in modest effectiveness. Too little attention was accorded the training required to support quality-enhancing inputs, and measures to address the AIDS epidemic. The efficacy of the Bank-supported analytic services and policy dialogue was substantial. Comprehensive sector work from the mid-eighties onwards provided the foundation for lending and policy dialogue. Through lending, efficacy was modest with respect to increasing access, improving learning conditions, increasing management capacity and in arresting decline in education quality. Outcomes with respect to aid coordination and resource mobilization were negligible at the beginning of the review period. It improved during BESSIP preparation, with Bank resources helping to leverage some donor assistance for basic education that is being coordinated by Ministry of Education (MOE). Bank consultation with external partners has become more collegial and productive over the review period.

5. *Institutional development impact: modest.* Institutional development impact (IDI) under ZERP was substantial in respect of the Examinations Council of Zambia (ECZ) and Zambia Education Projects Implementation Unit (ZEPIU), and modest in the case of local management training. It was negligible in the case of the Ministry of Education (MOE) and related institutions. IDI was initially promising and had a modest influence on implementation progress and on aspects of sub-sector performance. However, because it did not incorporate the MOE its impact was limited. The three-pronged approach to ID under BESSIP holds promise of greater impact, as does the approach under the new TEVET Development Program (TDP).

6. *Sustainability: unlikely.* Sustainability of net benefits from ZERP was adversely affected by the weak institutional capacity of the MOE and its associated institutions and by failure to follow-up and reinforce earlier achievements. Communities are not maintaining peri-urban infrastructure, local management training is discontinued and examination reform has not received financial backing. Broader involvement of stakeholders, including communities and the private sector, under BESSIP and TDP augur well for improved sustainability in future.

7. *Bank and borrower performance.* The Bank's support for ZERP was based on appropriate analytic work and is consistent with the Government of Zambia's and CAS objectives. Quality at entry was satisfactory. Relevance would have been higher with a greater poverty focus and the inclusion of alternative methods for addressing access, equity, quality and poverty. Supervision under ZERP was unsatisfactory, but has improved under BESSIP. ZERP supervision team continuity was not high and relationships with the client erratic. The Bank did not ensure compliance with covenants germane to institution building, resource allocation and monitoring and evaluation that would have improved efficacy. Some performance indicators were tracked, but the monitoring and evaluation of sector indicators was weak. There was failure to ensure appropriate institutional capacity prior to ZERP, BESSIP and TSIPP implementation and, initially, to incorporate HIV/AIDS control into BESSIP. MOE was operating with weak institutional capacity that has not yet been adequately addressed. Added to this were the

unequal allocation of incentives and the variable performance of other ministries and units. Ministry of Finance was slow in allocating counterpart funds and these were under allocated. In the beginning, the Micro Projects Unit (MPU) under MOFED had no experience with school rehabilitation. As a result, there were implementation delays under ZERP and lapses in covenant compliance. The implementing agencies produced results that were below projected outcomes.

Lessons of Experience

8. There is need to build permanent capacity to implement programs and manage the sector within MOE and associated institutions in the interests of ownership and sustainability. Many of the problems in the education sector can be attributed to poor institutional capacity both quantitatively and qualitatively. The MOE does not have the capacity for data gathering and processing, policy development and strategic planning. Specialized implementation skills are scarce; as are the skills required to manage physical, human and financial resources. Furthermore, curriculum delivery is outmoded. It is evident from visiting the MOE that there are too few skilled personnel to distribute the work load equitably. Since institutions are weak local consultants and TA have assumed many of their functions. Analytic work relies heavily upon a few local consultants and donors. As a consequence there is little ownership and benefits cannot be sustained. BESSIP and TDP are focusing on some aspects of capacity building but this is scarcely enough to ensure the success of current programs and to implement essential sectoral reforms. The Bank and donors should focus their support on building individual and institutional capacity.

9. To ensure the effective commitment and involvement of communities there should be adequate consultation of communities on all aspects of Bank support. The civil works component of ZERP provides a valuable lesson in how to promote community involvement. The component was managed by the Micro-projects Unit. The peri-urban schools to be rehabilitated had been identified centrally prior to the project. MPU staff presented the communities with plans and asked for their collaboration. Several communities refused, and it was not until all were fully consulted that they agreed to contribute and suggest improvements to the original plans: for example, the inclusion of water and sanitation facilities. Meanwhile implementation was delayed. This lesson was applied in BESSIP, where communities identified their own projects as a result of thorough consultation prior to program effectiveness. The BESSIP rural civil works component had a head start on other components and is furthest advanced.

10. The Bank missed an opportunity to include HIV/AIDS in BESSIP as a separate component that would have increased visibility and attracted support. From the beginning of the development of BESSIP in 1994, the high incidence of HIV/AIDS and the need to address the pandemic featured prominently in discussions. When BESSIP was finally agreed, HIV/AIDS was included as one of several 'cross-cutting' issues. This meant that it shared priority with other concerns, and had no locus for intensifying activities. The tendency was to ignore HIV/AIDS and concentrate on other issues. The idea of a separate HIV/AIDS component in BESSIP was raised early on, but not acted upon. Within the Bank itself—and in the face of mounting evidence that HIV/AIDS prevalence was high and having a devastating effect on society—the issue was not given

the prominence and urgency it deserved. The 1996 CAS made only modest mention of the situation. The 1999 CAS flagged it as an independent issue and advocated the inclusion of specific HIV/AIDS-related actions in ongoing operations. As more evidence of the relationship between HIV/AIDS and education in Zambia accrued, MOE issued a policy statement on HIV/AIDS and appointed focal persons throughout the system. Toward the end of the decade, Bank management intensified its focus on HIV/AIDS. This commitment resulted in the inclusion of a freestanding HIV/AIDS component in BESSIP. The cooperating partners including the Bank will support the MOE's HIV/AIDS Strategic Plan. Although there are ongoing HIV/AIDS activities in educational institutions, more could have been done sooner if a separate component had been incorporated from inception.

Annex VII

Development Effectiveness of World Bank Support for Social Funds

Summary Evaluation[5]

Rationale

1. Ineffective development policies of the Zambian government during the 1970s and 1980s "resulted in economic decline and a serious deterioration of living standards, particularly among the poorest segments of society." At the end of the 1980s the government concluded that changes in policy were needed and at the beginning of the nineties the government launched a Social Action Plan (SAP) that encompassed three areas, namely policies to improve small-scale business environment and increased budget support for social sectors, longer term social development activities, and short-term immediate activities with immediate impact. The SAP was to be implemented as a complement to the Bank-assisted Economic Recovery Credit approved in FY86 and closed in FY91. The Bank supported the SAP by a series of projects to assist the poor.

Three Social Fund Credits

2. In FY91 the Bank approved the Social Recovery Project (SRP 1) that was designed to support the SAP by helping communities to construct small social infrastructure to cushion the poor against possible negative impacts of the Bank-assisted Economic Recovery Credit. In November 1994 the Poverty Assessment (PA) prepared by the Bank had emphasized, *inter alia*, the importance of sustaining the process of devolution of poverty-focused social programs to local community-based groups. Soon after the release of the PA the Bank approved the Second Social Recovery Project (FY95) that focused even more on the empowerment of community groups to develop their social infrastructure. This project also forged close relationships with and supported sectoral programs in education and roads. A third project (Zambia Social Investment Fund) was approved in May 2000 whose characteristics were similar to its predecessors but with even greater authority delegated to local authorities. All these projects were carried out by the government's Micro-projects Unit established with the assistance of the European Union for the implementation of the SAP.

Development Effectiveness

3. All three projects were relevant to the Bank's assistance strategy. They had a substantial impact on poor communities, although the benefits from SRP I were shared about equally between poor and non-poor communities. This distribution of benefits was changed in favor of poor communities in SRP II. On balance the outcome of these projects was satisfactory. Their institutional development impact, however, has been evaluated as modest because the institutional arrangements established to support implementation were on the whole only modestly successful, although there were

[5] Based on Van Holst Pellekaan, Jack, 2001, Background Note, "World Bank Assistance for Social Funds in Zambia." OED, Washington, D.C., World Bank.

significant advances at the district level from a low base. The sustainability of social funds in Zambia is uncertain because of the difficulty of ensuring future funding from the central government. An additional uncertainty is that, even if funds are available, the law providing for systematic administrative and fiscal decentralization—necessary to support community-driven development—has not yet been approved by the parliament.

4. The development effectiveness of these projects was rated as satisfactory based on their positive contribution to social development. Donors such as the European Union, NORAD and SIDA played important roles before and after the first Bank-assisted social fund project was approved. But it is fair to attribute a part of their success to the Bank.

Annex VIII

Development Effectiveness of World Bank Support for the Energy Sector

Summary Evaluation[6]

Sector Background and World Bank Involvement

1. In the period under review for this CAE, the Bank sponsored two energy projects, the Petroleum Rehabilitation Project (IDA $30 million out of $48 million, effective June 1996, cancelled November 2000) and the Power Rehabilitation Project (IDA $75 million out of $223 million, effective March 1999, closing date December 2002). These were primarily physical infrastructure rehabilitation projects, restoring rather than expanding supply capacity, but both also included components to further reform in the energy sector. The Government's National Energy Policy (1994) envisaged Zambia moving away from parastatal control of liquid fuels and electricity to bring in the private sector. The most tangible result for the sector as a whole has been the passing of Energy Regulatory Act (1995), which facilitated the establishment of the Energy Regulatory Board in 1997.

2. Little progress has otherwise been made in the petroleum sector, where upstream supply remains in state hands—the private oil companies were allowed to procure fuels (at very high cost, given the transport distances) only after a fire at the Indeni refinery put it out of operation for two years. In the power sector, a new Electricity Act passed in 1995 removed the statutory monopoly of ZESCO, but the privatization strategy for the sector is still being debated. An Office for Promoting Private Power Investment has been set up, with the intention of attracting private investors into major power projects, such as new hydro stations oriented to exploiting Zambia's comparative advantage in electricity exports.

Development Effectiveness

3. *Outcomes: highly unsatisfactory.* The petroleum project, which intended to rehabilitate the oil pipeline, strengthen the management of the operating company, Tazama, and contribute to sectoral restructuring to enhance competitiveness and efficiency, was highly relevant to the CAS objectives. Effectiveness and efficiency were negligible, however. The Bank set out to do something of importance, but failed in almost all dimensions, resulting in a highly unsatisfactory outcome rating for the cancelled credit. The power rehabilitation project is under implementation, so only its relevance has been rated. Despite the crucial importance of a functioning power sector to the economic prospects of the country, the relevance of the power project is rated substantial rather than high for several reasons. First, project design lacked any element that is directly poverty-focused, such as targeted expansion of urban electrification.

[6] Based on Peter Robinson, 2001, Background Note, "Zambia Country Assistance Evaluation: Energy Sector Lending." OED, Harare, Zimbabwe, World Bank.

Second, the emphasis was on assisting ZESCO to become commercialized, although the country should have moved immediately toward a strategy of unbundling and increased private sector participation in the electricity sector. Third, the project missed the opportunity to help develop a strategy to exploit Zambia's considerable potential to export electricity. The objectives of the failed petroleum project and acceleration of private sector involvement in ZESCO are being retrospectively addressed by the Bank via adjustment lending and debt relief (e.g., the Fiscal Sustainability Credit and the HIPC initiative).

4. *Institutional Development Impact: modest.* The most important institutional development at the national level was the establishment of the Energy Regulatory Board. Tazama and ZESCO have been strengthened modestly through upgrading of staff and skills—although the failure to redefine the institutional framework for private sector participation in the electricity sector is a weakness of project design. In the case of ZESCO, the skills and methods of work acquired in the power rehabilitation project are reported to be having positive spill-over effects elsewhere within the utility.

5. *Sustainability: unlikely.* Sustainability in the petroleum sector would have best been assured by the pipeline being converted for the importation of refined products and the Indeni refinery closed and used as a bulk terminal. This issue was not properly confronted at the design stage, nor, crucially after the May 1999 fire at Indeni provided an opportunity to change direction. The petroleum sector structure at the time the project was cancelled was not sustainable.

6. *Bank and borrower performance.* With respect to the petroleum sector credit, the Bank bears responsibility for insufficient analytic work, poor scheduling of interventions, and missing opportunities to advance policy reform. In particular, failing to press the point about savings to be achieved by converting to the importation of refined products after the fire at Indeni not just undermined the project goals of creating a more competitive and cost-efficient petroleum sector, but has undermined economic recovery in Zambia. On the borrower side, the Government was at fault in making commitments at the appraisal stage which it immediately failed to fulfill, only returning to renew these commitments when the situation had deteriorated and balance-of-payments support was put at risk, but even then with prevarication. The power sector rehabilitation project has been altogether more harmonious and well executed. The outcome upon completion is expected to be more positive.

Key Lessons

- Large-scale infrastructure rehabilitation should not proceed unless the main policy issues and private/public sector institutional framework is clear up-front.

- Given the Bank's primary mission of poverty reduction, opportunities should be sought in the design of all projects to include a component directly targeted at the poor. Through its international experience, the Bank is uniquely placed to inject new ideas in this area.

