AFRICAN DEVELOPMENT BANK GROUP

ZAMBIA

ECONOMIC RECOVERY PROGRAMME

Project Performance Evaluation Report (PPER)

OPERATIONS EVALUATION DEPARTMENT
(OPEV)

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ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
BOP	Balance of Payments
BOZ	Bank of Zambia
CG	Consultative Group
COMESA	Common Market for Eastern and Southern African States
DBZ	Development Bank of Zambia
EEC	European Economic Community
EBZ	Export Board of Zambia
EPZ	Export Processing Zone
EPCP	Economic Prospects and Country Programming
ERP	Economic Recovery Programme
FUA	Fund Unit of Account
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
IDA	International Development Association
IMF	International Monetary Fund
ODA	Overseas Development Administration
OGL	Open General Licence
MIGA	Multilateral Investment Guarantee Agency
MMD	Movement for Multiparty Democracy
MOF	Ministry of Finance
MPDE	Method for Project Design and Evaluation
NEMIC	National Economic Monitoring and Implementation Committee
NGO	Non-governmental Organization
NTEs	Non-traditional Exports
PCR	Programme Completion Report
PPAR	Programme Performance Audit Report
PFP	Policy Framework Paper
PSRP	Public Sector Reform Programme
PTC	Posts and Telecommunications Corporation
SADC	Southern African Development Community
SAP	Social Action Programme
UA	Unit of Account
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
ZA	Zambian Airways
ZCCM	Zambia Consolidated Copper Mines Ltd.
ZESCO	Zambia Electricity Supply
ZIMCO	Zambia Industrial and Mining Company
ZIC	Zambia Investment Centre
ZPA	Zambia Privatization Agency
ZR	Zambia Railways
ZRA	Zambia Revenue Authority

PREFACE

1. This Programme Performance Audit Report (PPAR) reviews the Economic Recovery Programme (1991-93) for which an ADF loan of UA 18.42 million (loan number N/ZAM/ECR-SAP/91/24) was approved on 18 June 1991. The programme was financed by other donors for a total sum of US$ 303.344 million. The Borrower was GRZ and the Executing Agency was MOF, while the management of loan proceeds was vested in the BOZ. The planned and actual contribution of ADF was UA 18.42 million which was disbursed in two tranches. The loan agreement became effective on 28th August, 1991 and disbursements were completed by May 1992.

2. The objective of the programme was to restore macroeconomic stability in Zambia, deregulate the economy and create an environment conducive to private sector initiative. The overriding goal was that of reversing the then on-going declines in economic activity and restore the economy on the path of sustained growth.

3. This PPAR, which is a follow-up to the Fund's PCR, is based on the findings of an evaluation mission which visited Zambia in February 1997. It has also benefitted from the Fund's Appraisal Report, the PCR prepared by the Borrower, as well as data and information provided by Zambian authorities and other donors.

4. This report is organized as follows: Chapter one provides a summary of the findings of the report while Chapter 2 traces the background to the programme. Chapter 3 deals with implementation and achievements of the programme while Chapter 4 contains the analysis of the outcome of the programme. In Chapter 5 and 6 programme's sustainability and ratings are discussed while Chapter 7 contains the conclusions and recommendations, as well the performance ratings, logical framework matrix and matrix of follow-up actions.

BASIC PROGRAMME DATA

A - The Borrower

Country	:	Republic of Zambia
Programme	:	Economic Recovery Loan I
Loan Number	:	F/ZAM/ECR-SAP/91/24
Beneficiary	:	Government of Zambia
Executing Agency	:	Ministry of Finance

B - The Loan

		Planned	Actual
Amount (millions)	:	UA 18.42	UA 18.42
Date Approved	:	18/06/91	18/06/91
Date Signed	:	01/07/91	01/07/91
Effective Date	:	28/08/91	28/08/91
Date of First Disbursement	:	03/09/91	03/09/91
Date of Final Disbursement	:	(i) (ii)	(i) 27/04/92 (ii) 14/05/92 (iii) 14/05/92
Completion Date	:	31/12/93	31/12/93

C - Bank's Mission to Zambia

	Purpose	Duration	No. of Staff
1)	Preparation/Appraisal	25/02/91-09/03/91	-
2)	Follow-up	December 1991	1
3)	Midterm Review	06-16 March 1992	4
4)	Recovery of Arrears	09-16 March 1992	2
5)	Consultative Group		
		(a) 23-24 March 1992	2
		(b) 06-07 April 1993	2
6)	Operations Review	12-24 March 1993	2
7)	SPA	Bi-annually	2
8)	PCR	June 1994	2

D -	**The Programme**	**Planned**	**Actual**
	Total Cost[2] (millions)		
(i)	ADF	US$ 24.8	US$ 24.8
(ii)	IDA	US$210.0	US$247.2
(iii)	Republic of Germany	US$ 22.0	US$ 22.0
(iv)	Finland	US$ 2.298	US$ 2.298
(v)	Norway	US$ 1.2	US$ 1.2
(vi)	The Netherlands	US$ 5.846	US$ 5.846
	Total	US$303.344	US$303.344
	Period of Implementation:	15 months	15 months
	Date and Ref. No. of PCR:	---	October 1994

E - Performance Indicators

Cost overruns	:	NIL
Implementation Performance	:	Highly Satisfactory
Project Outcome	:	Satisfactory
Bank Performance	:	Satisfactory

[2]Based on information derived from World Bank's Programme Completion Report on the Economic Recovery Credit.

1. EVALUATION SUMMARY

1.1 Objectives and Scope

1.1.1 The Economic Recovery Programme (1991-94) was a sequel to two earlier unsuccessful attempts by the Government of the Republic of Zambia (GRZ) at the restoration of macroeconomic stability and growth. Earlier attempts were in 1983-85 and in 1985-87 respectively. The latest attempt, which formed the basis of the programme under review, was launched in 1988 with the Interim National Development Plan. The main objectives of the ERP (which grew out of the Interim National Development Plan) were to restore sustainable economic growth, liberalize the economy and expand the role of the private sector. Prior to the formulation of the programme, the pursuit of inappropriate macroeconomic policies, together with declining export earnings, had led to virtual economic collapse and an accumulation of external debt arrears particularly to the World Bank. It was therefore essential for GRZ to eliminate its arrears to that Institution in the context of the implementation of a reform programme in order to regularize its relations with other creditors, including the ADF, and hence permit a greater flow of resources.

1.1.2 Under the programme, the GDP was projected to grow at an annual rate of 3% while the rate of inflation was to be lowered progressively from 75% in 1990 to 10% in 1993. In order to diversify the economy, non-traditional exports were to be increased by 20% in 1991 and by 10% per annum in real terms thereafter. Fiscal deficit was to be reduced from 4.5% of GDP in 1990 to 0.4% in 1992 with the ultimate goal of achieving a small surplus in 1993; and the growth rate of M2 was to be held to no higher than 10% by 1993. Elsewhere in the economy, Public Service Reform Programme was intended to trim the size of the civil service and rationalize its role for increased efficiency. Most parastatals were to be either reformed or privatized.

1.1.3 The methodology adopted in this PPAR is to compare results after the programme to the targets set under it. Discussions and interviews were held with Government officials and with representatives of the donor community in Zambia. Other sources of information were the Bank Group's documents relating to the Economic Recovery Loan.

1.2 Implementation Performance

1.2.1 The total cost of the reform programme was US$ 303.344 million. The planned and actual contribution of the Bank was UA 18.42 million (US$ 24.8 million) which was fully disbursed as of May 1992. According to the Loan Agreement, the ADF Loan was to be disbursed in two tranches over a period of 15 months but at donors' meeting held on 22 and 23 July 1991, it was agreed that donors who were in a position to disburse could do so in order to avert a derailment of the programme. Consequently the ADF decided to release the first tranche of UA 11.05 million on 28 August 1991. At a mid-term review meeting in March 1992, it was certified that conditions for the release of the second tranche had been met and the second tranche was accordingly released in two payments: UA 3.35 million on 27 April 1992 and UA 4.02 million on 14 May 1992.

1.3 Institutional Aspects

1.3.1 The Borrower was GRZ and the Executing Agency was the Ministry of Finance, with the close collaboration of the Bank of Zambia. The MMD Government and its leadership committed themselves fully to the implementation of the programme by taking the necessary steps to meet all loan conditions. The responsibility for managing and monitoring the programme was assigned to a technical committee -- the National Economic Monitoring and Implementation Committee chaired by the Minister of Finance, which met regularly to coordinate executive decisions.

1.3.2 Although the Bank did not participate in the design of the programme, it found it to be completely consistent with GRZ policy objectives as well as Bank Group strategy as elaborated in the last EPCP (ADB/BD/WP/93/55 and ADF/BD/93/64). The Bank nevertheless undertook an appraisal mission on 25 February to 9 March 1991, prepared the ERP in accordance with Bank Group guidelines, and then monitored programme throughout the implementation period.

1.4 Programme Impact

1.4.1 Aggregate Impact: The outcome of the programme was mixed. On the one hand, it succeeded in shifting the philosophy of the Government away from one of regulation of the economy to free enterprise. On the other, the performance of the economy, particularly in the early years of the programme, was not impressive. Sluggish supply response (which can be attributed to droughts) and budget overruns were largely to blame.

1.4.2 But the implementation of the programme has improved the country's economic prospects considerably. The economy is completely deregulated and a conducive environment has thus been established for private sector initiative. The rate of inflation has been brought down, although it is still too high. The budget deficit has been eliminated and the growth of money supply severely curtailed.

1.4.3 The exchange rate has been liberalized and has indeed witnessed significant nominal devaluation. The real exchange rate is yet to depreciate significantly as the nominal rate. Non-traditional exports have increased, thus reducing the economy's dependence on copper. The privatization programme has also progressed satisfactorily.

1.4.4 Sectoral Impact: Agriculture, the mainstay of the economy, has not responded sufficiently well to the policy reforms. Weather conditions were largely to blame for this. In industry, the reduction in tariffs is harming local manufacturers as many of them are collapsing because of their inability to compete with cheap imports from abroad. The mining sector is also beginning to pick up again as a result of the availability of foreign exchange and the inflow of external funds made possible by the privatization programme.

1.4.5 The achievement of the programme was limited in the area of institution-building as the PSRP failed to get underway. New efforts are required in this area to reduce the size of the civil service, rationalize its operations and improve staff morale.

1.4.6 Socio-economic Impact: As a result of the declines in GDP growth rates, per capita incomes continued to decline. The implementation of the programme, which calls for cuts in expenditures on the social sectors, has combined with declining per capita incomes to worsen the poverty situation.

1.4.7 Environmental Impact: The drought which occurred during the programme period has combined with increased cultivation and grazing to worsen the environmental outlook. There is a compelling need to intensify environmental protection.

1.5 Sustainability:

The programme has succeeded in laying the foundations for future programmes of this type. But the sustainability of current efforts will depend among other things, on the political will of the Government to sustain and deepen the reforms, on the ability of donors to continue to assist Zambia, on the willingness of Zambians to live with the short-run consequencies of adjustment, and on the prospects for debt relief. With regard to external support, it needs to be mentioned that since the completion of this programme, the World Bank has maintained an active presence in Zambia through annual related programmes.

1.6 Conclusion:

The implementation of the programme has created a major policy shift on the part of the Government away from rigid control over the economy to one of free entreprise. It has also created a conducive environment for private sector initiative. But the reforms need to be sustained in order to have a lasting impact on the economy.

2. BACKGROUND

2.1 The Economic Context

2.1.1 At independence in 1964, the Zambian economy was heavily dependent on the mining sector and on copper in particular. Mining accounted for about 50 per cent of GDP as well as over 90 per cent of foreign exchange earnings and most of Government revenue. The Zambian economy experienced an unprecedented boom in the mining sector in 1960s with the surplus from that sector financing investments in manufacturing, public service and the social sectors. The role of the state in the economy increased significantly after 1968 with the Mulungushi Declaration which ushered in the expansion of parastatals in a number of sectors.

2.1.2 But following the collapse of the world market prices for copper in 1970s, the Zambian economy faced a major problem of adjustment. During this decade, copper prices plummeted as oil prices accelerated, resulting in an estimated external terms of trade loss equivalent to 5 per cent of GDP for Zambia. The GDP, and virtually all the key macro-economic indicators deteriorated. Rather than responding to the external shock by adjusting to the new realities, the GRZ resorted to external borrowing to maintain the old consumption levels. The perpetuation of earlier elevated consumption levels while the terms of trade continued to deteriorate aggravated the cumulative decline of the economy in 1980s. The failure of the GRZ to adjust the exchange rate of the Kwacha also resulted in a highly over-valued currency, with its consequent anti-export bias. External borrowing increased initially but as foreign external borrowing became more difficult in the 1980s, the Government resorted increasingly to domestic bank borrowing, with severe implications for the price level.

2.1.3 It was these inappropriate policies -- failure to design appropriate responses to the external shocks and the pursuit of inappropriate exchange rate policy -- that have since confronted GRZ. As indicated above, not only was there a large expansion in the civil service since 1968, but the number of parastatals increased tremendously while the country's revenue base and indeed, the overall earning capacity, contracted. The civil service became over-established with too many employees who were poorly remunerated while the management systems became increasingly ineffective. Low morale became the norm in the civil service. The parastatals were similarly inefficiently managed and most of them registered heavy losses which were financed from annual Government budgetary subventions.

2.1.4 Shortages became rampant as GRZ economic management was dominated increasingly by the use of administrative controls. These controls had, among their consequences, the suppression of incentives in the private sector. Furthermore, although fiscal policy was ostensibly aimed at generating surplus to supplement private savings, annual budget deficits were the norm because of expenditure overruns which were financed largely by domestic borrowings. These had the effect of aggravating the inflationary spiral in the economy. By late 1980s real per capita income had fallen from US$ 720 in 1981 to US$ 420. At the same time, part of the gains achieved in social welfare during the decades following independence were reversed. For example, life expectancy at birth which had risen to 50.1 years in 1980 fell to 49.7 by 1990 as a result of the increase in infant mortality during the period.

2. History of Policy-Based Operations -- Bank Group and Other Donors

2.2.1 Prior to the formulation of the programme under review, Zambia had had three other similar programmes, all of which were abandoned midstream. The Government's earliest response to the economic crisis was the 1983-85 Structural Adjustment Programme. This programme was aimed at reducing structural dependence on copper and correcting macroeconomic imbalances through the realignment of relative prices, currency depreciation, trade reforms and price deregulation. In the course of implementing this programme, copper prices weakened considerably. The programme was subsequently abandoned because of political resistance and because of shortfall in donor support.

2.2.2 In 1985, another attempt at reform was made. The programme which ensued covered the period 1985-87. This programme which had the support of the ADB, the World Bank, the IMF and the donor community, called for far-reaching macroeconomic and structural reforms. Domestic financial policies were to be tightened and the exchange rate was to be market-determined. But like the earlier programme, it was severely affected by shortfalls in copper prices, large budgetary deficits and the rapid expansion of the money supply. These economic difficulties were compounded by the social unrest which accompanied the removal of food subsidies. And like the first programme, the 1985-87 programme was also abandoned.

2.2.3 In July 1988, the Government introduced an 18-month Interim National Development Plan which formed the first phase of a New Economic Recovery Programme (NERP). A Policy Framework Paper (PFP) was prepared and endorsed by both the World Bank and the IMF for the period 1989-93. As a consequence, the Government was able to reach an agreement with both institutions on the implementation of a Structural Adjustment Programme. The objectives of the programme were to reduce the budget deficit, control monetary growth, liberalize the financial market and unify the dual exchange rates. Fiscal deficit was to be brought down to less than 1 per cent in 1991 and surpluses were to be generated in subsequent years of the PFP. These measures were expected to lower inflation to not more than 40 per cent in 1991 and to 10 per cent or less in 1993. In the course of implementing these measures, the Government revised the PFP and extended its lifespan to 1991-93. In addition, an annual Fund monitored programme for 1990 was approved by the IMF Board. The programme was intended to achieve a stable macroeconomic environment which would pave the way for an orderly structural reform of the economy and further external financial support. Consequently, upon World Bank approval of the PFP, IDA approved an Economic Recovery Credit of US$ 210.0 million and two supplementary credits for a total of US$ 247.2 million, and on June 18, 1991, the Board of Directors of ADF approved a Loan of FUA 20 million (UA 18.42 million) in support of this programme. The governments of Finland, Norway, the Netherlands and Germany provided financial support in the form of grants. Altogether, the Programme attracted a financing package of US$ 303.34 million.

2.3 Programme Formulation

The Economic Recovery Programme followed two earlier unsuccessful attempts at policy reform. The aim was to reduce the scope of Government intervention in the economy and create a more conducive environment for private sector initiative all with a view to generating sustainable growth. Although the ADF did not participate in the formulation of the PFP, the ADF appraisal team nonetheless found the PFP to be entirely consistent with the Letter of Development Policy which the Government forwarded to the ADF. The Government's policy agenda as

contained in the letter of Development Policy, included the implementation of far-reaching reforms, all of which were aimed at creating a conducive environment for the restoration of economic growth.

2.4 Programme Rationale

The rationale for the present programme is to be found in the earlier failed attempts at policy reforms. Domestically, economic situation was deteriorating as measured by the key economic indicators such as the balance of payments, inflation, investment and growth, and the shortages in the goods markets. Externally, the financial community was abandoning Zambia because of external debt arrears and the failure to service debt obligations, in particular debt owed to the World Bank and the IMF. The only way forward to Zambia appeared to be the restoration of credit worthiness in the context of the implementation of policy reforms. Consequently, an IMF-monitored programme was approved in June 1990 and in April 1991, the IMF Board approved the Rights Accumulation Programme under which Zambia would gradually accumulate rights to withdraw IMF resources such that after three years, the accumulated rights could be used to withdraw sufficient resources to clear outstanding debt of about US$ 1 billion by mid-1990. The implementation of policy reforms thus became a condition for external financial support. While the World Bank led the effort to restore Zambia's credit worthiness and raise external financial support for the subsequent reform programme, the ADF loan was meant to support that effort by assisting the Government of Zambia to continue to implement the additional measures outlined in the revised PFP.

2.5 Objectives and Scope at Appraisal

2.5.1 The main objective at appraisal was to restore sustainable economic growth, liberalize the economy and expand the role of the private sector. The establishment of a conducive economic environment was expected to boost the private sector, which in turn was expected to lead to the recovery of the Zambian economy. To this end, the programme was to open up the international market place by reforming the trade regime and the system of foreign exchange allocation and price deregulation. Since the underlying cause of the chronic inflationary spiral in Zambia had been largely the prevalence of fiscal deficit, the programme was to address this problem through the use of tight fiscal and monetary policies, and the associated revenue and expenditure reforms.

2.5.2 The GDP annual rate of growth was projected to grow at 3% per annum for 1991-93 period, while the rate of inflation was expected to be lowered progressively from 75% in 1990 to 10% in 1993. The economy was to be diversified by increasing non-traditional exports by 20% in 1991 and by at least 10% per annum in real terms thereafter. Fiscal deficit was to be reduced to 4.5% of GDP in 1990 and 0.4% by 1992. The rate of growth of money supply (M2) was to be held to no higher than 10% by 1993. Public sector reform was to entail comprehensive restructuring and privatization of the parastatal sector. Further studies were to identify the exact number and specific lines of privatization or liquidation of loss-making parastatals. The thrust of the privatization programme was to liquidate monopolies, enhance efficiency and phase out subsidies.

2.5.3 In order to enhance the incentive system of the economy, widespread price reforms including exchange rate liberalization and domestic price liberalization were to be carried out with vigour. The exchange rate was expected to move progressively closer to the "market-determined" rate, the idea being to finance an increasing number of items through OGL such that by the end of the Programme, only 5 per cent of imports would remain outside the OGL list. The introduction of the OGL was also expected to replace the system of administered allocation of foreign exchange.

2.5.4 In the past, the pursuit of lax monetary and fiscal policies had fuelled the rapid growth in money supply and the consequent increase in the rate of inflation. Under the Programme, monetary policy was to reduce the growth of money supply to no more than 25% in 1991, 15% in 1992 and 10% in 1993. The Bank of Zambia was to introduce a new 18-month non-rediscountable bond carrying a competitive interest rate. It would also pursue an active and positive real rate of interest policy. Fiscal deficit was to be reduced through an enhanced domestic resource mobilization effort, restructuring of Government expenditures and improvements in budgetary management.

2.5.5 As an economy-wide policy reform programme, the programme also had sectoral concerns. Agricultural output was to be expanded through market liberalization and price deregulation. The manufacturing sector was expected to receive a boost from the liberalization of both the trade regime and the exchange allocation system. The civil service and the parastatals were to be reformed with the latter undergoing a major programme of privatization.

2.6 Financing Arrangements - Bank Group and Others

Prior to appraisal, it was realized that earlier economic mismanagement, decline in export earnings and high debt-service burden had combined to open up large financing gap for Zambia. In addition, it was essential for Zambia to eliminate its arrears to the World Bank in order to be able to regularize its relations with other creditors. Through an elaborate refinancing scheme which is not described here, these arrears were cleared and the World Bank Board was able to approve the Economic Recovery Credit on March 5, 1991. Thereafter, it was not difficult for other donors to join the effort. In all, the World Bank contributed US$ 247.2 million, the Republic of Germany (US$ 22 million), Finland (FM 9.5 million), (US$ 2.298 million), Norway (US$ 1.2 million), the Netherlands (DG 10.0 million), (US$ 5.846 million). The ADF contributed FUA 20 million (US$ 24.8 million), an amount equivalent to about 8% of the total resources mobilized for the Programme.

2.7 Evaluation Methodology and Approach

2.7.1 Ideally, the best way to evaluate the response of an economy to changes in policy is through the use of simulation techniques. But in the absence of a simulation model, the analytical and evaluation method adopted in this PPAR is to compare results achieved by the programme to the targets set under it. Discussions and interviews were held in Zambia with relevant Government officials and representatives of the donor community. Other sources of information were the Bank Group's documents relating to the loan and secondary information and data provided by the Government executing agency and other donors.