The use of adjustment lending to achieve sectoral goals is likely to produce the desired results only if there is a sectoral vehicle in place that allows technical issues to be properly analyzed, institutional strengthening to take place and ownership to be enhanced.

Annex IX

Development Effectiveness of World Bank Support for Urban Water Supply

Summary Evaluation[7]

Sector Background

1. Water sector reform was initiated in Zambia with the publication of a comprehensive *National Water Policy* in 1994. The passing of the *Water Supply and Sanitation Act* in 1997 paved the way for water and sanitation responsibilities in urban areas to be devolved from the Councils to 'commercialized utilities' (CUs) and for the establishment of a sector regulator. Unfortunately, far from being established with a 'clean slate', the CUs have been saddled with large debts and made to take on all of the staff complement of the council water departments. The downstream infrastructure (billing systems, consumer metering) to set up commercial systems is lacking and the CUs have anyway not been allowed to set tariffs at cost recovery levels. The weaknesses of the CUs severely limit the benefits to be derived from the Bank investments in the sector and threaten sustainability.

Bank Program

2. The two IDA credits in the sector are the Urban Restructuring & Water Supply Project [URWSP] ($33 million from IDA out of $46 million total over 6-year period 1996–01) and the Mine Township Services Project [MTSP] ($38 million project, almost all financed by IDA, over 5-year period 2000–04). URWSP objectives were to rehabilitate water and sewerage infrastructure in nine key urban areas, support pilot projects involving community-based approaches in peri-urban areas and contribute to broader institutional and financial reforms in the sector.

3. MTSP was considered necessary to facilitate the completion of the privatization of Zambia Consolidated Copper Mines. The project provides for water, sanitation and solid waste services in the mine township areas via a performance based management contract, rehabilitation of selected assets and introduction of cost reduction and demand management mechanisms. The final component of MTSP is provision to harmonize the longer-term arrangements between the commercialized utilities and the mine services company.

Development Effectiveness

4. *Outcomes: moderately satisfactory.* The physical infrastructure components of URWSP (upstream supply asset rehabilitation and infrastructure provision for community pilot projects) have been successfully completed, but proper use cannot be made of these as long as the CUs remain weak. The outcome of the project, taking into account

[7] Based on Peter Robinson, 2001, Background Note, "Zambia Country Assistance Evaluation: Urban Water Supply." OED, Harare, Zimbabwe, World Bank

relevance of the project objectives, effectiveness and efficiency in implementation, is rated as moderately satisfactory. In respect to relevance, the poverty-oriented pilot project and sector reform objectives were highly relevant, but this was offset by the main infrastructure investment component being restricted to upstream asset rehabilitation, with little attention to investments needed to permit demand management and facilitate revenue collection, or, indeed, to directly address poverty issues. The effectiveness of the project is modest, in that the rehabilitation has made only a limited contribution to ensuring reliable supply of water and sanitation services and the pilot projects, which were severely delayed, have produced rather disappointing results.

5. *Institutional development impact: modest.* The Bank's institutional development impact is assessed as being "modest." While it was always envisaged that other donors would be taking the lead in the reform process, the project design failed to provide any levers for the Bank to use to ensure that adequate institutional structures would be in place to operate and maintain the rehabilitated infrastructure. The excuse for poor project design (that the project was a response to an 'emergency' situation) has to be set against the reality that Bank projects inevitably take years to be approved and implemented and design should not therefore be compromised.

6. *Sustainability: unlikely.* Unless and until the constraints on the CUs are removed and they are given a proper mandate to operate in the manner intended (as *commercial* utilities), there can be no assurance of sustainability of the asset rehabilitation or the pilot demonstration project components.

7. *Bank and borrower performance.* Bank performance during implementation was thwarted by the problems in project design. Borrower performance was undermined by unnecessary delays in establishing institutions and by unwillingness to address the problems which are preventing the nascent CUs from operating satisfactorily.

Key Lessons

- The Bank's project loan procedures do not lend themselves to reacting effectively to this type of emergency situation. No short-cuts should be taken in project design, especially in respect to ensuring that adequate institutions will be in place to operate and maintain rehabilitated or new infrastructure.

- If supply agencies are to operate commercially, projects must include provision for investment in customer-level items that will permit demand management and facilitate revenue collection.

- When commercializing or privatizing formerly publicly-managed enterprises, every endeavor should be made to allow Zambian companies to submit bids, or be included through joint ventures.

- Taking the Bank's anti-poverty mission seriously would require much more emphasis to be given in urban projects to providing infrastructure services to the peri-urban zones of Zambia's urban settlements

Annex X

Sector-wide Approaches in Zambia: Adherence to CDF Principles and Development Effectiveness[8]

1. Since FY95, IDA support for sector-wide approaches (SWAPs) has been central to the Bank's strategy for poverty reduction in Zambia. The FY96 CAS states that, "The Bank is shifting its investment lending towards sector investment programs (SIPs). SIPs are designed to bring the Government and all major donors together under a common sector policy framework and medium-term investment program."[9] Zambia was an early innovator in adopting SWAPs, in an effort to take greater ownership, clarify strategic directions and coordinate the myriad donor-funded programs at the sector level.[10] As the concept of a Comprehensive Development Framework (CDF) was articulated, SWAPs were perceived as a vehicle for moving closer to CDF principles—a move expected to enhance the development effectiveness of Bank assistance. This evaluation reviews the implementation experience to date with SWAPs in Zambia, to assess movement toward CDF principles and the development effectiveness of Bank support. The four SWAPs—in health, agriculture, transport and education—are still active, although three of four are sufficiently advanced to make provisional judgments about outcomes, institutional development and sustainability. Overall, this evaluation finds that IDA's participation in SWAPs has resulted in closer adherence to CDF principles—with indicators that hold out the promise of enhanced development effectiveness in the longer-run. Within this timeframe, however, the SWAPs do not provide consistent evidence of superior outcomes or sustainability. The reasons for this are discussed below, in the context of adherence to the CDF principles of long-term vision, country ownership, strategic partnerships and accountability for results.

SWAPs: Building on a Holistic, Long-term Vision and Strategy

2. *Sector strategy formulation.* Adoption of SWAPs has put greater emphasis on strategy formulation and priority-setting as a prerequisite for national programs and donor support. In health, the 1991 National Health Policy Paper established a clear objective: "equity of access to cost-effective, quality health care as close to the family as possible." This vision has produced a strategy for decentralized care that has been pursued through the 1993–97 and 1998–00 Strategic Plans, and remains the central tenant of the draft plan for 2001–05. Although progress has been slow—and reforms at times have been blown off course by the vagaries of political change—the reform process has

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[8] Based on previously cited background work for the Zambia Country Assistance Evaluation by Goldstein, Nkwanga, Rahkonen, and van Holst Pellekaan

[9] FY96 CAS, page 13.

[10] This evaluation adopts the broad definition of SWAP provided in *Moving from Projects to Programmatic Aid*, OED Working Paper Series, No 5, Summer 2000. A SWAP is defined as "an effort to bring donor support to a sector within a common management and planning framework for implementing agreed sector strategy. Its most important feature is that it brings the sector budget back to the center of policy-making and unifies expenditure management in pursuit of agreed sector objectives."

ultimately been steered back to a widely-shared, long-term vision for decentralized provision of basic health care. The vision in agriculture has been less clear—particularly regarding the role of the public sector—but the SWAP has ultimately been supported by 12 major donors, bringing greater coherence and coordination to nearly 180 disparate, donor-funded projects.

Zambia: Sector-wide Approaches (SWAPs) Supported by IDA

	HSSP	*ASIP*	*ROADSIP*	*BESSIP*
Approval date	FY94	FY95	FY98	FY99
Commitment (US$ millions)	56.0	60.0	70.0	40.0
Original closing date	FY00	FY99	FY03	FY02
Disbursements at original closing	28.3	30.9		
Revised closing date	FY02	FY02		
Disbursements as of end-FY01	30.6	50.5	42.5	12.1
Provisional OED ratings				
Outcome	Unsat	Mod. Unsat	Mod. Sat	n.a.
Institutional development impact	Modest	Modest	Modest	n.a.
Sustainability	Unlikely	Uncertain	Unlikely	n.a.

HSSP: Health Sector Support Project; ASIP: Agriculture Sector Investment Program; ROADSIP: National Roads Sector Investment Program; BESSIP: Basic Education Sub-sector Investment Program.

3. *Subsector-wide approaches.* Outcomes of the health and agriculture SWAPs have thus far been disappointing and/or difficult to measure, partly reflecting the broadness and complexity of their goals. Later operations are subsectoral in nature, focusing on road transport and basic education only. The narrower focus, with more manageable goals and simpler institutional frameworks, may produce measurable outcomes within a shorter timeframe. Positive outcomes in road maintenance provide early evidence of this. However, in both cases, the narrower focus de-emphasized and delayed attention to broad sector work and strategy formulation that would address key intra-sectoral issues, including resource allocation. In transport, road improvements have been undermined by insufficient and belated attention to inter-modal transport issues—in particular, the need for an efficient, regionally-integrated railway system for bulk transport related to the mines. The Bank could have played a greater role in analytic work and policy advice at an earlier stage to support GRZ in formulating a comprehensive transport policy that addresses critical inter- and intra-modal issues. A draft policy was prepared in 2000, and through the ROADSIP coordinating mechanism, donors are now urging GRZ to finalize it. Likewise, with support from BESSIP, a sector-wide education strategy is now being prepared that will provide the analytic basis for resource allocation within the sector.

4. *Sectoral resource allocation.* Zambia provides evidence that SWAPs are conducive to reallocation of budget resources toward stated priorities, particularly when multiple donors link support to such reallocation. In health, non-salary recurrent expenditures for districts (covering primary care and first-level referral) as a share of total recurrent budget expenditures rose from 40 percent to 52 percent between 1995 and 1998,

as donors (not including IDA) pooled funds with GRZ in support of a "district basket."[11] Likewise, public spending (GRZ plus donors) for districts rose as a share of total public spending for health from around 40 percent in the mid-1990s to 55 percent in 1999.[12] Preparation of BESSIP since the mid-1990s has furthered a trend toward increased public spending at the primary level, which rose from around 35 percent of total education spending in the early 1990s to 45 percent by mid-1990s and 60 percent by the late 1990s.[13] In transport, an earmarked fuel levy introduced under ROADSIP has increased resources for road maintenance and resulted in measurable improvement in the condition of the paved road network. While the picture is painted with broad brush strokes, it suggests that SWAPs have been conducive to fundamental shifts in budget allocation. ASIP is the exception, perhaps because funding priorities were less clearly defined, financial management was particularly weak and planned "basket" funding was never agreed by donors.

5. *Sector expenditure framework.* Resource reallocation has occurred, but often in the absence of the agreed sector expenditure framework that is at the core of the SWAP concept. Support from IDA and other donors usually was based on an agreed expenditure framework for the first year, a "rolling" framework for up to three years, and an agreed process for preparing annual frameworks in the future. However, GRZ capacity and commitment to update and prepare expenditure frameworks often faltered, burdened by bureaucratic gridlock as historic "top-down" budgeting processes met decentralized "bottom-up" processes. The SWAP experience makes clear that improvement in public expenditure management in Zambia will require cross-sectoral capacity-building, systems development and culture change over an extended period. Breakdown in the preparation of expenditure frameworks within the early SWAPs had several effects, including undermining the concept of time-slice financing by donors. During the mid-term review of ASIP, IDA shifted to narrower, pre-defined funding priorities—more in keeping with a traditional investment project than with the time-slice financing ideally envisioned under a sector investment loan. The intent was to improve implementation performance, and create clearer links between financial inputs and outputs/outcomes in key areas. In health, as the expenditure framework process deteriorated, IDA discovered it had few remedies within a flexible sector investment credit, apart from suspension or cancellation of the credit. It became difficult to get a clear picture of funding sources for expenditure priorities. As the health sector dialogue between GRZ and donors ebbed and flowed, financing gaps emerged and remained unfilled, despite the availability of IDA resources as "donor of last resort." In the absence of a detailed sector expenditure framework and a process for ensuring full-funding of high priorities, IDA resources were used sub-optimally and disbursements lagged.

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[11] Sally Lake, et al., *Analyzing the Process of Health Financing Reform in South Africa and Zambia Zambia Country Report*, Abt Associates, April 2000.

[12] Derived from Republic of Zambia, *Joint Identification and Formulation Mission to Zambia: Draft Programme Document*, February 2000.

[13] Eileen Nkwanga, background report. This trend is partly explained by changes in accounting practices that "decentralized" certain expenditure categories from general administration to primary education.