2.7.2 Indicators of performance used in evaluation include GDP growth rates, per capita growth rates, budget deficit, growth rates of money supply (broad money), Treasury Bill rates and interest rates on savings deposits, inflation rates as measured by Consumer Price Index (CPI), current account deficit, debt ratios, and savings and investment ratios etc.. The sources of these indicators include Government publications and publications of other donors. It should be noted, however, that it is difficult to isolate the impact of ADF assistance as several donors co-financed the entire Recovery Programme. The focus of the report is therefore on the economy's response to the overall policy measures contained in the PFP.

3. PROGRAMME IMPLEMENTATION AND ACHIEVEMENTS

3.1 Loan Effectiveness

3.1.1 The ADF received a Letter of Development Policy dated 22 April, 1991 from GRZ describing the objectives, policies and actions required under the Economic Recovery Programme as well as a request for financial support for the Programme. ADF Board in a Board Meeting of June, 1991 approved a loan of UA 18.42 million for financing part of the programme. The Loan Agreement between the GRZ and ADF stipulated that the effectiveness of the loan was contingent on the fulfilment by the Borrower of certain conditions relating to the implementation of policy measures contained in the Letter of Development Policy. The ADF loan was to be disbursed in two tranches over a 15-month period. For the disbursement of the first tranche of an amount of FUA 12 million the Borrower was to give an undertaking to the ADF to pursue, on a timely basis, the continued implementation of all the policy and institutional reform measures contained in the Letter of Development Policy; and to consult with the ADF on any proposed major deviations from the Programme. The release of the second tranche was conditional on the satisfactory progress on the implementation of policy and the institutional reforms envisaged in the Economic Recovery Programme and also on the satisfactory utilization of the proceeds of the Loan. In addition, specific measures were indicated relating to the reduction of the average level and dispersion of the rate of tarrif; offering for sale of the first set of parastatals; and the establishment of a programme of action for eliminating redundancies in the civil service

3.1.2 Unlike most Bank-financed projects which have an average of 15.7 months to become effective, the present loan became effective in less than two months from the date of signature. This is remarkable considering Zambia's previous record.

3.2 Implementation Schedule

3.2.1 According to the Agreement, the Loan was to be disbursed in two tranches over a 15-month period. The first tranche (equivalent to 60% of the Loan) was to be released in two equal tranches. But, at a donors' meeting held on 22 and 23 July, 1991, it was agreed that those donors who could disburse should do so in order to avert a possible derailment of the programme. Consequently, the ADF decided to release the whole of the first tranche of UA 11.05 million on 28 August, 1991 the date on which the Loan was declared effective. A mid-term review was carried out in March 1992. The review certified that the conditions for the release of the second tranche had been substantially met except for one relating to the implementation of the second phase of the tariff programme which was, however, cancelled following the consensus by all donors participating in the programme that this condition was of lower priority. The second tranche of UA 7.37 million was released in two payments of UA 3.35 million on 27 April, 1992 and UA 4.02 million on 14 May, 1992, because the BOZ could not initially provide justification for the utilization of the whole amount of the first tranche.

3.2.2 Although the programme was fully implemented within the stipulated period of 15 months, with the benefit of hindsight, one can now say that the period was too short. This explains why some actions took place outside the programme period (e.g. the privatization of ZCCM) and some (e.g. the reform of the civil service) has not taken place at all. But overall, the programme was successfully implemented.

3.3 Costs of Programme, Disbursements and Use of Counterpart Funds

The IDA led the resource mobilization effort with a contribution of US$ 247.2 million. The Republic of Germany contributed US$ 22 million, while the ADF contributed US$ 24.8 million. Other contributors were Norway (US$ 1.2 million), The Netherlands (DG 10.0 million) and Finland (FM 9.5 million). The first tranche of ADF loan was disbursed on September 3, 1991 while the second tranche was disbursed in two instalments -- 27 April, 1992 and 14 May, 1992 respectively. There were no counterpart funds earmarked for the programme.

3.4 Logical Framework Approach - Clarity and Completeness of MPDE

3.4.1 As of the time of appraisal of this programme, the Bank had not yet introduced the Logical Framework Approach to Project/Programme Planning. What was contained in the appraisal report was a policy matrix containing a programme action, and the schedule of their completion. The appraisal report also contains (pp 21-30) the basic thrust of the policy measures to be undertaken during the programme period. The major shortcoming of the programme was that some targets are loosely defined, and indeed some are not measurable. In the appraisal report, one comes across loose objectives like:

- Raise base of personal tax;
- Revise rates of domestic sales and excise taxes;
- Strengthen existing procedures for monitoring and control of expenditures;
- Limit net borrowing by Government from banking system;
- Pursue active interest rate policy.

The non-measurable nature of these targets made post-evaluation exercise relatively difficult to carry out. Nonetheless, a reconstructed retrospective logical framework is contained on p. 32.

3.4.2 These shortcomings notwithstanding, the following indicators have been selected as means of verification of the performance of the programme: GDP and per capita income growth rates, inflation rates, revenue/GDP ratios, expenditure/GDP ratios, budget deficit, investment ratio, domestic savings ratio, interest rates, Fixed Capital Formation growth rates, sectoral growth rates, overall BOP, current account deficit, foreign exchange reserves in months of imports, external debt indicators like debt ratio and debt service ratio.

3.5 Consistency with Bank and Country Strategies and Policies

The thrust of the Bank Group's lending strategy for Zambia over the period 1991-93 as indicated in the last EPCP for Zambia (p. 35-42) was to assist the Government to deregulate and stabilize the economy, create a conducive environment for private sector initiative, and reduce the economy's dependence on copper. Overall, these policies were consistent with Bank strategy of improving economic management in member countries as a precondition for sustained growth. The objectives of the Social Action Programme to protect vulnerable groups from social of adjustment are also consistent with Bank Group policy of eliminating or reducing poverty on the continent.

3.6 Consistency with Regional Economic Integration

3.6.1 At the time of appraisal, there was no attempt to put this programme in the wider context of SADC or COMESA of which Zambia is a member, or indeed of African economic integration. There was, in short, no consideration for the effects of liberalization in Zambia on the neighbouring countries. But the implementation of the Programme has created policy disharmony between Zambia and its neighbours. For example, a survey of the investment incentives offered in the regional neighbouring countries of Botswana, Malawi, Mozambique, Zimbabwe, Namibia and South Africa shows a wide disparity of incentives among these countries. It was also found out that the generous tax incentives offered by other countries are diverting foreign investment away from Zambia into these countries. Similarly, the uneven tariff liberalization in Zambia and in the neighbouring countries is adversely affecting Zambia's manufacturers who now have difficulty in competing with cheap imports.

3.6.2 In the January 1997 Budget Speech, the Minister of Finance undertook to address the problems raised by manufacturers/exporters with regard to their inability to compete with imported final goods. He undertook to work to foster Zambia's enabling environment to include the establishment of a regulatory authority and provisions for private investors to develop export processing zones.

3.7 Policy Reform Measures

The Economic Recovery Loan embraced a broad spectrum of policy reform measures to be implemented throughout the economy. It has sectoral as well as institutional concerns. It even had a Social Action Programme aimed at protecting the poor against the adverse effects of adjustment. These programme measures are fully described in the PCR (pp. 9-16) and in the Appraisal Report (pp. 21-30).

3.8 Institutional Performance and Monitoring
(a) - Borrower and Executing Agency Performance

3.8.1 The Borrower was GRZ and the Executing Agency was the Ministry of Finance, in association with the Bank of Zambia. The Borrower took less than 2 months to fulfill all the conditions to make the loan effective. The disbursement was in accordance with the loan agreement as discussed in 3.1.2. The Borrower also met all other Loan conditions stipulated in the Agreement and submitted regular reports as well as a programme completion report.

3.8.2 The responsibility for managing and monitoring the Programme was assigned to the National Economic Monitoring and Implementation Committee (NEMIC) chaired by Minister of Finance which met regularly to coordinate executive decisions. A Technical Committee was set up to assist NEMIC and to coordinate, monitor and follow-up on technical issues. The Ministry of Finance was responsible for reporting to the ADF on the progress on the implementation of the Programme.

3.8.3 The Technical Committee included representatives of various economics ministries and the Governor of BOZ. The management of the ADF Loan proceeds was vested in the BOZ which was responsible for ensuring the eligibility of goods to be imported with the Loan. It was also to provide documentation and details of disbursement on a regular quarterly basis.

3.8.4 The procurement procedures followed by the executing agency were in line with those prescribed in the Loan Agreement. Although the entire loan has been disbursed, the BOZ is yet to provide justification for the use of the second tranche[3]. The breakdown of the utilization of the first tranche shows that about 60 per cent was spent on the importation of raw materials and intermediate goods; about 35 per cent on spare parts and equipment and the rest on consumer goods.

3.8.5 The BOZ prepared a comprehensive project completion report which was submitted to the Bank. The report describes the programme implementation, monitoring, and GRZ experience and provides a brief assessment of the impact of the programme on Zambian economy. Its assessment of the impact of the Recovery Programme is that the results were mixed: the economy has been deregulated but growth prospects remain fragile at best. The overall performance of the Borrower, while satisfactory, was inadequate with respect to reporting and accounting.

3.8.6 In general, the GRZ followed the Bank's procurement procedures and rules. The loan proceeds were used on eligible items according to the negative list of imports and covered foreign exchange payments of imports from ADB member countries and ADF state participants. It was stipulated in the loan agreement that 20% of the loan could be used for financing oil imports and that all import transactions equal to or more than US$ 2 million would be subject to international competitive bidding; that import transactions below US$ 2 million would be subject to international shopping and that private sector imports would be subject to normal business practices. According to the PCR, the loan proceeds were not used for the importation of oil and individual transactions financed by the loan were all below US$ 2 million.

Bank Performance

3.8.7 The ADF did not participate in the initial design of the programme, but it did receive from the GRZ a Letter of Development Policy dated 22 April, 1991 describing the objectives, policies and actions of the Programme which had already been agreed upon between the GRZ, the IMF and the World Bank. However, the ADF's appraisal mission (25 February - 9 March, 1991) was timed in such a way that the appraisal team attended two donors' meetings in Lusaka: one to review the PFP and the other meeting in preparation for the April 1993 Consultative Group (CG) meeting. The ADF carried out a number of supervision missions. In addition to the appraisal mission, the Bank undertook several missions with respect to the programme. The Bank prepared a Project Completion Report (PCR) on time and it has served as a useful background material for this report.

Monitoring

3.8.8 The Loan was part of resource mobilization effort by the international donor community. As such, a number of informal donors meetings and Consultative Group Meetings were held during the implementation period of the loan. The ADF actively participated in these meetings which, inter alia, reviewed the progress in the implementation of Programme. These meetings provided a useful forum for discussing the progress of the programme.

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[3]From discussions with FLAD, it was confirmed that the use of the second tranche has been justified but that the breakdown, (by category of imports and source of imports) was not available.

3.9 Compliance with Loan Conditions and Covenants

In general, the GRZ met all the loan conditions satisfactorily and in a timely manner. The first tranche was released as soon as the conditions for effectiveness were met. Similarly, the second tranche was released after the mid-term review was satisfied -- thus all the conditions had been met. There was adequate reporting on the past of the GRZ except that relating to the use of the second tranche.

4. PROGRAMME EVALUATION AND IMPACT

4.1 Overview

4.1.1 In the absence of a full macroeconometric simulation model of an economy (which is capable of isolating individual policy effects), it is rather difficult to isolate the impact of policy reforms on the performance of an economy. For the purpose of evaluating the impact of ERP on the Zambian economy, what is attempted in this chapter is to describe the overall response of the economy to the reform measures using the "before" and "after" framework of analysis.

4.1.2 The implementation of the Economic Recovery Programme since 1991 has relatively strengthened Zambia's economic system and improved its macro-economic environment. But the response of the economy has been rather sluggish, largely because of unforeseen developments like drought and the decline in copper prices. Thus, overall, the response of the economy to the policy reforms has been mixed. The economy has been deregulated and an environment for private sector-led growth has been established. But it is too early to conclude that the economy has been restored on the path of sustained longterm growth.

Aggregate Performance

4.1.3 When the programme was put in place in 1991, the Zambia economy was in the throes of a crisis -- GDP and growth rates were declining and the inflation rate was accelerating. The economy was highly regulated and there was little or no scope for private sector initiative The Economic Recovery Programme was put in place in order to reverse these trends. In retrospect, the implementation of the programme has been beneficial to the economy: the economy is completely deregulated and a conducive environment for private sector initiative established. But overall, the impact, as evidence by the evolution of key macro-economic indicators, has been mixed.

4.1.4 At appraisal, the expectation was that real GDP would grow at the rate of 3.1%, 3.7% and 4.3% respectively during 1991, 1992 and 1993. These expectations were not been borne out during the first two years partly because of the sluggish supply response of the economy and partly because of drought which severely affected agriculture, the mainstay of the economy (Annex Table 1). In 1993 however, the economy performed better than expected -- it grew by 6.8% in real terms. The performance for the immediate post-programme period has also been mixed: GDP growth again declined during 1994 and 1995 --mostly as a result of the drought -- but rebounded in 1996 to reach 6.4%. At appraisal, it was also thought that the rate of inflation, which stood at over 100%, would decline to 60% in 1991, 40% in 1992 and to 10% in 1993. These massive declines did not materialize partly because of drought-induced expenditure overruns, as a result of which the rate of inflation actually accelerated. During the programme period, the inflation rate was an average of 159.6% whereas it was 114.5% during 1988-90. But during 1994-96, it declined to an annual average of 44.9%, with 1996 recording the lowest rate of 36%. The massive decline in the rate of inflation -- which is impressive but still inadequate -- must be credited to fiscal discipline on the part of the Government and to the strict control it has imposed over the growth of money supply.

4.1.5 The use of tight monetary policy to compensate for fiscal indiscipline during the programme period meant a reduction of credit to the private sector. Consequently interest rates rose and because of the underlying inflationary spiral, interest rates continued to be negative in real terms. But they have turned negative in recent times because of the decline in the rate of inflation.

4.1.6 Historically, it has always been difficult for Zambia to maintain fiscal discipline, largely because of unforseen expenditures most of which are drought-induced. The programme period was no exception to this statement. Fiscal deficit reached an all-time high of 31.3% of GDP in 1991 (Annex Table 2). But is has started to decline, thanks to the introduction of the cash brought in 1993, and the performance of the Revenue Authority in mobilizing domestic resources. A surplus of 1% was actually recorded in 1996.

External Sector Developments

4.1.7 Prior to the Economic Recovery Programme, all prices including the exchange rate, were highly regulated. The country also operated a dual exchange rate system. One of the aims of the ERP was to deregulate the foreign exchange market and indeed, unify the two rates. In 1992, the Government licensed bureaux de change as part of the deregulation process. With the introduction of the Open General Licence in 1990, and the interbank foreign exchange system in 1993, the exchange rate was liberalised. The nominal exchange rate has been devalued progressively since then. (From a rate of 42 kwacha to one US dollar in 1990, the rate now (March 1997) stands at 1275 kwacha to the dollar). The steep devaluation of the nominal rate has not been matched by a similar devaluation of the real rate. The combination of large aid flows, a slight improvement in copper prices and the restraint on domestic demand has prevented a steep devaluation of the real exchange rate. But it needs to be said that there has been improvement in this regard relative to the pre-progamme period.

4.1.8 As expected, the balance of payments situation has worsened relative to the pre-programme period (Annex Table 4). The current account balance continues to deteriorate while the deficit (as ratio of GDP) averaged 8% annually between 1991-96. The external reserve position also remains precarious. The poor performance of the external sector can be attributed to a host of factors: the relatively stable real exchange rate (which continues to constitute an anti-export bias) and the disproportionate increase in imports. In spite of the anti-export bias of the real exchange rate, there were some improvements in the area of non-traditional exports. Non-traditional exports increased from US$ 87 million in 1989 to US$ 230 million in 1996. In 1996 alone, non-traditional exports accounted for about 24% of total exports. The leading export items in this category are agricultural products, horticulture and wood products. This is one area in the outcome of the programme that can be described as successful.

4.1.9 In the area of trade liberalization, the outcome of the performance can be said to have met the orginal goal of tariff reduction. The consequence has been the inflow of cheap foreign imports. But the success of the liberalization programme has also become a two-edged sword -- on one hand, it has crippled the manufacturing sector which now appears unable to compete with foreign imports. This sector has hitherto developed behind the protected walls of tariffs. With tariff liberalization, many of these establishments are being closed down because of competition from outside particularly from subsidized imports from South Africa and duty-free imports from Zimbabwe. From discussions with the manufacturers, they were not objecting to trade liberalization as such. They simply felt that the tariff reforms should have been made uniform across all export destinations and import origins. On the other hand however, tariff liberalization has given impetus to the growth of the informal economy, particularly the retail trade. The impact of this development is to be found partly in the growth of non-traditional exports.

4.1.10 The stock of external debt has declined relative to the pre-programme period (Annex Table 5). In 1995, the total stock of debt stood at US$ 6,400 million. But the decline in the stock of debt has been matched by an increase in the debt burden. Debt service as a proportion of exports now stands at a little over 22%. This is on a high side for an economy whose infrastructure and social indicators have deteriorated as a result of past economic mismanagement. In order for the current efforts to be sustained and indeed, encouraged, some form of debt relief would be necessary.

Fiscal and Budgetary Developments

4.1.11 One of the major weaknesses in macro-economic management in Zambia has always been the inability to sustain fiscal discipline. Budgetary overruns, caused in part by drought-induced expenditures and in part, by poor revenue collection, were the norm. In turn, anuual budget deficits have made macro-economic management difficult. The ERP sought to correct this situation through the introduction of budgetary discipline and enhanced revenue mobilization. Revenue collection was enhanced when the Revenue Authority was established in 1993. Total revenue increased from Kw 234 million in 1993 to an estimated Kw 824 million in 1996. This impressive performance has been made possible partly by the establishment (with the technical assistance of the ODA), of the Revenue Authority, and partly by the Authority's success in enhancing revenue mobilization efforts partly through the introduction of the Value Added Tax. On the expenditure side, drought and fiscal indiscipline continued to cause expenditure overruns. Thus budget deficits continued to expand, with serious implications for money supply and the rate of inflation. In 1993, the Government introduced the cash budget as a means of observing strict expenditure ceilings. This effort yielded a budget surplus that year but this could not be sustained in 1994 and 1995 as a result of another drought. But in 1996, a surplus of 1% was generated and further improvements are anticipated in 1997. The cash budget is a way of imposing fiscal discipline in the short to medium term. But in a long term context during which Government operations would require careful forward planning, the cash budget may need to be replaced by strict adherence to budgetary allocations.

Monetary and Financial Sector Development

4.1.12 Before the introduction of the ERP, Zambia was experiencing rapid rates of inflation (about 100% in 1991). One of the goals of the economy was to reduce the rate of inflation to about 10% in 1993. This goal was desirable in order to stabilize the economy and create a more conducive atmosphere for the resumption of growth. Under the programme, the rate of inflation declined but not at the rate that was planned. During the 1994-96, the rate of inflation declined by an annual average of 44.9%, with 1996 recording the decline of 36%. It is expected to further decline in 1997.

4.1.13 The decline in the rate of inflation was made possible by two factors. One was the relative success in reducing fiscal deficit. The other was the ability of the BOZ to curtail monetary growth. In 1996, monetary growth rate stood at an estimated rate of 34% in 1996 compared to 98% in 1991. While the decline is still below the programme target, it is still to be commended in terms of its impact on the price level. Until March 1993 when the Government introduced the sale of Treasury Bills as part of the liberalization process, interest rates were administratively determined. While the rates were periodically adjusted to reflect the rate of inflation, the real rate was negative for most of the period. But since 1993, interest rates, though high, have turned positive (Annex Table 3).

4.1.14 Elsewhere in the financial market, deregulation was creating a problem of its own. Liberalization permitted freedom of entry and competition as a number of banks and non-bank financial institutions commenced operations. By 1994 there were 18 banks and 3 more started operation in 1995 but 3 were put under receivership. There were 4 non-bank financial institutions in 1995 and a total of 36 foreign exchange bureaux operating by 1995. The intense competition among the financial institutions (for limited savings) reduced profitability in the financial sector. As a result, many of them faced liquidity problems associated with capital inadequacy. Three banks were closed in 1995: the Meridian BIAO, African Commercial Bank and the Commerce Bank. In an effort to save the banks, the BOZ provided the liquidity needed and proceeded to strengthen bank supervision and regulation. In 1994, the Banking and Financial Regulations Act was passed requiring banks to raise minimum paid up capital to K1.25 billion by 30 June 1996 and to K2 billion by 31 December 1996. It is expected that these regulations would further strengthen the financial system.

Incentive Structure and Privatization

4.1.15 Prior to the ERP, the Zambian economy was highly regulated. Consequently there was little or no scope for private sector initiative. The ERP sought among its objectives, to deregulate the economy and create a conducive environment for a private sector-led growth. As a result of the implementation of the ERP, all prices have been deregulated and are indeed, market-determined. In addition, an Investment Centre has been established. The Centre has revised the investment codes in order to make the country more attractive to foreign investors. It is yet too early to judge the impact of this move but there are indications that private investors are favourably reexamining their views about Zambia.

4.1.16 It is in the area of privatization that Zambia has succeeded the most. The Zambian Privatization Agency was established in 1993 as a semi-autonomous agency. As of June 1996, the agency has completed a total of 97 privatization deals worth a total of US$ 119 million in divestiture proceeds. In 1993, the Securities Act was passed to permit the establishment of the Securities and Exchange Commission. In 1994, the Privatization Fund was established to temporarily warehouse shares which are to be sold later through public floatations. In 1996, the privatization programme gathered momentum as some 95 companies were sold off bringing the total since 1992 to 155. The ZCCM is expected to be privatized fully in 1997 but meanwhile it has divested itself of non-mining activities. The success of the privatization programme is attributed to a combination of the Government's desire to want to totally exit from these entreprises; careful programme design and preparation; and adequate legal framework for ZPA to operate.