SWAPs: Promoting Clear Country Ownership of Goals and Actions

6. *Government-led preparation and broad consultation.* For all SWAPs in Zambia, GRZ was at the center of strategy formulation, program preparation and coordination of donors. Ownership of the resulting reforms and programs is high within GRZ. In the case of ASIP, the Bank was particularly dominant among donors in the preparation and supervision process, with responsibility for coordinating the joint appraisal mission and later supervising "on behalf of financiers." As a result, many Zambians and donors perceive that ASIP design was overly-influenced by the Bank. Technical consultation within GRZ, including at provincial and district levels, as well as among academicians, the private sector and other opinion leaders was widespread for each SWAP. However, consultation with intended beneficiaries and community-based organizations during preparation was scant, despite planned beneficiary assessments to evaluate implementation progress. The combination of early strategy formulation, adoption of a broad sector-wide approach, government-led preparation and widespread consultation to enhance ownership resulted in long preparation times (typically three to five years), and high preparation costs. For IDA, preparation costs for credits supporting SWAPs have averaged $713,000 in Zambia, more than twice the average for other investment lending.

7. *Depth of ownership.* Committed political leadership has been essential for adoption of SWAPs, but it has been the depth of ownership resulting from broad consultation and dissemination of information that has kept SWAPs moving in agreed directions despite changes in political leadership. The health sector has experienced seven changes of minister since preparation of the SWAP began, some of whom worked toward goals at variance with the vision of the SWAP. This vision—shared by parliamentarians, health workers, district governments and external partners—ultimately steered the SWAP back toward its original objectives—albeit with slow implementation progress. Under BESSIP, efforts were made to develop ownership and accountability within the Ministry of Education (MOE), in contrast to the earlier IDA-funded Zambian Education Rehabilitation Project. Despite the recent stepping down of a committed minister, BESSIP continues to move forward based on the widespread vision and sense of ownership of MOE directors and other component coordinators.

8. *Implementation capacity.* SWAPs are process-oriented, but the Zambia experience shows that heavy process runs the risk of overshadowing implementation, and that sector-wide approaches do not inherently overcome implementation constraints. Implementation requires an institutional framework and institutional capacity to manage complex sector-wide reforms and investments. In hindsight, institutional analysis and estimation of institutional development needs was grossly insufficient in the early SWAPs. In agriculture, an ongoing ministerial restructuring stretched into 1998, effectively blocking implementation of the IDA credit for three years after approval. The Bank seriously misjudged the readiness of the ministry to implement the program, despite numerous expressions of concern from other donors about institutional capacity. In health, the ministry lacked institutional capacity to design and manage a civil works program, although the bulk of IDA resources were earmarked for civil works in the 1995–98 period. During the first three years, an effort was made to build limited capacity in this area, but only a small portion of the planned 1995–98 civil works program was

implemented by end-FY01.[14] Underestimation of implementation capacity is evident in disbursement lags: both ASIP and HSSP were only half disbursed at their original closing dates. In roads, the National Road Board and Road Fund were established to carry out the program, but inefficiencies and duplication within a complicated roads sector institutional framework were not addressed at the preparation phase, and remain an obstacle to progress. Relative to the early SWAPs, a higher proportion of funding is devoted to capacity building and institutional development under the first phase of BESSIP. The education sector also has a successful pre-SWAP record of outsourcing civil works that has resulted in better absorption of IDA resources.

9. *Cross-sectoral constraints.* While ownership of the four SWAPs is relatively strong, they are not well anchored in a larger vision or strategy for national development. National development planning was neglected in the 1990s—a not uncommon response to the excesses of central planning in earlier years. One result is that no forum existed for addressing cross-sectoral issues with significant impact on SWAP outcomes. In the Zambian context, the key cross-sectoral issues affecting SWAPs today include the impact of HIV/AIDS, the status of women, the lack of decentralization policy and the weakness of public sector reform and expenditure management. Preparation of the Poverty Reduction Strategy Paper has provided one of the first opportunities in recent years to address cross-sectoral issues in a multi-stakeholder forum.

SWAPs: Fostering Strategic Partnerships Among Stakeholders

10. *GRZ and the donor community.* Adoption of SWAPs has unequivocably increased the interface and exchange of information between GRZ and donors and among the donors themselves. The extent to which this has contributed to consensus on vision, strategy and policies has varied, with significant impact on the nature of the SWAP. Where policy consensus has been broadly achieved—e.g., decentralization of health services—donors have been more willing to pool resources and adopt common implementation arrangements, as evident in the "district basket." Where consensus has not been achieved—in pharmaceutical supply, for example, where different models of state intervention co-exist worldwide—the partnership has been less collaborative and only limited progress has been made. Agriculture is the sector in which consensus has been most difficult to achieve between GRZ and donors, as well as among the donor community. Again, this may reflect a lack of consensus worldwide, particularly on the role of the state in agriculture, as well as insufficient capacity within GRZ to analyze policy options in the Zambian context. Core policies on input supply, output marketing and research and extension services have lacked clarity and consistency over time. This, coupled with weak financial management, made donors reluctant to consider pooling of resources and common implementation arrangements. Thus, ASIP retains a larger set of discrete, donor-funded projects that benefit from better coordination and integration into national programs. BESSIP has drawn lessons from earlier stand-alone education projects, and now provides a framework for collaborative support from 13 donors.

[14] Only 39 out of nearly 100 planned rural health centers have been rehabilitated and the district hospital component was never implemented.

11. *The Bank as a partner*. "The Bank must learn to use its weight well" is the conclusion of one Zambian commentator. Indeed, the Bank's position in Zambia is a delicate one, juggling above-average influence and financial leverage with a desire to be responsive to client needs and flexible in collaborating with external partners and other stakeholders. Often, the donor community, the private sector, nongovernmental organizations and civil servants turn to the Bank for leadership on analytic work and policy dialogue. The roads sub-sector policy dialogue is a case where Bank leadership within ROADSIP appears welcome. Many believe that the Bank should have played a stronger role in the dialogue on human resource management and drug policy in the health sector. At the same time, the perception of a dominant Bank (e.g., in ASIP preparation and early supervision) can undermine ownership and donor collaboration, and be dissipated only slowly over time. In some respects, the Bank faces obstacles to local partnership. Fiduciary requirements inhibit pooling of IDA resources, although parallel financing mechanisms can allow the Bank to participate in joint efforts. More problematic can be the Bank's lack of technical representation at the local level within some SWAPs. Most donors participating in a SWAP have sector-dedicated staff and/or have funded technical assistants who then serve as a liaison between GRZ, the donor and other partners. To avoid the perception of the Bank "parachuting" into ongoing policy dialogues, the Bank needs to strengthen local technical capacity and move toward greater supervision responsibility within the field office.

12. *GRZ and the private sector*. On balance, the Zambia SWAPs have given the private sector a greater advisory and/or management role in the sector. The National Roads Board which manages the Road Fund has a private sector majority that has facilitated decision-making despite a cumbersome public sector institutional framework. The Board also has authority and accountability for monitoring progress under the Road Management Initiative. Ninety percent of the road work is also performed by private sector contractors. The Agricultural Consultative Forum (ACF) is a mixed public/private body intended to analyze policy options, make recommendations and disseminate information within the sector. It has played a valuable role within ASIP, but tends to emphasize process, with little authority or accountability for implementation. Investment under ASIP has focused more on reform and restructuring of public services than on direct support for private agriculture. The for-profit private sector has not played a significant role within the health and education SWAPs.

13. *GRZ and civil society*. Partnerships with groups representing civil society are underdeveloped within the SWAPs, with few exceptions. A key aspect of the health and education reforms was the formation of "autonomous" district boards with membership including political appointees and representatives of civil society. However, the longer experience in the health sector has seen the composition of the boards and their influence vary over time and with changes of leadership. At the end of their first term in 1998, the district health and hospital boards were dismissed, and around three quarters of them remain vacant today. The health sector does, however, provide an example of a partnership between GRZ and the Church Medical Association of Zambia (CMAZ), an umbrella organization for church-based health facilities that provide approximately one third of health services in rural areas. CMAZ is generally included as a partner in the policy dialogue, although—like the health boards—inclusiveness has varied over time. NGOs and CBOs unaffiliated with churches have less developed partnerships with GRZ

in the health sector. NGO/CBO involvement in ASIP, ROADSIP and BESSIP has been negligible.

SWAPS: Ensuring Accountability for Development Results

14. *Monitoring and evaluation (M & E) systems*. With minor variation, the SWAPs in Zambia have demonstrated weak *ex ante* definition of performance indicators, poor and/or delayed efforts at baseline data collection and insufficient design consideration for systems and capacity to collect data, monitor progress and evaluate results. This weakness is a function of the general underestimation of institutional development needs within the SWAPs. In the health sector, basic health status indicators were defined *ex ante* in 1992, but health system and health financing indicators (more relevant to measuring the impact of reforms in the short-run) were particularly weak or nonexistent. Restructuring of information systems over a prolonged period precluded collection of all but the most rudimentary health status data during the 1993–99 period. As a result, trends in health service access and utilization were largely unmeasurable during an important phase of decentralization and cost recovery initiatives. In agriculture, ASIP had an ambitious plan for M & E and development of information systems. As with other aspects of the program, implementation was weak and delayed. Baseline data for sector performance indicators were collected with several years' delay, and the first annual Sector Performance Assessment was produced only in late-1999. The later SWAPs learned from previous experience. ROADSIP had relatively good *ex ante* definition of sub-sector indicators, but baseline collection was delayed, and the mid-term review highlighted the need to strengthen data collection and introduce new evaluation systems. BESSIP also focused on *ex ante* definition of sub-sector indicators, and has collected baseline data in the early stages of program implementation. Efforts are underway to strengthen permanent M & E capacity. With IDA resources channeled into particular programs within the SWAPs (as opposed to general time-slice financing), it is incumbent on the Bank to work with GRZ and other stakeholders to define adequate performance indicators within these programs, and to ensure sufficient capacity for monitoring and evaluation.

15. *Standardized progress reporting*. All four SWAPs have introduced standardized progress reporting and periodic review by all partners. It is generally agreed that this has improved information flow and coordination of activities within the sector. It has reduced reporting inefficiencies, although separate financial accounting remains a barrier to holistic presentation of financial information. The usefulness of standardized reports is compromised, however, by the paucity of performance measurement, once again reflecting the weakness of M & E systems and capacity.

16. *Financial accountability*. Weaknesses in budgeting and expenditure planning are mirrored by weaknesses in financial accountability, particularly at the level of technical ministries. In supporting the various SWAPS, the Bank seriously underestimated the need for both sector-specific and cross-sectoral systems and capacity building for public expenditure management. Design of early SWAPs made no link between sector performance and disbursement of funds. Many donors under ASIP and ROADSIP chose not to channel funds through technical ministries in order to ensure financial

accountability. Willingness to channel funds into the district basket for health services has risen along with capacity for simple financial management at the district level.

17. *Learning and adaptation.* Stakeholder consultation has become a hallmark of SWAPs. Yet stakeholders' role in establishing benchmarks, monitoring implementation and evaluating results could be strengthened. A public/private body like the ACF in the agriculture sector is well suited to play a larger role in monitoring implementation and performance. Limited stakeholder involvement in performance monitoring, coupled with weak M & E systems, reduces feedback that drives adaptation. This is not new to SWAPs, but with their emphasis on achieving consensus and eliminating duplicative activities, SWAPs could also reduce the scope for experimentation needed to identify promising approaches. The failure to foster strong partnerships with NGOs and CBOs—ideally suited for innovative, pilot ventures—would also tend to reduce learning opportunities. For example, initial consensus on rehabilitation of rural health centers may have slowed experimentation with smaller health posts under the SWAP (a pilot will now be launched). On the other hand, BESSIP implementers felt that the clear vision and objectives of the SWAP, along with improved communications at all levels, encouraged innovation and learning. In general, under a SWAP, special care must be taken to foster an environment conducive to experimentation, as well as ensure appropriate evaluation and feedback mechanisms.

Annex XI

Privatization of Zambian Consolidated Copper Mines (ZCCM)

1. The decision to privatize ZCCM was taken in 1995, with an initial deadline of June, 1997. With support from IDA technical assistance credits, significant progress was made in the planning phase under the leadership of the Zambian Privatization Agency (ZPA), and the bidding process was completed on schedule by February 1997. Bids were received for all packages, including a bid by the Kafue Consortium for many of the core assets. Negotiations were launched with Kafue Consortium. However, GRZ unexpectedly changed tactics, naming an ex-Chief Executive Officer of ZCCM as head of a new negotiating team that minimized the role of the ZPA. The new team formally rejected the offer from Kafue Consortium in November 1997—a decision that would ultimately delay privatization by nearly three years.

2. The collapse of the Kafue Consortium deal left the Anglo American Corporation (already a minority shareholder in ZCCM) as one of the few potential buyers worldwide—strengthening the buyer's hand. After a lengthy search for consortium partners, core assets of ZCCM were transferred to private ownership in March 2000. Zambia Copper Investments Limited (ZCI), of which Anglo-American is the majority shareholder, was the largest investor, purchasing going concerns such as Nchanga Mine, as well as securing exclusive rights to the untapped Konkola Deep Mine. ZCI was lead shareholder in Konkola Copper Mines, the local mine operating company, with IFC and the Commonwealth Development Corporation as minority shareholders. The final deal—under less favorable circumstances—proved costly for Zambia and the Bank. It reflected the deterioration of asset values and world copper prices. Government made substantial concessions, including assuming $800 million or more in ZCCM debts and providing fiscal and power tariff concessions ranging over a 5- to 20-year period. These concessions for two companies (Konkola and another consortium, Mopani) were adopted as amendments to mining legislation—a breach of the level playing field established for private investors with earlier IDA support. Costs to IDA were also high. Adjustment lending included on-lending of $68 million to ZCCM for labor redundancy and retraining costs. IDA also agreed to support the Mining Township Services Project (FY01) and the Copperbelt Environmental Project (FY02) to restructure municipal services provided by ZCCM and address mining-related environmental degradation.