4.1.17 The privatization programme heralded efficiency in various major state companies. In the case of ZCCM, its non-mining activities have been eliminated or privatized, thus allowing the company to concentrate on copper mining. Towards the end of 1996, GRZ decided to privatize ZCCM in packages and put up advertisements for companies to pre-qualify. Some 40 groups pre-qualified and tenders are to be awarded by end-February, 1997.

4.1.18 In a study of Privatization in Africa, a World Bank staff study found that success in this area has been mixed across African countries. But the report singled out Zambia as the most successful. Using 8 indicators (which include the extent of diverstiture, fiscal impact, level of direct foreign investment attracted, etc.) to assess the performance of divesture programmes in Africa, the report rated Zambia medium to high on all the indicators. The report concluded that Government commitment is both a measure of and the most important factor in the success of Zambia's programme.

Sectoral Developments

(i) Agriculture

4.1.19 One of the primary objectives of the 1991-93 programme was to diversify the Zambian economy by enhancing the relative share of agriculture in Zambian economy through price deregulation. By ending price controls in agriculture, phasing out subsidies, state monopolies in marketing, allowing farmers to sell their produce freely and in privatizing large state farms, the programme created a conducive environment for private sector activities. But the effect of these reforms was often overshadowed by erratic weather conditions.

Table 4.1
Share of GDP by kind of Economic Activity
(In per cent of GDP)

	1991	1992	1993	1994	1995	1996
Agriculture, Forestry and Fishing	15.8	21.3	28.0	23.9	18.2	17.6
Mining and Quarrying	8.4	5.6	8.0	9.0	9.6	10.1
Manufacturing	33.3	33.2	29.6	26.6	27.0	28.9

Source: Ministry of Finance, Macroeconomic Indicators, Jan 1997.
Note: Columns may not add up to 100 because some sectors are excluded.

The private sector increased its activities in the agricultural sector, as a result of the continued effect of the abolition of import tariffs on agricultural equipment such as tractors and the provision of adequate infrastructure. Table 4.1 indicates the uneven performance of the agricultural sector. The share of agriculture in GDP has fluctuated from a low of 15.8% in 1991 to a high of 28% in 1993. This erratic behaviour (in terms of shares) is also reflected in growth rates of the sector (Annex Table 1). This uneven performance reflects the dependence of this sector on annual rainfall, which has become very erratic. But the sector has witnessed a major development -- the combined impact of exchange rate liberalization and trade reform has helped to promote non-traditional exports, many of them from the agricultural sector.

(ii) Industry

4.1.20 The performance of the industrial sector has been influenced by three factors -- foreign exchange liberalisation, trade reform and privatization. With the deregulation of the economy, foreign exchange constraints which have hitherto faced industrialists, have been eliminated. Furthermore, the impending decision of the Government to repeal the Exchange Control Act would make the Kwacha fully a convertible currency. The other development was the substantial devaluation of the Kwacha. While this has eliminated distortions in the foreign exchange market, it has not been matched by real depreciation. As mentioned in 4.1.6, the less than expected real depreciation continued to constitute an anti-export bias. The third factor was the reform of the trade regime. As indicated in 4.1.8, while trade liberalization has restored economic efficiency, it has led to the closure of several industries which are unable to compete with foreign imports particularly from Zimbabwe and South Africa. (There is no sector where this is more severe than in the textile industry where imported second-hand clothes are undermining the local textile industry). This is one area where policy harmonization among the countries could have helped. Nonetheless, some industries, especially domestic raw material-based enterprises, are expanding

rapidly as illustrated by the rapid growth of NTEs. From 1989 to 1996, the value of NTEs grew from US$ 87 million to US$ 230 million in 1996. In 1996, NTEs were equivalent to 24% of the value of total exports. The number of NTEs commodities and destinations have also continued to expand rapidly. The growing list of commodities includes gemstones, engineering products, manufactured goods including textiles, chemical products, building materials.

4.1.21 The programme has created a conducive environment for private sector investment in the industrial sector. With the objective of further strengthening the investment environment in the country the GRZ established the Zambian Investment Centre (ZIC) in 1992 as an independent statutory body to promote and facilitate new investment in Zambia. The structure of ZIC consists of a cadre of professional staff who report to a Board of Directors with strong and extensive links to the private sector and all Government agencies. In 1993, the GRZ passed the Investment Act which empowers the ZIC to formally accept investment proposals by the issuance of investment licences. The country is attracting considerable investment for industry because it is a signatory to MIGA and other international agreements. The activities of ZIC have been enhanced with the enactment of the New Investment Code (1993) which empowers it to assist and promote sector investment in Zambia. A further incentive offered by the Government to investors is that it now permits them to repatriate their profits in full after the payment of necessary taxes. A survey undertaken by ZIC shows that total value of investment certificates issued since its inception in 1993 until 1995 had reached a total of $949.5 million, 30% of these in industry. Other leading sectors are agriculture and tourism. The ZIC estimates that 46% of total value of the investment certificates has been invested.

Mining

4.1.22 The mining sector, which witnessed considerable decline during the pre-programme period continued its decline but at a more moderate rate. A number of ZCCM problems accounted for the poor performance of this sector. The main problem was the liquidity problem of ZCCM as well as geological and managerial problems. During 1994-96 mining activities continued to contract, due mainly to depressed prices as well as declining volume of copper exports. But in 1996, copper production increased from 307,558 MT in 1995 to 313,003 MT. Cobalt output almost doubled from 2,866 MT to 4,829 MT. In 1996 mining sector activities in general increased by 12.3% (Annex Table 1) as exploration activities under the private sector resumed at a greater pace.

4.1.23 The most significant impact of the programme on the mining sector is the impact of privatization which is currently under way. A consortium of companies led by Anglo-American Corporation has been invited to develop Konkola Deep Copper Mine. The Consortium will invest US$ 700 million in the mine in the next six years and will then produce 180,000 to 200,000 tons of copper per year. This will replace the present copper production which comes almost entirely from one copper mine - the Nchanga Open Pit, whose reserves will be exhausted within the next 10 years. The expected output that could result from the planned investment of US$ 700 million could not have been possible without the privatization programme. The GRZ has also accepted a proposal from Avmin Ltd. for joint ventures in exploration, evaluation and development of Konkola North. An option agreement was due to be signed in February, 1997 under which Avmin Ltd. would conduct additional drilling and pre-feasibility study over the next 24 months.

Civil Service Reform

4.1.24 The main objective in civil service reform was to improve efficiency through a programme of staff reduction and rationalization of several departments. It also involves improved management systems and restructuring of expenditure towards priority areas. The programme of

rationalization of the civil service and reduction of staff has proved difficult to implement because of resistance from civil servants themselves and the trade unions as well as the prohibitive costs of implementing the programme. Between August 1991-April 1992 the GRZ retrenched only 2,945 employees and another 12,055 up to August, 1992. The GRZ failed to reach agreement with civil servants on severance pay packages. Only at the end of 1991-93 Programme did the GRZ, with UNDP support, launch the Public Sector Reform Programme.

4.1.25 Thus, one area of the Programme where little success was recorded was in the field of institution-building and in particular, the public service reform. While the beneficiary (GRZ) and most spectators applaud achievements in the private sector reforms, in the Public Service, reforms have yet to start in earnest to address sagging morale of staff. The GRZ is now planning to re-launch the programme of reform as announced by the Minister in the January 1997 Budget Speech.

4.2 Socio-Economic Impact

4.2.1 Prior to the implementation of this Programme, it was generally well-known that Zambia is one of the poor countries in Africa. Partly as a result of this and partly in recognition that the implementation of a reform programme would probably worsen the situation, the Government established the Social Action Programme (SAP) to offset the transitory impact of the reform programme. Under SAP, the Government sought to target the maize meal coupon system to the most needy and lowest income groups; implement financial incentives to encourage resettlement of urban dwellers in rural areas; and to strengthen the National Food and Nutrition Commission as a means of increasing the distribution of nutritious foods to the poor. These measures were additional to the proposed increases in budgetary allocations to health, education and agriculture.

4.2.2 Data limitations preclude a vigorous evaluation of the impact of the Programme on the social sector. But available information, imperfect as they are, point in the direction of worsening social situation. In a survey of poverty conducted by the World Bank in 1991, it was found that about 69 per cent of Zambians were living in households with expenditures per adult equivalent below a level sufficient to provide for basic needs. The study also found rural poverty to be more prevalent, deeper and more severe than urban poverty. Furthermore, average real earnings (wages and emoluments) were only 30 per cent of their 1975 levels.

4.2.3 Rather than improve, the social situation has deteriorated since that study. Per capita incomes have declined markedly. The expected budgetary increases to the social sector envisaged under the Programme has not materialized. The implementation of the ADF funded Poverty Alleviation Project, which was designed to mitigate against the social cost of adjustment and poverty was constrained by problems of funding and weak institutional structures. From Annex Table 6, it can be seen that the key sectors for poverty reduction -- agriculture, social sectors and infrastructure -- have borne more than their proportional share of the fall in public expenditures. Consequently, school enrollment remains low while non-attendance varies from 45% among the poor in the rural areas to 20% among the non-poor in the urban areas. The situation in the health sector is captured by the USAID 1996 Household Survey (Annex Table 7). The results of the survey are mixed: there are improvements in certain indicators while others have declined. For example, access to health care child delivery has declined relative to 1992. Zambia is also one of the few countries to experience an increase in infant mortality. The prevalence of AIDS has worsened the poverty situation and further threatens to undermine the prospects for growth. The infection rate of HIV are known to be above 30 per cent in the urban areas and about 15 per cent in the rural areas. Funeral costs have gone up while many companies have now increased their costs for staff training because of the likelihood of early death.

4.2.4 The Economic Recovery Programme has had a dramatic impact on employ
opportunities, particularly in the public sector. The implementation of civil service reform
component of the Programme) has led to the elimination of several jobs in the civil serv
Between August 1991 and April 1992, the Government retrenched 2,945 employees and a furt
12,055 were retrenched in August 1992. But unfortunately, some of these were reabsorbed
Local Governments, thus diminishing the impact of the exercise on Government budget. Civ
service reform remains one of the weak points in the implementation of the programme (se
4.1.27). Weak as they are, the reforms have served a positive purpose -- they have encouraged
people to consider employment opportunities in the private and informal sectors as alternatives to
Government jobs.

4.2.5 The Economic Recovery Programme has had adverse effects on the poor -- but the
Programme is not the only cause of poverty in Zambia. The persistent drought of the 1990s and
poor economic performance are also to blame. Hence the alleviation of poverty in Zambia will
require the resumption of growth, how that growth is distributed (i.e. what sectors, what regions
and how broadly based, and with what labour intensity). In a long term context therefore, the
Programme could end up benefitting the poor if it eliminates inflation, the incentive to capital
intensive growth from an over-valued exchange rate, lowers the relative price of consumer goods
by removing high tariffs and improving the efficiency of markets, and creates job opportunities in
the informal sector.