3. Under development agreements, the new mine owners committed to investing $1.3 billion in rehabilitation and development of new mines—with some investments conditional upon favorable world market prices. Initial investment in going concerns had strong multiplier effects, especially in the Copperbelt region. Economic growth accelerated to more than four percent in 2001, reflecting these early mining investments. Short-term growth prospects were deemed more positive than at any time since 1975. However, world copper prices in the 2000–2002 period have been softer than anticipated—dropping from a peak of over $1.00 per pound in the mid-1990s to less than $0.70 per pound in early 2002. Operating costs have been higher than expected, as well, reflecting slower-than-anticipated efficiency gains and poor transport infrastructure. Restructuring of Anglo American's base metals division in the wake of global losses prompted a review of the Zambia portfolio in late 2001. At end-2001, ZCI and Anglo

American announced deferral of new investment in the Konkola Deep Mine. In early 2002, they announced the withdrawal of support for loss-making going concerns in Zambia, a decision that will likely lead to closure or sale to alternative investors, including possible acquisition by GRZ. These decisions have far-reaching implications for economic growth, with probable industry-wide effects, a possible foreign exchange crisis and a more generalized crisis of investor confidence.

Annex XII

International Finance Corporation (IFC) in Zambia[15]

Introduction

1. Zambia has been a member of the IFC since 1965. IFC has a small portfolio of 15 projects (totaling US$52 million) dominated by investment in Konkola Copper Mines (KCM) which is more than half the portfolio. IFC investment in KCM to support the privatization of ZCCM has been the most important project in Zambia in the recent past, as highlighted below. IFC has also been active in agribusiness and the tourism industry. IFC also played a key role in the development of financial markets and institutions in the 1990s. Finally, IFC has supported small- and medium-scale enterprises through a facility in the copperbelt, a number of direct Africa Enterprise Fund investments, and through assistance from the Africa Project Development Fund.

Privatization of ZCCM

2. The KCM assets and Nkana represented the bulk of ZCCM's production facilities and their privatization was a key component of the Zambia World Bank Group strategy. ZCCM's privatization has been controversial and previous negotiations with potential purchasers were unsuccessful. The KCM proposal probably represented Zambia's last chance to privatize the assets as a going concern. Given the importance of copper to the Zambian economy, and the reluctance of the international community to continue to support Zambia's development efforts until the assets were sold, the successful conclusion of the sale represented a major turning point for the country. IFC invested $30 million in equity in the project. Anglo-American Corporation (lead shareholder in KCM) had advised that it would not have proceeded without IFC involvement. IFC participation was pivotal in completing the KCM consortium and provided the final impetus to allow the privatization of the assets.

3. The ZCCM assets acquired by KCM suffered from many years of under-investment, declining production and high operating costs. A substantial investment was required to rehabilitate the assets, improve management and reduce costs. However, the main attraction of the project for Anglo-American was securing the rights for the Konkola Deep Mining Project. KDMP represented a large and potentially low-cost ore body which would have allowed the consolidated operation to maintain output and lower operating costs to the lower half of the industry cost curve.

4. In January Anglo-American announced its decision to cease any new investments in KCM, and ultimately seek an exit from the operations in Zambia. Their assessment was that KDMP was not viable economically, which forced the re-evaluation of the existing investment in KCM. As a result, IFC is now working with Anglo-American and the government to assess what the options are for KCM. This assessment is just underway so that the ultimate disposition is still not clear.

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[15] Author: James Emery, Senior Economist, Strategy and Coordination Division, Sub-Saharan Africa Department, International Finance Corporation.

5. The withdrawal of Anglo-American from the KCM project now threatens the entire copper mining sector. The privatization of the assets was also necessary for the completion of the remaining asset transfers (the Mufulira mine, smelter and refinery and the Nkana mine) as these sales were unlikely to proceed without the successful privatization of the KCM assets. While a number of smaller assets packages had been successfully sold, many of these are dependent upon the KCM and Anglo-managed facilities to process concentrates, and the finalization of the KCM sale allowed owners of other packages to implement their investment plans with renewed confidence. The Bank Group SME Department was in the process of developing a facility and program to support suppliers to KCM with financing and technical assistance.

Other Sectors

6. The uncertainty in the country over the future of KCM and the drastic implications for the economy of a drastic reduction in copper exports, either immediately or phased in if KCM is kept operating, will dampen much new investment throughout the economy Outside of the copper sector, IFC has focused on the following areas:

- ***Financial Sector.*** The financial sector will continue to present opportunities, particularly institution building investments such as leasing companies, investment banks, privatization and asset management institutions. In addition, IFC is trying to address the forex term finance needs of productive enterprises in Zambia through the provision of loan facilities. We have also recently committed to investing in one of Zambia's first insurance companies, NICO Insurance Zambia Limited.

- ***Infrastructure.*** IFC has completed an investment in a cellular phone service. Additional opportunities are dependent on privatization, where IFC may play an advisory role as well.

- ***Agribusiness.*** This sector also offers substantial potential for new investment or rehabilitation of existing enterprises. However, IFC's previous investments in large-scale commercial farming were not successful. Future IFC involvement will focus on the processing of crops, especially for exports, and SMEs.

- ***Tourism.*** Tourism is an important alternative source of foreign exchange for Zambia and is not yet developed to anywhere near its potential. IFC has financed several small hotel projects, and the privatization/rehabilitation of the Lusaka Intercontinental. Many small operators have acquired individual lodges in the national parks formerly operated by the defunct parastatal hotel company NHDC. Large new developments are planned around Livingstone by Southern Sun of South Africa, which bought the Livingstone hotel from NHDC. IFC will seek additional projects as the sector is developed further.

- ***Small- and Medium-Sized Enterprises (SMEs).*** IFC has been active in supporting SMEs through design of a facility for suppliers in the mining sector, technical assistance and advisory services through the Africa Project Development Facility (APDF) and through investments. Direct investments in SMEs will be de-emphasized in the future in keeping with IFC's new strategy. The SME Department has committed to continuing, and perhaps expanding, its planned facility in the Copperbelt.

Zambia
STATEMENT OF IFC's
Held and Disbursed Portfolio
As of January, 2002

IFC Data Warehouse

(Amounts In US Dollar Millions)

		IFC Held				IFC Disbursed			
FY Approval	**Company**	**Loan**	**Equity**	**Quasi**	**Partic**	**Loan**	**Equity**	**Quasi**	**Partic**
1998	AEF Amaka Cotton	1.30	0 00	0.00	0.00	1.30	0.00	0.00	0 00
1994	AEF Big Five Car	0.52	0.00	0 00	0.00	0.52	0.00	0 00	0 00
2001	AEF Chingola Htl	0 96	0 00	0 00	0 00	0.96	0.00	0.00	0.00
1998	AEF Drilltech	0.12	0.00	0 15	0.00	0.12	0.00	0 15	0 00
1999	AEF Esquire	0.28	0.00	0.00	0.00	0 28	0.00	0 00	0.00
1997	AEF JY Estates	0.89	0.00	0 00	0 00	0.89	0 00	0.00	0.00
2001	AEF Michelangelo	0 20	0.00	0.00	0.00	0 20	0 00	0 00	0.00
1997	AEF Pentire	0 38	0.00	0 00	0.00	0 38	0 00	0.00	0 00
2000	APC Ltd	2.50	0.00	0 00	0.00	2.50	0 00	0.00	0 00
1972/73	Bata Shoe ZA	0 00	0.22	0.00	0.00	0.00	0 22	0 00	0 00
1997	Finance Bank	0 50	0 00	0.00	0.00	0 50	0.00	0 00	0.00
2000	KCM	17 12	5.67	8.53	0.00	17.12	5 67	1.96	0 00
2000	Marasa Holdings	4.60	0 00	0.00	0.00	4.00	0.00	0 00	0 00
1998	NICOZAM	0.00	0.30	0.00	0.00	0 00	0.30	0 00	0.00
1999/00	Zamcell	7 02	1 04	0.00	0.00	7.02	1.04	0 00	0 00
	Total Portfolio:	**36.40**	**7.23**	**8.68**	**0.00**	**35.80**	**7.23**	**2.11**	**0.00**

APPROVALS PENDING COMMITMENT

FY Approval	Project Name	Loan	Equity	Quasi	Partic
2000	AEF QNet	0.34	0.08	0.00	0 00
Total Pending:		**0.34**	**0.08**	**0.00**	**0.00**

Note: Values do not reflect off-balance sheet items such as guarantee and risk management products

Annex XIII

Survey of Post-Privatization Performance Among Non-Mining Enterprises

Summary Findings[16]

Background and Methodology

1. The World Bank sought to assess the effectiveness of the privatization program which was initiated in Zambia in 1992 with significant assistance from The World Bank and other donor agencies. The authors were asked to review a representative sample of companies in order to assess the effect of privatization on their performance. The twenty largest non-copper mining companies by purchase price, the twenty largest non-copper mining companies by current assets at time of privatization and a remaining sample of smaller companies were chosen for the study. Via a series of sources, performance indicators for 48 companies were gathered and analyzed.

2. The responding companies were broken down into eight business sectors. The companies were assured confidentiality regarding their individual company responses. The data analysis was predicated on presenting results for groups of companies with a sample size of at least five. The indicator most consistently reported by companies was turnover, which was chosen as the most reliable available gauge for analysis of performance.

3. Raw turnover data for each company was requested for the period from 1992 through 2001. Most companies have a fiscal year that runs from April 1 to March 31. The raw local currency data was adjusted for inflation and, in a separate exercise, was converted to US dollars. The sample was split into larger companies (the twenty largest by purchase price) and smaller companies. The data were analyzed with respect to industrial sector, mode of sale, dependence on the Zambia Consolidated Copper Mines (ZCCM), nationality of the purchaser (indigenous or foreign) and percentage of income derived from exports. The data were also indexed to both the year privatized for each company and to the year 1998, the year for which the highest percentage of companies reported data. In addition to turnover, statistics on employment levels, profit and losses, capital investment and sales volume were gathered.

Chronological Trends in Company Performance

- Based on turnover data deflated by the CPI, almost two thirds of the companies declined within the 1992–2000 period. However, a majority of large companies showed a positive growth rate, while the majority of smaller companies experienced negative growth;

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[16] Based on Tzannetis Serlemitsos and Harmony Fusco, 2001, Background Report. "Zambia Country Assistance Evaluation: Post-Privatization Study." OED, Lusaka, Zambia, World Bank.

- In the aggregate, real turnover results indicate a steady decline prior to 1998 and virtual stagnation since. However, larger companies showed turnover improvement since 1998, while smaller companies showed steady decline through 2000;

- All companies show a drop in employment levels since 1996, with larger companies showing a steeper drop than smaller companies. Overall, real turnover per employee declined through 1998, but has recovered since to 1996 levels, the median year for privatizations. For the largest companies, real turnover per employee has rebounded to levels of the early 1990s. For smaller companies, productivity has stagnated in recent years;

- Larger companies show operating losses in the 1998 and 1999, with a small profit in 2000, while smaller companies show sustained losses from 1996 to 2000. However, the manipulation of profit/loss data for tax purposes must be taken into consideration in evaluating these trends;

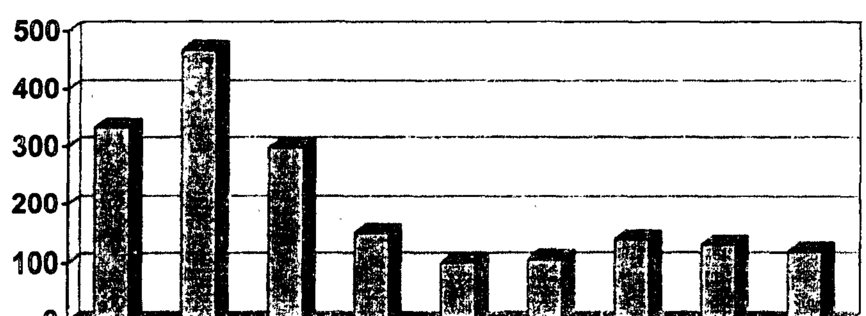
- Larger companies account for the majority of capital investment;

- A sharp drop in small company sales volume prior to 1996 suggests gross under-reporting of performance data in the run-up to privatization.

Pre- and Post-Privatization Trends in Company Performance

- Indexing real turnover to the year of privatization of each company reveals an aggregate "privatization curve" for these companies: a steep decline to the year of privatization, a slight rebound in the following two years, and a modest decline in years three and four of the post-privatization period. Despite the initial rebound, most companies have not recovered to real turnover levels of the early 1990s (Figure A1.1).