4.3 Institutional Impact

4.3.1 In spite of the failure of the programme to make significant impact in the area of
civil service reform, the implementation of the programme strengthened Zambia's institutional
capacity. Markets have been liberalized and price incentives have been restored while new private
institutions notably the Zambian Investment Centre (ZIC), the Export Board of Zambia (EBZ) and
the Zambia Privatization Agency (ZPA) were established in 1992/93 to assist and promote private
investment and exports. The establishment of the Zambia Privatization Agency (ZPA) has involved
considerable private sector professionals (lawyers, bankers, valuers and other professionals) in the
valuation and negotiation of privatization, sale and transfer of former parastatals which have now
become part of the private sector. Indeed, about 30% of the large parastatal companies that were
sold by the end of 1996 -- mainly in sugar, beer brewing and cotton industries -- were bought by
large international companies which had to bring in new technology and capital. The Investment
Centre was established in 1992 to facilitate private investment. Another institution created to assist
investors and exporters is the Export Board of Zambia (EBZ) which has done considerable work
to assist the growth of development of export markets. In 1993/94, the ZRA was created with the
technical assistance of ODA and the establishment of the National Tourist Board is planned for
1997.

4.3.2 The implementation of the Programme has strengthened the capacity of the
Government to formulate and implement policy reforms. Through the experience acquired by
serving on NEMIC and on the Technical Committee (which assisted NEMIC), officials of the
Ministry of Finance, (in particular those of the Directorate of Economic Policy Analysis) and the
Bank of Zambia, are now better equipped for the task of formulating and implementing policy
reforms.

4.4 Impact on Women

4.4.1 At the time of appraisal, issues relating to women were not accorded priority in the programme, hence it is difficult, in the absence of benchmarks, to judge the impact of the programme on women. Be that as it may, it can be said that while women in Zambia contribute significantly to the economy, their access to social services, credit and employment is disproportionally limited. In the formal sector, only about 8% of total employees are women and these are mainly in teaching, nursing and clerical cadres. More women work in the agricultural and informal sectors where they constitute about 80% of the labour force.

4.4.2 Data on gender issues in Zambia (provided by the GRZ and UNDP) indicate that women have less access than men to educational opportunities, health, security, economic opportunities and political participation. In view of the critical role of women in development, the Fourth National Development Plan accorded a special status to women by itemizing a number of programmes and projects aimed at ensuring full integration of women into development. In addition, the GRZ has set up various bodies responsible for coordinating, initiating and promoting women-oriented programmes and projects. The GRZ also intends to adopt a National Gender Policy.

4.5 Environmental Impact

4.5.1 As in the case of women, environmental issues did not figure prominently at appraisal. But casual observation suggests that Zambia has been experiencing a deterioration in the quality of life due to rapid population growth, drought, urbanization and over cultivation.

4.5.2 The GRZ has responded by creating the Ministry of Environment and Natural Resources and a National Environmental Council. It has also enacted the Environmental Protection and Pollution Control Act 1990 which came into effect in 1992 and a National Environmental Plan. Major environmental objectives include protecting the natural resource base, preserving biological diversity and maintaining a good quality of life.

5. PROGRAMME SUSTAINABILITY

5.0.1 The ERP might not have substantially enhanced economic growth in Zambia, but it has altered Government development philosopy, perhaps irrevocably. Government control over the economy, through the use of administrative tools for economic management, has been replaced by the use of the price system. But the sustainability of this philosophy would require considerable success in the management of some of the issues raised below.

5.0.2 Perhaps the most important issue is the political will to continue with the reform process. This in turn would depend on the ability of the Government to carry Zambians along with it on the road to reform and the willingness of Zambians to live with the short-run costs of adjustments. Thus, the sustainability of present momentum would depend on the political ability of the Government to continue with the reforms and its success in reducing the impact of adjustment on the poor.

5.0.3 The sustainability of current efforts would also depend on the continued support of donors. The success of the programme is fragile, thus making donor support an imperative. Since the completion of this programme in 1994, the World Bank has implemented several related programmes in Zambia, almost on annual basis. These efforts should be continued, and the ADF should follow-up with a new and similar programme.

5.0.4 The sustainability of Zambia's adjustment programme also depends on socio-political events which are likely to face the country. These include internal political developments; the rising level of unemployment and poverty; environmental deterioration and the impact of AIDS on Zambia's labour force, including its impact on cost of training and on efficiency of labour. The political developments in neighbouring countries could also disrupt current efforts at reform in Zambia. Finally, developments in the external debt situation of Zambia will be crucial in the determination of the sustainability of Zambia's adjustment programme.

Macro-economic Policy

5.0.5 The trade liberalization programme which is currently in place could destroy Zambia's industrial base if efforts are not made to harmonize the internal policies of Zambia with those of neighbouring countries. As mentioned in 4.1.18, many of the manufacturing industries are collapsing because of their inability to compete with cheap imports. It would be necessary to harmonize the tariffs of Zambia with those of its neighbours in order to reverse this trend.

5.0.6 Central to the issue of sustainability is the extent to which Zambia is able to attract private investment. Per capita incomes are low, and so are private savings. Hence efforts will need to be made to intensify the privatization programme and make the domestic environment more receptive to foreign private investment. Apart from supplementing low domestic investment, this is the only way to increase aggregate investment without further increases in external indebtedness. While Zambia's stock of debt has fallen in recent years, the debt service burden has not. In order to remove this major obstacle to growth and investment, Zambia would require substantial debt relief in the years ahead.

Fiscal and Budgetary Policies

5.0.7 Zambia has made considerable effort during the Economic Recovery Programme to strengthen its revenue base but the base still remains narrow as the country moves from its initial reliance on foreign trade taxes to domestic taxes (direct income taxes and taxes on domestic goods and services). The improvement in revenue was made possible by the establishment of Zambia Revenue Authority in 1993/4 and the introduction of value added tax. The reduction in budget overruns was also made possible by the introduction of a cash budget in 1993. Both measures facilitated the considerable narrowing of the budgetary deficit in 1994 (-1% of GDP) and marginal improvement of budgetary surplus of 1% of GDP in both 1995 and 1996. However, the sustainability of this budgetary situation is very uncertain. On the revenue side, the VAT is scheduled to be reduced to 17.5% in 1997 while other fiscal incentives under consideration in the context of Export Processing Zone (EPZ) to bring Zambia in line with investment incentives available in neighbouring countries could have negative impact on Zambia's revenue. While these measures are necessary to attract investment in Zambia thus raising the level of incomes and in the medium term enlarge the tax base, in the short run, however, the sustainability of Zambia's budgetary situation remains fragile. On the expenditure side, the cash budget is a short-term measure of controlling expenditures which cannot be sustained. A more predictable and systematic budgetary and monitoring system must be established in the long run.

Monetary and Financial Sector Policies

5.0.8 The financial system of Zambia, while still very underdeveloped, improved with the liberalization of the financial markets in 1991 and was followed by the establishment of a number of banks, non-bank financial institutions and foreign exchange bureaux. However, a number of these institutions collapsed in 1995 as discussed in Section 4 para (4.1.7 and 4.1.8). The banks which were placed under receivership are Meridian BIAO Bank, African Commercial Bank, and Commerce Bank. The GRZ followed this up by tightening banking and financial institutions regulations including enhanced capitalization, provisioning and disclosure requirements. The BOZ will need to intensify its regulation of the financial system in order to render it useful as a tool of resource mobilization. The rate of inflation (currently at 36%) is still too high. Monetary policy will need to be directed to its further reduction.

Sectoral Issues

5.0.9 The performance of agriculture -- the mainstay of the economy -- continues to be uncertain. The uncertainty derives from its dependence on weather conditions and a primitive technology. Future development of this sector would require investment in irrigation and introduction of modern technology. While a major problem which used to face the industrial sector -- foreign exchange scarcity has been eliminated, the sector is facing a new problem in the form of its inability to compete with foreign imports. A programme of policy harmonization between Zambia and its neighbours may be necessary in order to avert a possible "deindustrilization" of Zambia.

5.0.10 On the social sector front, the factors that could undermine present efforts include poverty, AIDS and unemployment. The Government would need to frontally attack the poverty situation, otherwise social unrest could cause some difficulties. Similarly, the spread of AIDS has to be curtailed in order to reduce its social consequences like absentism and the depletion of the labour force.

5.0.11 Zambia's institutional framework remains fragile, partly as a result of the non-implementation of the civil service reforms. The consequence is low morale among the staff. These issues need to be addressed if present reform efforts are to be sustained.

6. PERFORMANCE RATINGS

Using the information contained in Chapter 5, the programme was rated. The outcome of the rating is contained on pp. 29 - 31.

6.1 Implementation Performance:

The implementation of the programme by both the Borrower and the Bank was highly satisfactory. Both of them completely adhered to the schedules and to cost estimates. They also complied with loan conditions except for the final auditing of the loan proceeds by the BOZ which has not been completed.

6.2 Bank Performance:

The Bank was not involved in the initial appraisal mission but it did carry out a Preparation/Appraisal Mission in February/March 1991. Subsequently it carried out several review and supervision missions and prepared reports accordingly. Its performance can therefore be rated as satisfactory.

6.3 Project Outcome:

The overall outcome was also satisfactory. Although the objectives of the programme were not fully achieved, the programme has altered the policy stance of the Government as well as the environment for policy-making.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 Overall Assessment

7.1.1 The ERP has helped considerably to alter the policy stance of the Government. The management of the economy has been turned around from central control to reliance on market forces. This is the single most important achievement of the programme. Thus, the programme has created at environment in which future and similar programmes could be implemented without difficulty.

7.1.2 But a lot remains to be done. The rate of inflation remains high and the growth momentum is still highly dependent on developments in the agricultural sector. The debt burden is also still high. There are however grounds for optimism. A conducive environment has been created for private sector initiative. The investment code has been revised. On both accounts, one should expect an increase in private direct investment in the years ahead. Another ground for optimism is the current effort to enlarge non-traditional exports. This should go a long way to reduce the dependence of the economy on copper.

7.2 Feedback and Recommendations:

Lessons Learned

7.2.1 Prior to the implementation of this programme, the Zambian economy was highly regulated. The ERP changed all these, thanks to the combined effort of the GOZ and the donors. The lesson here is that the transition from a controlled to a market economy could be made possible if all the parties concerned are committed to the transition. Although some progress has been made in diversifying the economy, the lesson that could be learnt is that structural problems such as the diversification of the economy from excessive reliance on one commodity takes a longer time period than 3 years envisaged in the PFP. This fact would need to be taken into account in future design of adjustment programmes.

Lessons Learned - Government

7.2.2 Until the adoption of the ERP, the GOZ has made three attempts at economic reform. All attempts were abandoned midstream. By the time of the ERP, the situation has worsened considerably. The lessons here is that Governments should strive to prevent policy reversals as they tend to worsen, rather than improve, economic situations. A Government needs to persevere even in the face of political opposition to reforms as the dividends for reform could far outweigh the short-run political expediences of abandoning the reforms.