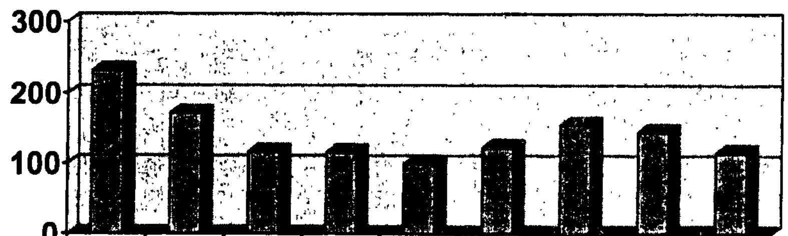
Figure A1.1: Aggregate Real Turnover Relative to Year Privatized



	YP -4	YP -3	YP -2	YP -1	YP	YP +1	YP +2	YP +3	YP +4
Index	332	468	298	149	100	105	138	129	117

- Larger companies follow the standard privatization curve, but show a more moderate decline before privatization and a stronger rebound after privatization than smaller companies (Figure A1.2).

Figure A1.2: Aggregate Real Turnover Relative to Year Privatized (YP)
Top 20 Companies



	YP -4	YP -3	YP -2	YP -1	YP	YP +1	YP +2	YP +3	YP +4
Index	232	171	116	115	100	122	154	144	115

- The standard privatization curve does not hold for mining supply companies, which continued to do poorly after their own privatization due to the drag effect of delayed mining privatization.

- All other sectors follow the standard privatization curve, with the agriculture sector and the food and beverage sector showing the sharpest initial decline and strongest post-privatization rebound.

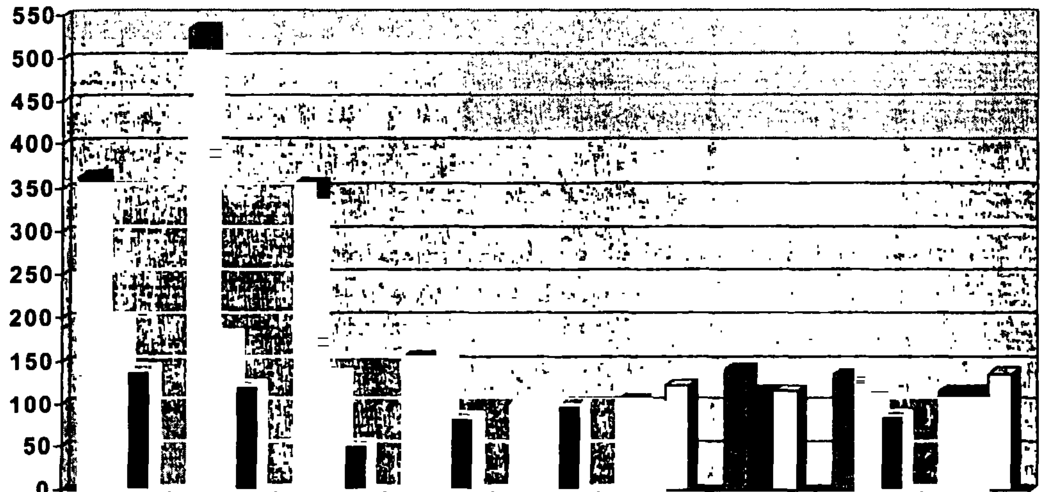
- Performance by companies purchased through competitive bid sales follow the standard curve. Performance by companies purchased through pre-emptive rights sales (usually to foreign investors holding minority shares and a management contract) was unaffected by privatization. Performance by companies purchased through management buy-outs show a continuous and steep decline.

- Companies with low inter-dependence with copper mining follow the standard privatization curve. Companies with medium inter-dependence follow the standard curve, but show a sharper recent decline that may reflect efforts by the new mining owners to diversify supply sources. Companies with high inter-dependence with copper mining did not follow the standard curve, showing no post-privatization rebound until four years later, coinciding with privatization of the mines.

- Companies purchased by Zambian investors showed a sharper decline in performance prior to privatization. It is possible that Zambian investors were attracted to firms with a strong track record within a highly protected environment, that declined rapidly in a liberalized environment. However, little difference exists in post-privatization performance between companies with indigenous or foreign owners.

- Companies that are not export-oriented follow the standard privatization curve most closely. Heavily export-oriented firms began their recovery prior to privatization—undoubtedly responding to the liberalized environment—and have rebounded to turnover levels of the early 1990s (Figure A1.3).

Figure A1.3: Turnover Performance Relative to Year Privatized by Export Activity



	YP -4	YP -3	YP -2	YP -1	YP	YP +1	YP +2	YP +3	YP +4
No Exporting	364	536	356	155	100	105	142	135	115
Light Exporting	197	181	134	147	100	97	115	107	116
Heavy Exporting	140	122	52	85	100	123	116	86	136

Conclusion

4. In the early 1990s, parastatals in the manufacturing and commercial sectors operated in a highly protected environment. With economic liberalization in the 1992–94 period and impending privatization, non-mining parastatal performance, as measured by real trends in turnover, declined dramatically, especially for smaller enterprises. This decline probably reflects a combination of factors—including insufficient competitiveness in a liberalized trade environment, and increased inefficiency or deliberate under-reporting of performance in the run-up to privatization. The data indicate that privatization was successful in stemming the decline in turnover, except in companies heavily dependent on the mining sector, where delays in mining privatization impeded recovery through the end of the decade. Turnover for most companies increased in the two years immediately following privatization. The rebound following privatization has been strongest and best sustained for the larger, export-oriented companies, contributing to the strategic goal of promoting export-led growth.

5. Unfortunately, for most companies—typically smaller and less export-oriented—the initial benefits of privatization have been difficult to sustain, and performance has faltered after the initial two years. Although recent performance has been better than in the immediate pre-privatization period, turnover among most companies has never recovered in real terms to early 1990 levels. In some cases, this probably reflects a lack of economic viability of the firm, which should have been liquidated instead of subject to

lingering death through internal privatization. In all cases, however, the economy-wide impact of delayed mining privatization—which was sufficient to keep economic growth negative throughout the decade—served to lower investment, investor confidence and aggregate demand, with negative consequences for post-privatization performance of most companies. Privatization of the major mines in 2000 has spurred investment and consumption, already accelerating aggregate growth, and likely contributing positively to performance of many of these companies in 2001 and beyond.

6. Difficulty in sustaining the net benefits of privatization can also be attributed to a suboptimal domestic and regional environment for private sector growth. Qualitative assessment of these constraints through interviews with company management highlighted: (a) fiscal distortions that disfavor local production, marketing and exporting; (b) weak regional economies; (c) continued regional trade barriers and unfair trade practices; (d) lack of long-term financing and working capital, especially for smaller firms; (e) unpredictable and frequent changes to fiscal and exchange rate policies; (f) labor market rigidities and excessive statutory employment benefits; (g) cumbersome judicial processes; (h) excessive bureaucratic interference and corruption. Greater attention to these constraints within the domestic and regional environment is warranted in future World Bank assistance strategies, in order to enhance the benefits of privatization and maximize new private sector growth.

Annex XIV

Summary Evaluation of Public Sector Reform within Adjustment Lending

1. The appraisal document for the FY00 Public Service Capacity Building Project (PSCAP) summarizes characteristics of public service in Zambia, including, *inter alia*: (i) highly centralized decision-making; (ii) weak accountability; (iii) poor policy implementation due to lack of resources; (iv) compressed salaries with no performance-based pay or promotion; (v) suppression of dissent and avoidance of risk; (vi) unpredictable budget flows; and (vii) public monopoly of service provision.[17] Transparency International's Corruption Perception Index places Zambia within the bottom quintile (i.e., perception of high corruption) of countries surveyed, partly reflecting the failings of the public/private interface and poor remuneration and morale of civil servants.[18] These characteristics suggest that only limited progress was made in the 1990s toward the CAS objective of promoting greater public sector efficiency and improved governance. Progress has been particularly weak in recasting the role of the state, revising human resources and remuneration policies, promoting decentralization and enhancing planning, budgeting and expenditure management. The Bank sought to support this objective through structural adjustment lending, associated technical assistance credits and coordination with other donors taking the lead on critical areas of public sector reform. Within the five structural adjustment credits under review since FY96, attention to various aspects of public sector reform was fragmented. Only the last two operations (PSREP in FY99 and FISSUC in FY00) had explicit objectives related to broader public sector reform, with earlier operations including narrower objectives related to budgetary reform, social security reform or parastatal restructuring.

Public Service Reform

2. Zambia adopted a Public Service Reform Program in 1993 with support from UNDP. Ministerial restructuring was launched and the civil service was downsized by nearly 20 percent between 1997 and end-1999, largely through elimination of ghost workers and high rates of attrition. PSREP was the first IDA operation to include a public service reform objective, namely "to improve the performance of the public service by reforming pay and employment practices and improving management controls." Despite high relevance, the efficacy of the operation in achieving this goal was negligible. Conditions were not results-oriented, and the objective was overshadowed by the urgent goal of mining privatization. Structural adjustment lending was not used to support adoption of draft policies on administrative and fiscal decentralization, as well as devolution of decision-making to local governments and communities. This has undermined sector-based attempts to decentralize and devolve public services, leading to *ad hoc,* and sometimes even conflicting, responses across sectors supported by various IDA credits.

[17] World Bank, *Project Appraisal Document: Public Service Capacity Building Project*, Report No 19239-ZA, page 8.

[18] The index for Zambia was 2.6 (on a scale of 0–10)—or 75th out of 91 countries surveyed for 2001.

3. A strategic shift was made at the end of the decade to address public sector reform more holistically, through a three-phase adaptable program loan, the PSCAP. The first phase (2001–05) objective is to "put in place the basic financial management, accountability, transparency, personnel and other systems and begin to reform wages so that key staff can be attracted, retained and motivated to provide quality services that their clients require, while continuing to rightsize and restructure the public service." While this is a more promising approach to institutional development, it is too early to assess outcomes.

Budgetary Reform

4. Adjustment lending—supported by analytic work—has been instrumental in helping government to modify the cash budgeting system put in place in 1993 to help restore fiscal discipline. However, the cash budgeting system has outlived its usefulness, which rests on top-down decision-making and results in unpredictable cash releases that run contrary to efforts to introduce bottom-up, results-based budgeting and medium-term planning. Expenditure management systems are also particularly weak in line ministries and district governments. In the new decade, the FISSUC adjustment credit and PSCAP capacity-building credit both address the need for additional budgetary reform and public expenditure management—but greater efforts will be needed to ensure that resources are commensurate with the task.

5. Considering the Bank's prominent role in supporting privatization and providing balance of payments funding in Zambia, it is surprising that the Bank undertook no oversight on the disposition of privatization proceeds. Gross proceeds of privatization totaled $470 million through mid-2000.[19] Gross revenues were deposited in a Privatization Revenue Account (PRA) by ZPA, which then settled debts and transferred the net proceeds to the general budget. In 1997, for example, gross revenues were around $143 million, but transfers to the budget, as indicated in fiscal outturn documents, were only around $4 million.[20] It is reasonable to assume that debts were large and net proceeds small in many cases—but the Bank has not asked to review the independent audits of the PRA, and OED efforts to obtain these audits were not successful.

Social Security Reform

6. Pension system reforms have been well-designed through use of adjustment lending to support changes in the "rules of the game" coupled with continuous technical assistance to facilitate institutional development of the National Pension Scheme Authority (NAPSA, formerly ZNPF). In contrast, weak ERIP conditions (FY95) with respect to Public Service Pension Fund liabilities, and lack of follow-up conditions in the 1996–99 period contributed to lengthy implementation delays. On balance, although efficacy of social security reforms has been substantial, their relevance to CAS objectives and country needs is judged as only modest, whether one considers the impact on fiscal balances, social safety nets or capital market development.

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[19] ZPA Progress Report #16, 1st January 2000 to 30 June 2000.

[20] Government of Zambia, budget outturn 1997.

Parastatal Restructuring

7. Restructuring of parastatals—mostly public utilities and infrastructure providers—did not make much progress in the FY96–01 period. PIRC II (FY93) supported automatic tariff adjustments and a strengthened regulatory framework for public utilities, as well as the adoption of "framework agreements" for the electricity, railways and telecommunications parastatals. However, the next three adjustment operations did not move the process forward, as attention shifted to privatization. In some cases, the delay was largely unavoidable: unbundling and increased private sector participation in electricity supply could only occur with resolution of ZCCM's enormous debts to the electricity parastatal. In other cases, more rapid progress was both feasible and desirable from the standpoint of economic impact. This includes the railways and the petroleum sector, where state monopolies and other inefficiencies have impeded economic growth, in general, and mining recovery, in particular. IDA support for railways within a broader transport strategy has come late, through the FY00 FISSUC and FY01 Railway Restructuring Project. Support for petroleum sector reform through investment lending was unsuccessful, and is now being addressed through adjustment lending. In hindsight, an earlier and more effective focus on high-impact parastatal restructurings was warranted.