7.2.3 The ERP has generated reasonably good results and these can be attributed to the commitment of the political leadership and its ability to build nation-wide and international consensus in support of the programme. From its inception, the programme benefitted from the support which the MDD Government built for it.

Lessons Learned - Bank

7.2.4 The present evaluation of the ERP was made relatively difficult by the ambiguous manner in which some expected outcomes were expressed. In future designs of such programmes, effort should be made to ensure that targets are defined in an unambiguous and measurable terms.

7.2.5 The collapse of several manufacturing industries in Zambia under the yoke of tariff liberalization point to the need to harmonize policies among neighbouring countries. Without such harmonization, a desirable policy like tariff reduction, could end up yeilding undesirable outcomes like the collapse of industries and the eventual "deindustrialization" of the economy. Furthermore, the simultaneous liberalization of the trade regime and the depreciation of the Kwacha has made large-scale importation of goods from abroad possible. The appropriate timing and sequencing of these desirable policies will need to be worked out in details in future programmes.

Lessons Learned - Donor Community

7.2.6 The ADF got involved in this programme well after GRZ had agreed on the PFP with the IMF and the World Bank. In future it will be more desirable for all donors to be actively involved right from the design stage of the programme in order to bring the views of all donors to bear on the programme.

7.2.7 The speed with which Zambia's arrears to the World Bank (which paved the way to the programme under review) was cleared (2.6.1) and the willingness of the IMF to launch the Rights Accumulation Programme (2.4.1), and the ability of the ADF to disburse the first tranche on the day the loan became effective (3.2.1) underscore the importance of collaboration among donors in the success of a programme of this nature. By emphasizing the need for the Government to persevere, subsequent CG meetings among donors served to prop up the will of the Government to stay on course in the implementation of the Programme.

7.3 Follow-up Actions

Government

7.3.1 GRZ must maintain and sustain its commitment to current reform efforts without which the gains so far recorded could be jeopardised. It must continue its "regularized" relations with the international financial community as its external debt situation remains precarious. It must, in addition accelerate the reform process in the civil service and make increased budgetary allocations to the social sector.

7.3.2 Persistent drought and its impact on crop failure is partly to blame for the rapid rates of inflation. Drought has also been the cause of the inability agricultural sector to respond to programme measures. GRZ must initiate programmes for irrigated agriculture and drought-resistant crops.

The Bank

7.3.3 The Bank should renew its commitment to Zambia as a follow-up to this programme. Since the completion of this Programme, the World Bank has had series of related programmes almost on annual basis, in Zambia. These have helped that institution to maintain its policy dialogue with the country. The ADB should join in these efforts partly as a means of consolidating the gains of the programme under review and partly as a means of enhancing its policy dialogue with Zambia.

7.3.4 The Bank has as one of its mandates the promotion of economic integration on the Continent. It should, accordingly, use its policy-based lending operations as an instrument to promote policy harmony and ultimately economic integration in this sub-region. In the case of Zambia and its neighbours, efforts must be made in future programmes to harmonize their policies in order to achieve desirable goals for all.

Donor Community

7.3.5 The donor community should continue to support Zambia through enhanced resource flows and through debt relief. Without such debt relief, it would be difficult for the Government to continue to implement these reform measures. In that event, the efforts of 1991-93 could have been wasted.

PERFORMANCE RATINGS
FORM IP 1
IMPLEMENTATION PERFORMANCE

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Adherence to Time Schedule	4	The implementation schedule was adhered to.
2	Adherence to Cost Schedule	4	There were no cost overuns.
3	Compliance with Covenants	4	The GRZ complied with all covenants.
4	Adequacy of Supervision and Reporting	4	There were supervision and Programme Completion Reports.
5	Satisfactory Operations (if applicable)	N/A	
	TOTAL	16	
	Overall Assessment of Implementation Performance	4.0	Highly satisfactory.

Key:

1: Highly Unsatisfactory

2: Unsatisfactory

3: Satisfactory

4: Highly satisfactory

FORM BP 1
BANK PERFORMANCE

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	At Identification	2	The Bank was not involved in the identification of the PFP.
2	At Preparation of Project	3	The Bank was not involved in PFP formulation but it sent a preparatory/appraisal mission later.
3	At Appraisal	3	Appraisal was good except for some ambigously defined performance indicators.
4	At Supervision	4	Programme was well supervised.
	TOTAL	12	
	Overall Assessment of Bank Performance	3	Satisfactory.

FORM PO 1
PROJECT OUTCOME

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Relevance and Achievement of Objectives	2.2	The objectives were relevant but achievement was below expectation.
i)	Macro-economic Policy	2	Progress was made toward attaining targets.
ii)	Sector Policy	2	Mixed results in achievement of targets.
iii)	Physical (incl. Production)	N/A	
iv)	Financial	N/A	
v)	Poverty Alleviation & Social & Gender	2	GRZ needs to do much more in this area.
vi)	Environmental	2	GRZ needs to do more in environmental protection.
vii)	Private sector development	3	Considerable success was achieved.
viii)	Other (Specify)	-	
2	**Institutional Development**	2.3	GRZ needs to do more in Public Sector institutions.
i)	Institutional Framework including Restructuring	2	More effort is required in civil service reforms.
ii)	Financial and MIS including Audit Systems	2	GRZ is yet to account for the use of the second tranche.
iii)	Transfer of Technology	N/A	
iv)	Staffing by qualified persons (incl. turnover) Training & Counterpart staff	3	The quality of staff could be further imporved through re-training.
3	**Sustainability**	3.16	In general, growth momentum is poised to accelerate and can be sustained provided GRZ is committed to policy reform and donor assistance is available.
i)	Continued Borrower Commitment	4	Political commitment is very strong
ii)	Policy Environment	4	The environment is now conducive to policy reforms.
iii)	Institutional Environment	2	The institutional capacity is still weak.
iv)	Technical Viability and Staffing	2	The Civil Service is weak; awaits reforms.
v)	Financial Viability including Cost Recovery Systems	N/A	
vi)	Economic Viability	4	The entire programme is viable.
vii)	Environmental Viability	3	More effort is required in this area.
viii)	O & M facilitation (availabilty of recurrent funding, foreign exchange,spare parts, workshop facilities)	N/A	
4	**Economic Internal Rate of Return**	N/A	
	TOTAL	7.66	
	Overall Assessment of Outcome	2.5	Satisfactory

COUNTRY: ZAMBIA
PROGRAMME: ECONOMIC RECOVERY LOAN
DATE OF PPAR: MARCH 1997
EVALUATION TEAM: O. O. OJO

RETROSPECTIVE LOGICAL FRAMEWORK MATRIX

NARRATIVE SUMMARY	VERIFIABLE INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS
GOALS:	**AT APPRAISAL**	**AT POST-EVALUATION**		
i) To improve economic performance	i) Real GDP to grow at 3.1%, 3.7% and 4.3% during 1991, 1992 and 1993 respectively	i) Except in 1993, real GDP actually declined. But at evaluation, it was 6.4%	National Income Accounts	Absence of policy reversals
OBJECTIVES:				
i) To deregulate the economy	i) n.a	i) Absence of price controls; market-determined interest and exchange rates	National Income Accounts	i) Political commitment to the Programme ii) Absence of pressures from those who would have lost from the deregulation.
ii) Restore macro-economic stability	ii) Reduce rate of inflation to 10% in 1993. Reduce fiscal deficit to 0.4% of GDP	ii) Inflation rate reduced to 36% in 1999. Fiscal surplus was recorded in 1996	National Income Accounts	Control over the growth in money supply. Expansion of Government revenue and reduction in expenditure
iii) Diversify the economy	iii) n.a	iii) Increase in non-traditional exports	National Income Accounts	Sustenance of realistic real exchange rates.
iv) Attain external balance	iv) n.a	iv) Balance of Payments deterioration	Bank of Zambia Annual Report and National Income Accounts	Favourable outlook for copper prices
OUTPUT:				
i) Reform Policies Implemented	i) A set of macro-economic policies aimed at reforming the policy stance of the Government	i) A set of policies implemented by the Government	Appraisal reports, Programme Completion Report & Midterm review reports	Absence of policy reversal on the part of the Government
INPUT:				
i) Quick-disbursing loan	ADF Loan: UA 18.42 million	ADF Loan: UA 18.42 million	ADF Records, Government of Zambia records.	Compliance with ADF loan conditions

RECOMMENDATIONS AND FOLLOW-UP MATRIX

Main Findings & Conclusions	Recommendations	Follow-up Actions	Responsibility
Formulation and project Rationale			
1. The programme was well formulated, but indicators of performance were not well described.	Programme goals and objectives should be defined in measurable terms.	Cast goals and targets in measurable terms.	Bank and Borrower
2. There was little regard for programme implications for economic integration.	Future design of SAP should consider possibilities of including contigous countries in same programme or at least harmonize their economic policies.	The Bank together with World Bank should study this issue and recommend fresh lines of action as regards programme formulation.	Bank and Other Donors.
3. The PFP was submitted to the Bank after its formulation and Government agreement with IMF and World Bank.	In future the Bank should be involved in the design of PFP.	The Bank should improve country/and sectoral studies as basis for PFP.	Bank
4. There are conflicts in some of the policies (e.g. trade liberalization and currency depreciation.	An appropriate timing and sequencing should be established among policies.	The Bank and other donors should study the mechanism of introducing appropriate timing and sequencing into adjustment programmes.	Bank and other donors.
Project Implementation			
1. Budgetary Control system remains weak.	GRZ should establish a more predictable budgetary control system to replace the ad hoc cash budget system.	The GRZ should enforce strict budgetary controls.	GRZ.
2. The goals of the Public service Reform programme were not accomplished.	PSRP should be given priority in a follow-up programme.	GRZ should utilize the assistance of World Bank and other Donors in this area.	GRZ with assistance of Donors.
Compliance with Loan Conditions and Covenants			
GRZ is yet to provide justification for the use of the second tranche	GRZ (and other Borrowers) should be made aware of the need to provide such justification.	FLAD should request GRZ for this information for record purposes.	FLAD.

Perfomance Evaluation and Outcome			
(i) The PSRP was not fully implemented	There is urgent need to undertake the long-awaited Civil Service Reform in order to restore efficiency and staff morale.	The GRZ should allocate more resources for the implementation of the programme.	Borrower
(ii) The financial system is fragile	Tighten the regulatory framework of the financial system	Improve the supervision of the financial system **and the sequencing of financial liberalization**	GRZ/**Bank and other donors**
(iii) Social conditions have deteriorated partly as a result of the programme.	Allocate higher proportion of resources for social programmes.	Allocate and protect fixed levels of resources for social sectors.	GRZ
(iv) The rate of inflation is still high	Reduce further the growth of money supply and enforce strict budgetary discipline.	The Bank of Zambia should monitor developments in the financial sector.	GRZ, in particular, Bank of Zambia.
Sustainability			
1. The external debt problem remains a critical obstacle.	GRZ should continue its efforts at debt reduction through debt buy-backs, privatization and rescheduling debt service.	Continue dialogue with creditors on debt relief.	Borrower and Donor Community.
2. The programme has increased the incidence of poverty.	GRZ should increase its allocation of resources to this sector.	Expenditures for Social sector programmes should be protected in future budgets.	GRZ with assistance of Donors
3. Persistent drought adversely affects agricultural performance.	GRZ should initiate irrigation programmes in agriculture and other environmental protection measures.	This should be part of a follow-up programme.	GRZ/Donor Community
4. Currently, there is strong political commitment to reforms.	Government should prevent future policy reversals.	Continuous policy dialogue between donors and the Government.	Government, Bank and other Donors.