Annex XV

Summary Evaluation of Social Policy Reform within Adjustment Lending

1. Policy-based lending in the FY96–00 period consisted of the ERIP, ESAC II and PSREP, which followed on four earlier structural adjustment loans in the FY91–95 period. Under the rubric of social policy, the three later credits included support for selected reforms related to: (i) social sector expenditure protection; (ii) employment and labor markets; (iii) social security; (iv) social assistance; and (v) social services (health, nutrition, education). Evaluation of relevance, efficacy and outcome in each of these areas is summarized below.

Relevance and Design

2. *Social sector expenditures.* ERIP, ESAC II and PSREP all sought to protect social expenditure levels by stipulating budget allocations and cash releases for social sectors (education, health, social safety net and water/sanitation) as a rising share of the domestic discretionary budget. The relevance of protecting public expenditures for priority social services and social assistance was substantial, although undermined by: (i) inadequate alleviation of the public debt burden in the 1995–00 period; and (ii) erratic cash releases and lax expenditure monitoring at the technical level. Despite availing itself of all available debt relief and rescheduling options, Zambia's public debt burden rose throughout the period, causing the discretionary domestic budget to decline in real terms. This limited—but did not nullify—the effectiveness of the social expenditure protection measures, which called for a gradual increase in the share of the discretionary budget for social sectors. A cash budgeting system that was introduced in the early 1990s to improve fiscal discipline led to erratic cash releases that inhibited planning and smooth implementation in the social sectors. Cash releases late in the budget cycle also exacerbated a constant problem of reallocation of funds at the technical level, regardless of budget priorities. Lax expenditure monitoring at the technical level make it nearly impossible to assess the extent to which cash releases fulfilled their intended purposes—a matter of deep concern for implementation of the enhanced HIPC initiative.

3. *Employment and labor markets.* Relevance was substantial with respect to amending the Employment Act (easing use of casual workers and eliminating housing requirements) and Industrial and Labor Relations Act (allowing enterprise-level collective bargaining) under ESAC II. These measures were designed to reduce entry barriers and wage rigidities in the labor market in order to encourage labor absorption in conjunction with privatization and restructuring of firms. PSREP supported the financing and implementation of a redundancy plan for ZCCM in order to shed excess labor. Relevance of the measure was high with respect to closing the deal on sale of ZCCM's core assets. However, in terms of relevance for overall retrenchment policy, the three credits fell short. An earlier technical assistance credit (PIRTA), linked to adjustment lending, had supported establishment of Future Search, a program for redundancy counseling and worker retraining linked to the privatization process. Implementation of

this program continued during ERIP, ESAC II and PSREP. However, none of the three credits (or earlier lending) addressed retrenchment policy itself—particularly with respect to clarifying GRZ responsibility for financing retrenchment packages and eliminating opportunities for parastatals to inflate their own retrenchment packages prior to privatization. Although the Social Impact Unit of the Zambian Privatization Agency (ZPA) attempted to reach broad consensus on retrenchment "guidelines," this was resisted by interest groups. Negligible relevance in this area—with the Bank's failure to incorporate retrenchment policy in the reform agenda—contributed to inequitable treatment of retrenched workers, reduced welfare for households denied benefits and created a perception of political favoritism that undermined public support for privatization. On balance, in the area of employment and labor markets, relevance was modest.

4. *Social security.* The ERIP credit supported three elements of social security reform: (i) establishing the legal and regulatory framework for pension and insurance fund management; (ii) transforming the mismanaged Zambian National Provident Fund (ZNPF) into a basic compulsory social insurance scheme; and (iii) paying outstanding liabilities on the Public Service Pension Fund (PSPF) and rolling it into the new compulsory scheme. The reform program was well designed to achieve institutional development impact, through use of policy-based lending to affect changes in the "rules of the game" coupled with technical assistance (under the ERIPTA credit) to facilitate institutional reorganization and capacity-building. However, weak ERIP conditionality with respect to the PSPF liabilities, and lack of follow-up conditions in the 1996–99 period, contributed to lengthy implementation delays. Overall relevance of reforms in this area is judged as modest—particularly in the short- to medium-term—for three reasons. First, in terms of fiscal impact, pension funds represent a relatively small portion of the overall public sector deficit. Greater relevance could have been achieved by tackling other fiscal losses more decisively. Nonetheless, it is recognized that this was considered an area of strong client ownership with potential demonstration effects. Second, other factors are considered more constraining to capital market development in the short- to medium-term. Strengthening contractual savings institutions would have an impact on capital market development only in a much longer timeframe. Third, in terms of old-age security, reform of statutory pension funds affects only about one tenth the active labor force, with limited impact on poor households in rural areas. Its relevance as a social safety net in the short- to medium-term is modest.

5. *Social assistance.* All CASs in the FY94–00 period include as a main pillar the targeting of assistance to poor and vulnerable groups. The Bank response in this area was generally described as support for social expenditure protection, lending for social services (health, education) and lending for a social fund that focused on community-based infrastructure for social services. In contrast, little discussion centered on strategies for promoting broad participation in economic growth or on the appropriate role and magnitude of redistributive programs during a period of prolonged economic transition, rising poverty and HIV/AIDS epidemic. The strategic role of directly-targeted income-generation or income-transfer programs was scarcely considered. The Bank's 1994 Poverty Assessment was weak on discussion of redistribution within a growth-oriented strategy, and on cost-benefit analysis of social safety net options. This weakness in the Bank's overall strategy carried through to the series of adjustment operations

currently under review. The Bank appeared to derive comfort in mentioning certain aspects of Zambia's social safety net in ERIP, ESAC II and PSREP documents, but did little to support these aspects in terms of policy advice, policy conditions, analytic work, technical or financial resources within the adjustment operations or related technical assistance credits. Project documents make reference to the following three social safety net goals of the GRZ: (i) devolving the design and implementation of safety net programs to local government, CBOs and NGOs; (ii) increasing support for labor-intensive works programs to assist able-bodied adults; and (iii) reforming the Public Welfare Assistance Scheme (PWAS) to assist the poor who are disabled, elderly or minors. However, the adjustment operations and accompanying technical assistance credits were not really designed to support achievement of these goals. They did seek to protect social expenditures, including those for PWAS, thereby increasing resources for the program beyond what they otherwise would have been. Effort was also made to adopt a GRZ policy for collaboration with NGOs, but this fell short of policy reforms needed with respect to administrative and fiscal decentralization and devolution to local government and non-governmental organizations. The marginal social assistance aspects included in these three operations and related technical assistance credits were of negligible relevance to the CAS objective of targeting poor households and to the country's need to mitigate poverty during a period of prolonged economic transition and HIV/AIDS pandemic.

6. *Social services*. ESAC II supported a few key reforms in social sectors, including: (i) developing a comprehensive health sector reform program; (ii) adopting a National Drug Policy; (iii) adopting a policy on the role of the National Food and Nutrition Commission (NFNC); (iv) preparing an education sector strategy; and (v) adopting a policy on collaboration with NGOs, through a consultative process. The relevance of developing and adopting these policies and strategies was high, as a prerequisite for reforms in provision of basic health, nutrition and education services, many of which are provided by NGOs. However, adjustment lending was not the Bank's main instrument through which implementation of these policies/strategies would occur, nor from which sectoral outcomes or Bank performance should be judged. In addition, some conditions (e.g., NFNC, education sector strategy) lacked clarity and consistency within the credit documents. Nonetheless, adjustment lending served a valuable purpose in bringing these sectoral issues to center stage for more rapid decision-making. Considering the role of basic health, nutrition and education services in poverty reduction, the relevance to the Bank's mandate and the needs of the country was high.

Implementation and Outcome

7. *Social sector expenditures*. Cash releases to the social sectors increased gradually from 33 percent of the domestic discretionary budget in 1995 to 36 percent in 1999—with a decline only in 1998, in the absence of agreed conditionality and balance of payments support from the Bank. In real terms, the trend line was downward for all categories, but this was influenced heavily by the 15 percent real decline in spending in 1998. Looking only at years in which Bank-GRZ agreement and balance of payments support was in place, real social spending held roughly constant—implying declining per capita spending. Health and education, which are the lion's share of social spending due

to high staffing levels, fared better than social safety net programs or water and sanitation.

Public Expenditures in the Social Sectors, 1996–99
(millions of constant 1995 Kwacha)

	1996	*1997*	*1998*	*1999*
Disaster Relief Program	1,626	270	1,008	5,141
Education	90,056	97,821	79,955	90,431
Health	64,656	69,005	60,039	66,791
Social Safety Nets	6,365	8,630	5,230	5,711
Water and Sanitation	15,518	8,058	10,865	10,001
Total	178,220	183,784	157,097	178,075

Public expenditure in real terms based on GDP deflator.

8. From this, it is fair to conclude that measures and support under ERIP, ESAC II and PSREP had a positive effect on the aggregate level of social spending in 1996–97 and 1999. However, this effect was insufficient to bring about increases in real spending per capita, hindered by the shrinking discretionary budget. Furthermore, the rigidities of the cash budgeting system and the laxity of expenditure monitoring at the technical level undermined the effectiveness of social expenditures. According to high-ranking budget officials, late cash releases allowed fulfillment of tranche conditions, but funds could not be spent for the line items intended before the end of the fiscal year. Anecdotal evidence abounds of reallocation of funds by technical ministries following cash release, but weak expenditure monitoring at the technical level makes it extremely difficult to analyze actual use of funds. Balancing the positive impact of agreed measures against the less than optimal outcome for per capita real spending, efficacy is viewed as modest. Coupled with substantial relevance, outcome is deemed only moderately satisfactory.

9. *Employment and labor markets.* Labor legislation was amended in 1997. It is not possible to ascertain the impact of the amended legislation. Formal sector employment fell by approximately 100,000 jobs, or 18 percent, between 1990–98, before rising slightly in 1999. Informal sector employment (outside the legislative framework) expanded rapidly—by as much as 700,000 jobs according to CSO estimates—between 1996–99. The ZCCM retrenchment plan appears to have been satisfactorily implemented, although a final audit is not yet available because disbursements continued until end-March, 2001. By end-June 2000, $35.7 million of the $68.5 million onlending to ZCCM had been disbursed for retrenchment and retraining of 4,825 ZCCM employees (out of an estimated total of 7,337). ZCCM anticipates a surplus of approximately $7.0 million in on-lent funds, which will be used for mitigation of environmental impacts in agreement with IDA. Apart from the ZCCM retrenchments, most retrenchments (estimated at around 90,000) occurred before privatization, in response to economic liberalization. In some cases, workers received no end-of-service benefits (severance or lump-sum pension payments) from insolvent parastatals. In high-profile cases, GRZ stepped in to provide benefits (e.g., Zambian Airways), but this was not uniform. For the

6,000 retrenchments linked directly to ZPA privatizations, packages were inflated by the parastatals themselves, according to guidelines circulated by ZIMCO, the holding company which was itself liquidated in 1995. Packages were funded largely through sales proceeds or the GRZ general budget.

10. Amidst hundreds of court cases over retrenchment benefits, inequitable treatment of retrenched workers has undermined support for structural adjustment, in general, and privatization, in particular. However, households with workers retrenched through ZPA privatizations are not among the poorest or most vulnerable. A study of the social impact of privatization conducted in mid-1997 assessed over 300 households with workers retrenched through ZPA privatizations. The vast majority of workers—nearly 80 percent—had found reemployment, usually within six months. Twenty-four percent of households were below the poverty line—less than the urban average. Of those households in poverty, most had workers from low-skill jobs who remained unemployed and/or had received no end-of-service benefits (about 10 percent of the households assessed had received no benefits following ZPA privatization). None of these poor households was participating in a social safety net program. Of course, the bulk of retrenchments occurred before privatization, and have not been subject to ex-post evaluation of social impacts. Existing counseling/retraining programs (with support from the Bank) reached perhaps one in five retrenched workers during the 1990s, but their impact cannot be rigorously assessed. Efficacy of Bank interventions was substantial with respect to employment legislation, high with respect to ZCCM privatization and modest with respect to retrenchment policy. With overall efficacy rated substantial, but modest relevance in this area, outcome is viewed as moderately unsatisfactory.

11. *Social security*. Efficacy was high with respect to adoption of the Pension Regulation Act and National Pension Act in 1996, as well as establishment of the Pension Insurance Authority (PIA). These legislative and regulatory changes were critical prerequisites to transformation of ZNPF into the National Pension Scheme Authority (NAPSA) according to the action plan adopted within ERIP. Efficacy has also been high in the ongoing development of NAPSA. The technical assistance credit accompanying ERIP has been instrumental in organizational restructuring (including a retrenchment plan), adoption of regulations for the National Pension Scheme in 1998, development of an actuarial model incorporating the impacts of HIV/AIDS and defining investment guidelines, and launching of the scheme in February, 2000. Ownership of the institutional reform is high, and the Bank's performance is viewed very positively. Efficacy was modest, however, with respect to the Public Service Pension Fund (PSPF). Adoption of an action plan as a Board condition in mid-1995 was followed by three years of little action. With the appointment of a new PSPF Board in 1998 and preparations underway for IDA's FY00 Fiscal Sustainability Credit, a study was carried out in 1999 to evaluate the PSPF liabilities and define a plan to pay them out. Payments of liabilities to statutory retirees—totaling Kw. 140 billion—began in 2001. On balance, however, efficacy of social security reforms was high. Coupled with modest relevance, outcomes with respect to social security reforms are judged as moderately satisfactory.

12. *Social assistance*. GRZ safety net objectives mentioned in ERIP, ESAC II and PSREP documents and in Letters of Development Policy involved: (i) devolution of design and implementation of safety net programs to local government, CBOs and

NGOs; (ii) increased support for labor-intensive works programs to assist able-bodied adults; and (iii) reform of the Public Welfare Assistance Scheme (PWAS) to assist the poor who are disabled, elderly or minors. Although relevance of social assistance objectives was high, they were not incorporated into the three adjustment operations. These operations did not specifically support adoption of a national decentralization policy, and—despite conditionality to adopt a policy document on GRZ-NGO collaboration—did not support greater devolution of safety net programs to NGOs/CBOs. The adjustment operations and related technical assistance credits did not directly support expansion of labor-intensive works programs or the PWAS—although social expenditure protection probably increased budgetary resources for PWAS beyond what otherwise might have been. Overall, however, the efficacy of the three adjustment credits in achieving social assistance objectives was negligible. Coupled with negligible relevance of the minimal objectives included in these operations, outcome in this area is deemed highly unsatisfactory.

13. *Social services.* The health sector reform program, National Drug Policy, education sector strategy and NGO policy paper were adopted by Cabinet. A study was completed and a policy submitted to Cabinet on the role of the NFNC, fulfilling the tranche condition. However, the policy has not been adopted as of April 2001, leaving the NFNC in an organizational limbo. Implementation of the health sector reform program has been very slow, hindered by declining real resources, weak political commitment to decentralization and the burden of HIV/AIDS on the health system. The National Drug Policy has provided an important framework for the procurement and distribution of essential drugs, but these functions remain riddled with inefficiencies. Progress has been made in implementing the education sector strategy, slowed by many of the same factors affecting health sector reform. NGOs were frustrated when the NGO policy paper did not lead to adoption of appropriate legislation or signing of Memoranda of Understanding clarifying the modalities for GRZ-NGO collaboration. Overall, the efficacy of ESAC II measures with respect to social services is judged as modest. Based on high relevance coupled with modest efficacy, outcomes with respect to the three adjustment credits in question are deemed satisfactory. It is important to note, as well, that policy-based lending dating from the early 1990s led to the launching of a social fund supported by SRP I, II and ZAMSIF, originally intended to mitigate the negative impacts of structural adjustment. While the link between economic reform and the social fund proved weak, the fund has played an important and relatively effective role throughout the 1990s in increasing access to, and quality of, basic social services, especially primary education in rural areas.

Summary Outcome Ratings for Social Policy Issues

	Relevance	*Efficacy*	*Outcome*
Social sector expenditures	SUB	MOD	MOD SAT
Employment & labor markets	MOD	SUB	MOD UNSAT
Social security	MOD	HIGH	MOD SAT
Social assistance	NEG	NEG	HIGH UNSAT
Social services	HIGH	MOD	SAT
Overall social policy ratings	MOD	SUB	MOD UNSAT

Annex XVI

Evaluation of the Bilateral Development Cooperation Between Finland and Zambia[21]

Background

1. Zambia was granted the status of a priority partner for Finnish development assistance in 1972. Through the 1970s and 1980s, Finland was one of Zambia's major external partners. During the 1990s, however, aid levels declined in nominal terms to only 15 percent of their peak level—making Finland a modest contributor to Zambia's external assistance. This trend reflected both a global decline in Finnish assistance and the perception of weak GRZ commitment to human rights, democracy and governance, identified as a strategic objective of Finland's development assistance program.

2. In the second half of the 1990s, Finnish aid to Zambia was concentrated in the agriculture, forestry and education sectors, as well as channeled through NGOs, largely for disability-related programs. The Finnish evaluation rated the program as follows:

Strategic relevance

3. Relevance of the Finnish assistance program in the 1990s was deemed substantial, with a strong poverty, environmental and gender focus through support for food security, community-based forestry management and basic education in rural areas, as well as support for the disabled. The Zambia program was substantially relevant to the strategic objectives of Finland's development assistance and to the stated priorities of the GRZ—although the evaluation questions whether it was relevant to actual priorities of government as revealed through its policies and performance. In particular, relevance was undermined by a perceived lack of commitment to the Finnish objective of promoting human rights, democracy and good governance.

Outcomes

4. Outcomes were viewed as mixed but, on balance, unsatisfactory. Substantial relevance was combined with modest effectiveness due to weak implementation. Effectiveness was deemed substantial in some areas, most notably: (i) school rehabilitation and textbook/library activities; (ii) training and improving the quality of forestry staff; (iii) development of a participatory agricultural extension methodology, and (iv) advocacy, legal framework and institutional support for the disabled. However, all activities suffered from common weaknesses that undermined implementation. The evaluation points in particular to: (i) government budgetary constraints and lack of counterpart funding; (ii) inadequate staffing and institutional capacity; (iii) overly-optimistic assumptions and timetables; and (iv) weak monitoring and evaluation systems that inhibit adaptation and corrective action. The forestry management program, for

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[21] This summary is based on: Ministry of Foreign Affairs of Finland, Department for International Development Cooperation, *Evaluation of the Bilateral Development Co-operation between Finland and Zambia Evaluation Report*, November 2001, Helsinki, Finland.

example, has little to show in terms of outputs or outcomes after five years of weak implementation. In terms of human rights, democracy and governance, Finland suspended its assistance for more than a year in 1996 due to poor political governance surrounding the 1996 elections. Progress since then has been poor, with considerable backsliding in the run-up to the 2001 election. Limited progress in this area now jeopardizes continued support from Finland.

Sustainability

5. The evaluation of Finland's development assistance finds sustainability to be unlikely. The evaluation focuses heavily on financial sustainability in the absence of external funding, which is very doubtful considering Zambia's aid dependence and poor track record in supplying agreed counterpart funds. Another issue has been a tendency for expatriate technical assistants to assume executive functions without appropriate counterpart staffing and capacity-building arrangements.

Recommendations

6. The evaluation finds that the current orientation of the Finnish assistance program is appropriate and well focused on poverty reduction. To develop aid modalities and improve impact and sustainability, it is recommended that:

- a decision be taken on whether to continue development assistance to Zambia, in light of poor progress in the area of human rights, democracy and governance. In the event that assistance is withdrawn, a 2–3 year exit strategy should be defined;

- if assistance continues, Finland and Zambia should develop a 5–10 year framework for assistance, within which annual programs could be defined;

- monitoring and evaluation systems be given greater consideration at the design phase; and

- institutional and financial sustainability be given top priority in both design and implementation phases.

Attachment 1

REPUBLIC OF ZAMBIA

MINISTRY OF FINANCE & NATIONAL PLANNING

(All correspondence should be addressed to the Secretary to the Treasury)

7 August 2002

Ms Ellen Goldstein
WORLD BANK

Re: **COMMENTS ON THE COUNTRY ASSISTANCE EVALUATION REPORT**

Please acknowledge receipt of our comments on the above document.

I apologise for the delay in responding on time, this is attributed to our misplacement of the document.

David S Diangamo
Acting Secretary to the Treasury
MINISTRY OF FINANCE AND NATIONAL PLANNING

Cc: Dr Laurence Clarke – Country Manager
The World Bank
Anglo-American Building
P O Box 35410
LUSAKA - ZAMBIA

COMMENTS ON THE ZAMBIA COUNTRY ASSISTANCE EVALUATION REPORT 1996 TO 2001

MINISTRY OF FINANCE AND NATIONAL PLANNING
PERMANENT SECRETARY (BUDGET & PLANNING)
LUSAKA - ZAMBIA

COMMENTS ON THE ZAMBIA COUNTRY ASSISTANCE EVALUATION REPORT

Reference is made to your letter given to me on Friday 2nd August, 2002. As you are aware it was difficult to get the document I acquired it today 8th August, 2002.

This Country Assistance Evaluation (CAE) focuses on the development effectiveness of the World Bank's program in Zambia from FY96 on wards, as a follow-up to an earlier OED Country Assistance Review that assessed Bank activities through EY95. The conclusion and recommendation of the earlier CAR. only a few of these earlier recommendations were rendered irrelevant in the FY96-01 period: e.g., addressing prolonged suspensions in disbursement. Most were relevant – some prescient and many were acted upon to varying degrees. For example, significant progress was made in privatisation and in increasing investment in physical and social infrastructure. Only limited progress was made in developing entrepreneurs and building public sector institutions to support the private sector. A number of recommendations were insufficiently heeded, with negative consequences to be explored in this evaluation: e.g., avoiding a "one option" assistance scenario, keeping bilateral donors fully engaged, eliminating excessive optimism in projections, relying on adjustment lending to persuade an indecisive client, and relying on pilot projects in agriculture and social sectors.

This evaluation argues that the relevance of strategies to pursue some of the Bank's key objectives was weak. This, coupled with poor implementation of May IDA- supported programs, did little to promote the nascent economic recovery in the FY 96-01 period. Outcomes of the Bank's program during this period, based on a "bottom-up" evaluation of the Bank's projects and services as well as a "top-down" assessment of aggregate economic and social indicators. Among the weaknesses in strategic relevance and poor implementation performance that contributed to unsatisfactory outcomes were:

a) inadequate progress on macroeconomic stabilization, land support for an external debt management strategy that undermined stabilization and structural reform;
b) poor sequencing of privatisation and length delays in privatisation of the copper mines;
c) insufficient advocacy and response to the devastating effects of HIV/AIDS;
d) negligible progress on public sector reform and expenditure management; and
e) inadequate attention to targeted social safety net programs. Although outcomes were unsatisfactory, institutional development impact is deemed no debt 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. However, these areas were constrained by a marked lack of institutional development related to public sector reform, decentralization and public expenditure management. While net benefits of the program were limited and below expectations, those that did accrue (mostly transition to a market economy and modest diversification) are likely to be sustained.

CONCLUSIONS AND RECOMMENDATIONS

Evaluation of the FY96-01 period leads to conclusions and recommendations in a number of areas, many of which build on the findings of the FY9 Country Assistance Review. Main conclusions and recommendations are as follows:

Debt management and adjustment lending. Adjustment lending proved to be an inadequate instrument to deal with the dual objective of timely debt servicing and deepening of structural reform, 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 .

Aid coordination and macroeconomic stabilization. Weak progress on macroeconmic stabilization, coupled with inadequate development resources, have undermined supply response. If the pre-conditions for high-case IDA lending are not met – with respect to GRZ performance or burden sharing by the donor community – the Bank should reduce lending. Not doing so undermines Bank credibility and results in poor use of IDA resources and outcomes below CAS expectations, Recommendations:

- Strengthen coordination with the IMF and donor community to provide consistent support for macroeconomic stabilization and sufficient burden-sharing to enhance the impact of IDA resources.

- Articulate downside scenarios within the upcoming CAS, and advise the Board of the limits to growth and poverty reduction in the absence of complementary support from the international community.

Analytic and advisory services. The relevance of Bank strategy has been weakened by not fully incorporating the findings of economic and sector work, nor disseminating them broadly, Recommendation:

- Precede the FY02 CAS with participatory analytic work on constraints to diversification and growth, and ensure that the CAS is fully consistent with analytic findings.

Structural reforms. The Bank needs to focus on reforms with the greatest potential impact on growth and poverty reduction. Recommendation:

- In line with Zambia's draft 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.

Sector investment lending. Physical investments have been insufficiently linked to implementation of relevant sector reforms. Support for SWAPs is promising, but has not provided evidence of better outcomes. Recommendations:

- Link investment lending explicitly to sector strategy development and policy reforms. Where sector reform is supported by adjustment lending, ensure complementary support is in place for technical advice and critical investments.

- 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. Support national planning mechanisms to resolve cross-sectoral issue. Enhance field office supervision capabilities.

Social safety nets. Despite high relevance, the Bank missed an opportunity to provide leadership on the design of appropriate social safety net policy and the role of redistributive programs in a low-income country. Recommendation

- Take advantage of the PRSP process to stimulate national debate on safety policy, analyse safety net options and assess resource needs.

<u>COMMENTS</u>

a) The Report is comprehensive, however, it would have been more helpful if the Recommendations were centred on all the Subheadings covered in Report which includes

    i) Macroeconomic and External Debt Management

    ii) Privatisation and Private Sector Development

iii) Public Sector Efficiency
iv) Aids Coordination and Resource Mobilisation

b) The Language in certain sections which include 3.17, 3.18, 4.3 and 4.5 is too strong.

c) The Recommendations are accepted, however, under;
   i) Aid coordination the preamble should be changed where it states that the Bank should reduce lending:
   ii) Sector investments add capacity building:

Attachment 2

External Panel Review

Summary

1. A three-person external panel conducted an *ex post* review of the Zambia Country Assistance Evaluation (CAE) that served as a complement to external peer review during preparation of the evaluation.[22] This note summarizes panelists' assessments, which broadly validate the conclusions of the evaluation while highlighting several areas where additional emphasis may have been warranted.