Annex Table 1

ZAMBIA: KEY MACROECONOMIC INDICATORS 1988-1996

Indicator	1988	1989	1990	Period Average	1991	1992	1993	Period Average	1994	1995	1996	Period Average
GDP annual growth rates %[4]	6.0	-1.0	0.0	**1.7**	0.0	-1.7	6.8	**1.7**	-8.6	-4.3	6.4	**-2.2**
Per capita growth in GDP at constant 1977 prices (in %)	-3.0	-4.0	-1.0	-2.7	-3.0	-5.0	3	-1.7	-6.0	-4.0	-7.0	-5.7
Inflation (CPI)	64.3	161.8	117.4	114.5	92.6	197.4	189.0	159.6	59.1	39.2*	36.6*	44.9
Savings Ratio	18.8***	14.1***	17.8	16.9	14.5	6.4	8.6	9.8	3.0	2.9*	3.9**	3.3
GROSS FIXED CAPITAL FORMATION[5]	8.0	6.0	8.0	**7.3**	7.0	8.0	10.0	**8.3**	8.0	6.0	9.0	**7.7**
PRIVATE INVESTMENT/ GDP (includes changes in stocks)	12.3***	8.7***	7.2	**9.4**	3.5	3.8	7.9	**5.1**	3.3	8.2*	8.2**	**6.6**
GDP Sectoral Growth Rates in %												
Agriculture. Forestry & Fishing	19.0	-3.0	-9.0	**2.3**	5.2	-33.1	68.1	**13.4**	-18.9	-11.8	28.7	**-0.7**
Mining & Quarrying	-13.0	-10.0	-7.0	**-10.0**	-9.0	12.8	-8.7	**-1.6**	-16.8	-11.0	12.3	**-5.2**
Manufacturing	18.0	-1.0	8.0	**8.3**	0.0	-1.7	6.8	**1.4**	-8.6	-2.7	2.5	**-2.9**
Population (estimated) 1000	7,530	7,800	7,818		8,040	8,290	8,550		8,810	9,090	n.a	

Source: Central Statistical Office; Preliminary Estimates of Gross Domestic Product, 1996, (CSO) January 1997; savings rate; private investment; and CPI from World Bank, - IBRD Zambia Prospects for Sustainable Growth 1995-2005, August 1996.

Notes:

* Indicates Estimated
** Projected
*** Source of data is Appraisal Report (Annex 3)

4 GDP Growth rates calculated from GDP at constant 1977 Prices; data for the period 1988-90 taken from Monthly Digest of Statistics, July-October 1991, CSO.

5 Capital formation and GFCF in real 1977 Kwacha from Preliminary Estimates of Gross Domestic Product, 1996, (Central Statistical Office), (CSO).

Annex Table 2

ZAMBIA: EVOLUTION OF REVENUE & EXPENDITURE 1988-1996
(In Millions of Kwacha)

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Central Government Revenue	5,967	9,989	23,823	44,319	116,296	234,167	431,135*	595,860**	824,600*
Central Government Expenditures	6,958	10,449	27,250	112,536	195,041	133,673	451,342*	558,240**	771,400*
Deficit ( )/Surplus	(1,262)	(456)	(3,428)	(68,217)	(78,745)	100,494	(20,207)	37,620	53,200*
Budgetary Deficit/Surplus as % of GDP	(4.2)	(0.8)	(3.0)	(31.3)	(13.8)	6.2	(1.0)	1.0	1.0

Source: Ministry of Finance, Macroeconomic Indicators (Printout) for GDP; data for 1996 revenue and expenditure from Budget Statement, 1997 and GDP estimates.

** Data provided by Zambia Revenue Authority

* Budget estimates

Note: Brackets denote deficit

Annex Table 3

ZAMBIA: FINANCIAL STATISTICS 1988-96

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Money Supply									
Growth of M2(%)	62***	65***	45.8	98.7	98.6	107.1	62.0	41.9*	34.3**
Interest Rates									
Treasury Bill Lending Rate (Year-end)	18.5	25.0	30.5	40.0	47.0	80.6	21.4	41.5	---
Savings Rate (Year-end Average)	13.0	23.0	27.0	33.0	43.10	56.9	13.3	30.6	---
Inflation Rate									
CPI	64.3	161.8	117.4	92.6	197.4	189.0	59.1	39.2*	36.6*

Source: BOZ for data 1988-89 and World Bank 1990-96

* **Estimated figure**
** **Projected figure**
*** **BOZ, calculated from (printout)**

Note: Brackets indicate deficit.

ZAMBIA: EXTERNAL ACCOUNT STATISTICS
(In US$ million)

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Exports, f.o.b.	1,151	1,237	1,155	1,104	1,124	990	1,067	1,186	975
Imports, c.i.f.	668	717	895	747	1,351	1,019	1,003	1,244	1,199
Trade Balance	484	520	260	357	(227)	(29)	64	(58)	(224)
Services (net)	(462)	(436)	(288)	(683)	(649)	(399)	(462)	(539)	(474)
Non-factor services	(225)	(319)	(313)	(295)	(295)	(208)	(206)	(268)	(235)
Unrequited transfers	33	73	302	252	606	365	239	299	204
Current Acct. Balance	(170)	(162)	(40)	369	(268)	(271)	(159)	(314)	(491)
Current Acct. Balance as % of GDP	(7)	(5)	(1)	10	(9)	(7)	(2)	(7)	(14)***
Change in Reserves ($ millions)	n.a	n.a	354.7	31.0	-95.0	-38.0	-154.9*	1255.5*	-7.4**
Real Exchange Rate K/$ period average	n.a	n.a	n.a	100.5	1004.1	131.7	100.0	97.5	89.9**
Exchange Rate K/$ (end-of year average)	10.0	21.65	42.75	88.95	184.21	647.38	680.81	947.13	952.01

Sources: BOZ, Annual Report for data 1988-1991 and Ministry of Finance, Macroeconomic Indicators, (January, 1997) for data 1992-1996.
Real Exchange rate: Ministry of Finance, Macroeconomic Indicators, (January 1997), 1994 = 100. Exchange Rate Kwacha/US$: BOZ, Quarterly Financial and Statistical Review, January-March, 1996, Change in Reserves: The World Bank.

Note:

* Estimated figures
** Projected figures
*** Deficit in US $ converted to K at exchange rate BOZ mid-rate of March, 1996 $1=K 1,134
Brackets indicate deficit.

Annex Table 5

ZAMBIA: EXTERNAL DEBT STATISTICS 1988-1996
(US $ millions)

	1988	1989	1990	1991	1992	1993	1994	1995
a) Total Debt ($ million):	6,832	6,739	7,223	8,012	6,943	6,835	6,499	6,400
- Of which Medium & Long-term	4,415	4,196	4,786	5,243	6,274	6,050	4,872	n.a
- Official Creditors	3,790	3,563	4,244	4,644	5,732	5,595	4,662	n.a
- Multilateral	1,210	1,244	1,420	1,594	2,915	3,172	1,989	n.a
- Private Creditors	626	633	542	599	542	455	14	n.a
- Short-term	1,476	1,643	1,488	1,903	796	795	468	319
b) - Debt Service (K'Mn)	789	1,445	3,334	19,117	32,320	100,018	147,219	202,237
- Debt Service % Exports	8	8	9	28	16	22	20	20
- Debt Service % GDP	3	3	3	9	6	6	6	6

Source: Ministry of Finance, Selected Econ., Financial and Social Indicators (printout).

Annex Table 6

Public Expenditure by Sector (Billion 1993 Kwacha)

	Average 1981-85	1986	1987	1988	1989	1990	1991	1992	1993	1994
Agriculture	48	67	33	37	42	40	37	13	16	
Social Sectors	168	104	103	100	72	78	84	67	56	
Infrastructure	45	76	28	40	42	28	23	46	22	
Others	314	349	311	319	241	285	187	265	138	
As % of total Expenditures										
Agriculture	9	11	7	8	11	9	11	3	7	
Social Sectors	29	17	22	20	18	18	25	17	24	
Infrastructure	8	13	6	6	11	6	7	12	10	
Others	55	59	65	65	61	66	56	68	59	

Source: **The World Bank, Zambia, Poverty Assessment, 1991, Washington DC. 1994.**

Mother and Child Health in Zambia
1992 Zambia Demographic and Health Survey (ZDHS)
and 1996 ZDHS (Provisional Figures)

	1992 ZDHS	1996 ZDHS
Sample Population		
Households	6209	7286
Women 15-49	7060	8021
Characteristics of Women Age 15-49		
Percent with no education	16	13
Percent attended secondary or higher	24	28
Fertility and Fertility Preferences		
Average number of births per woman[6]	6.5	6.1
Percent of currently married women:		
Who want another child soon	26	32
Who want to delay the next birth for 2 or more years	41	39
Who want no more children	22	26
Family Planning		
Percent of married women:		
Knowing any method	94	98
Knowing any modern method	91	98
Have ever used any method	49	59
Currently using:		
Any method	15	26
Any modern method	9	14
Pill	4	7
IUCD	1	0
Injection	0	1
Condom	2	4
Female sterilization	2	2
Natural family planning	1	2
Withdrawal	3	5
Other Methods	2	5
Percent of users of modern methods[7] obtaining methods from public healthy facility	56	60

[6] Total Fertility Rate based on births to women 15-49 years during the period 0-2 years preceding the survey.

[7] Includes the pill, IUCD, injections, diaphragm/foam/jelly, condom female sterilization and male sterilization.

Mother and Child Health in Zambia
1992 Zambia Demographic and Health Survey (ZDHS)
and 1996 ZDHS (Provisional Figures)

	1992 ZDHS	1996 ZDHS
Maternal and Child Health		
Percent of births[8] whose mothers:		
Receive antenatal care from a doctor, nurse or midwife	92	92
Receive tetanus toxoid injection	82	85
Percent of births assisted at delivery by doctor, nurse or midwife	51	46
Percent of children 12-23 months who received[9]:		
BCG	95	97
DPT (three doses)	77	86
Polio (three doses)	76	84
Measles	77	87
All vaccinations	67	78
No vaccinations	4	2
Percent of children 0-3 months exclusive breastfed	13	26
Infant and Child Mortality		
Infant mortality rate[10]	107	109
Under-five mortality	191	197
Knowledge of AIDS		
Percent of women who have heard of AIDS	99	99
Main source of information about AIDS		
Radio	39	54
Television	10	22
Health worker	35	53
Friends/relatives	60	63

[8] Figures include births in the period 1-59 months preceding the survey.

[9] Based on information from vaccination cards and mother's report.

[10] Direct estimate for rates covering the period 0-4 years preceding the survey (roughly 1992-1996).

Source: **USAID Zambia, 1997.**