2. ***Overview.*** Panelists felt the report provided "a good broad overview of a fairly complex and difficult case," and was described as "bold" and "unusually frank." One reviewer found that "the assessment of development outcomes is well focused and balanced and covers most of the pertinent considerations. The conclusions and recommendations are sufficiently detailed and appropriate." In contrast, another reviewer felt that "the paper makes a number of very pertinent points, but somewhat limited recommendations." This panelist pointed to seemingly "significant institutional obstacles within the World Bank in implementing recommendations and lessons learned," particularly with respect to the 1996 Country Assistance Review recommendations on poverty, HIV/AIDS and human development. More rigorous self-assessment is suggested to measure progress in applying lessons of evaluation to future assistance strategies.

3. ***Areas of agreement.*** Panelists concurred with many of the analytic findings of the evaluation, including the following:

- A singular focus on privatization—particularly mining privatization—diverted attention and resources from reforms of the investment climate and of the legal and regulatory framework for private sector development.

- Insufficient attention to, and consistency of, macroeconomic management undermined private sector response to liberalization and privatization.

- Attempts at concessional financing of Zambia's debt overhang, in the absence of complimentary development resources, led to sub-optimal use of IDA resources and to economic performance that fell short of expectations for growth and poverty reduction.[23] The inability of the country team to affect this decision, which was made at a broader institutional level, was noted by panelists.

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[22] Panelists included: Mr. Oliver Saasa, Professor of International Economic Relations, Institute of Economic and Social Research, University of Zambia; Mr. Peter McDermott, Principal Advisor, USAID Africa Bureau (formerly Country Representative, UNICEF, Zambia, 1997-2001); Ms. K. Burke Dillon, Executive Vice President, Inter-American Development Bank (formerly Chief, Southern Africa Division, IMF, 1988-92).

[23] A panelist cautioned that the true measure of success in the shift to debt relief will be a sustained increase in net resource transfers to Zambia—and this has not yet been demonstrated.

- Inadequate and delayed response to the HIV/AIDS epidemic has had devastating effects on social welfare, economic growth and institutional development. Weak and deteriorating institutional capacity is a root cause of poor implementation for SWAPs and for public sector policies and programs in general.

- Strategy for poverty reduction has been insufficiently informed by national debate and global knowledge on social protection, particularly the role, scope and nature of social safety nets.

4. ***Areas for additional emphasis.*** Panelists uniformly identified several interrelated areas where they felt the evaluation could have provided deeper analysis and recommendations for future World Bank strategy:

- *Governance and corruption.* Although addressed in many places, governance and corruption issues were seen as central, requiring synthesized thematic analysis. As one panelist stated: "Corruption, in particular related to the sale of national assets and the mines, as part of the World Bank privatization strategy, needs to be given more prominence.... The role of the World Bank in putting in place effective and transparent mechanisms to limit corruption, and applying 'conditionality' to enforce the implementation of anti-corruption legislation needs to be discussed further." Another reviewer concurred that "this is an area that not only drains resources away from needy causes but, perhaps more damaging, tends to adversely affect the functioning of institutions and markets. Unless corruption in high offices is addressed as a capacity draining phenomenon, little shall be realized in the facilitation of an enabling environment for achieving growth and fiscal stability."

- *Human capacity development.* Related to governance concerns is the issue of long-term human capacity development necessary for effective institutions. Reviewers felt the evaluation focused on only one factor—the HIV/AIDS epidemic—rather than a broader analysis of the need for, and constraints to, human capacity development, particularly within the public sector, in the context of much needed civil service reform. As one reviewer stated: "While the issues of public service 'reform' are all valid (particularly getting fewer but better paid and more qualified civil servants), could the Bank not think more broadly in terms of public service 'development'?.... What are the main problems in the public service? Are there ways to address these issues systematically, not just project by project?.... In the meantime, how do we develop programs, and administrative and management systems, truly geared to the current capacities of the civil service?"

5. Other areas where individual reviewers saw need for enhanced analysis include: (i) World Bank support for decentralization policy; (ii) complementarities among strands of Bank strategy to ensure pro-poor outcomes; and (iii) the impact of global market conditions on mining development. One reviewer also expressed concern about the inherent limitations in assessing development outcomes when confronted with imperfect or unknowable counterfactuals.

Attachment 3

MANAGEMENT ACTION RECORD

OED Recommendations	*Management Response*
Zambia Country Assistance Evaluation *Africa Region:*	
• Enhance the impact of structural adjustment lending through operational designs that focus on results, with a clearer link between objectives and conditions.	• Structural adjustment lending is expected to focus on (i) enhancing the governance structure through improvements in budget management and expenditure systems—at ministerial as well as local levels; and (ii) sector specific policy reforms linked to investment operations mostly focused on agriculture, private sector development, infrastructure and health.
• 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), scaling-up the response to HIV/AIDS and expanding targeted social safety net programs.	• The FY03–04 work program (both lending and AAA) focuses on exactly what OED is recommending. In line with the Zambia PRSP, the program will have three pillars: improving governance and accountability, accelerating diversification, and improving social service delivery (access and use) including rationalization of safety net interventions.
• Improve the effectiveness of Bank support for SWAPs through greater emphasis on: (a) institutional development to strengthen implementation; (b) improved expenditure frameworks and accountability; and (c) timely development of monitoring and evaluation systems.	• We have almost completed a health sector review in conjunction with the Health Sector Support Program ICR which will make recommendations about improved accountability and governance in this sector. Similarly, the lessons learned from Agriculture Sector Investment Program (ASIP) are being fed into the design of a new agriculture operation which focuses partly on improving accountability and service delivery at the local level. In addition, there is a larger, ongoing ESW, Public Expenditure Management and Fiscal Accountability (PEMFAR) which is reviewing the totality of the government expenditure system. The recommendations of this work will be followed up by a TA operation to assist GRZ to improve priority areas of its public expenditure system.

OED Recommendations	*Management Response*
Africa Region and HIPC Debt Initiative Unit:	
• Revise Zambia's debt sustainability analysis based on realistic assumptions for growth and exports. Outline the implications for debt relief accordingly, to ensure a sustainable external position.	• An effort has already been underway toward that goal by the Bank's HIPC Debt Initiative Unit since April 2002. The HIPC Unit's preliminary estimates in May 2002 showed updated figures for debt indicators as well as the range for potential topping up that may be required in Zambia. However, these estimates may still need to be revised once more in view of a more certain outlook for the copper sector and the economy in general.

Attachment 4

November 5, 2002 CODE2002-0081

REPORT TO THE BOARD FROM THE COMMITTEE ON DEVELOPMENT EFFECTIVENESS

Informal Subcommittee's Report on Zambia Country Assistance Evaluation

(Meeting of October 21, 2002)

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1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness met on October 21, 2002 to discuss the Country Assistance Evaluation (CAE) for Zambia (CODE2002-0075).

2. OED remarked that the evaluation of the Bank's program in Zambia from FY96 onwards confirmed that the Bank was instrumental in supporting liberalization and legal reform in the early 1990s which helped restore modest, private-sector led growth in the second half of the decade. However, outcomes of the Bank program during the FY96-01 period were found to be unsatisfactory. Contributing factors included weak Government commitment and capacity, as well as exogenous regional situations. OED highlighted in particular two areas where the Bank could have taken a different course of action to make a more positive contribution to growth and poverty reduction, namely external debt management and structural reform and the HIV/AIDS pandemic. The Bank's exceptionally high lending scenario was predicated on progress in macroeconomic stabilization, strong performance on structural reforms, and exceptional inflows from the international community. However, OED noted that when these preconditions were not met, the Bank remained in the high case lending scenario. Pressure for timely balance of payments support weakened the design and supervision of structural adjustment operations, undercutting programs in key areas such as privatization and public sector reform. The Bank sought to address this issue in 2000 through the HIPC initiative, however, this has proven insufficient and must be reexamined. OED further noted that though the Bank's Poverty Assessment in the mid-1990s had flagged HIV/AIDS as the greatest threat to social welfare and economic growth in Zambia, this analysis was not fully integrated into subsequent economic work nor reflected in the CAS. The Bank did not engage in serious policy dialogue or program support on this issue until 2000. OED remarked that subsequent dialogue with the Government has been useful but stressed that this issue needs to be frankly addressed in the upcoming CAS.

3. Management welcomed the CAE and noted that many of its findings and recommendations are already being incorporated in the work program and would be reflected in the new CAS. However, Management emphasized that the evaluation did not account for the realities on the ground and the choices the Bank had to make at the time. With regard to the Bank's debt strategy, Management pointed out that debt forgiveness was not an option available to the Bank at the time. Management agreed that the Bank had continued to finance the country despite its mixed performance, but stressed that a judgment had to be made between pulling out of Zambia completely while the country was in a fragile situation or remaining engaged and making slow progress on reforms. In this regard, Management stressed that the evaluation did not examine the

counterfactual. Management further emphasized that they had carried on a continual dialogue with the Government on the importance of addressing HIV/AIDS but could not force programs in the face of weak Government commitment in this area. Management disagreed with the unsatisfactory outcome rating of the CAE and stressed that the evaluation did not account for great progress made in the major transformation of a socialist economy to a primarily market-based economy. Lastly, Management noted that OED's country evaluations needed to be more realistic with an understanding of the context and choices faced by Bank staff during the time period evaluated if they were to be helpful learning tools.

4. The Chair representing Zambia thanked OED for a comprehensive and detailed evaluation. She stressed that the focus should be on lessons learned on the basis of the evaluation, particularly with regard to the PRSP and ongoing CAS processes. She noted that Zambia provided an excellent example for learning from early experiences with sector-wide approaches (SWAPs), as documented in the evaluation. She emphasized that it was important to understand the context and realities on the ground in Zambia during the time period under review. She noted that this was a period of major transformation from a socialist system to a market-based one. She further stressed that the Bank's projects and programs had great relevance in the Zambian context but acknowledged that there had been problems with implementation. She stressed the importance of the Bank's presence and support to Zambia during a critical transition period, but called for more realism and a frank discussion of risks going forward.

5. The SC welcomed the CAE and thanked both OED and Management for their participation. The SC raised the following issues:

6. **Privatization.** The Subcommittee discussed the Bank's focus on the privatization of ZCCM as the primary component of its program in Zambia. Some members stressed that the Bank should also have paid adequate attention to poverty and social issues given the extremely high rates of poverty (70%) in Zambia. The Subcommittee asked what lessons could be learned from this experience for the Bank's programs in privatization and ways to balance these with the Bank's poverty reduction objectives. One member noted that the issue of privatization seemed to arise repeatedly in CAEs and asked whether OED could undertake an evaluation of the Bank's advice in this area. OED responded that they were preparing a study on private sector development and investment climate issues and this would be likely to address several issues in the area of privatization. Management responded that ZCCM represented 70-80% of Zambian exports and thus, it was necessary for the Bank to focus on the privatization of ZCCM before progress could be made in any other areas.

7. **Debt Management and Adjustment Lending.** The Subcommittee expressed concern that the Bank had continued lending to Zambia in a high case scenario despite the Government's inability to meet preconditions and performance targets. Members stressed that performance-based lending should be given priority and the Bank's lending programs should be scaled back if targets were not met. Some members stressed the importance of strengthening the design, supervision, and monitoring and evaluation of adjustment lending. Some members questioned the effectiveness of the HIPC initiative, particularly noting the preponderance of overly optimistic growth assumptions underlying the analysis and asked OED to evaluate the initiative. OED responded that they were preparing an evaluation of the initial phase of HIPC and Zambia is one of the case studies.

November 5, 2002 CODE2002-0081

8. **SWAPs.** Some members discussed Zambia's experience with SWAPs and asked about the lessons learned from the first SWAP in Zambia. They discussed capacity and implementation constraints, the costs of preparing SWAPs, the importance of Bank technical expertise on the ground, and the need for simple goals and objectives with SWAPs. Members found the annex on SWAPs to be particularly useful, but noted that they would have welcomed specific advice and recommendations on how to improve SWAPs. Management responded that while SWAPs were a good initiative in principle, they were complex to implement and required greater country capacity, improved public sector management, and harmonization of donor procedures. However, Management was working to address these areas in order to make progress with SWAPs in Zambia.

9. **Ratings System.** Members discussed the rating system used by OED and wondered whether it would be better to simply present factual evaluations without providing an overall outcome rating of Bank performance, noting natural sensitivities in this area. OED responded that the Bank needed to make progress on self evaluation of country performance and the ideal outcome would be a self rating system with OED validation. OED also added that ratings in CAEs are important because they will help OED develop overall performance indicators for country assistance strategies, including time series, similar to those currently used for project outcomes. Management agreed but stressed that it was important for OED and Management to create a tool that was useful for both sides.

10. **Donor Coordination.** The Subcommittee emphasized the importance of donor coordination in Zambia both in the design and implementation of programs.

Sharon Weber
Chairperson, CODE Subcommittee

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