Statement by Ilkka Niemi
Date of Meeting: October 7, 1999

Zambia Country Assistance Strategy

1. The present situation in Zambia, with insecure economic prospects - not least due to the new situation regarding the negotiations on the privatization of ZCCM - provides a shaky and uncertain foundation for a Board discussion of the Zambia CAS at this stage. On this background, we find it premature to discuss details in the CAS, and would - due to the national, political and economic importance of ZCCM - have preferred a finalization of the privatization process of the ZCCM prior to a comprehensive CAS discussion. We are, however, well aware of the precarious situation at hand and have therefore not insisted on a postponement.

2. We therefore appreciate the Updating Note provided by Management, which gives us further information on recent events. However, the Note has not provided substantive new elaboration on the Bank’s response to the present situation. But what the Note inter alia does, is to present a change in lending scenario. According to the CAS, Zambia is in the base-case lending scenario while the Note stipulates that Zambia is in the low case until there is certainty on the ZCCM deal and donors’ reactions. The uncertainty has dragged on for long and it may continue to drag on for quite some time. What is lacking, therefore, is a description of this in-between “muddling through” scenario. There may be several “muddling through scenarios”, but neither the CAS nor the updating-note addresses those explicitly.

3. Regardless of the contents of the CAS, it is of utmost importance that we discuss the realities of the present Zambian situation. We do not find that the present CAS properly addresses these realities and the inconsistency between the CAS and the Updating Note reflects this. We therefore request that this inconsistency be corrected and a reflection of the Board’s CAS discussion of today will be incorporated into a revised CAS to be circulated to the Board for endorsement.
4. As regards the formulation in the Updating Note "...required modifications and timing of BOP-support proposed under the CAS will be brought to the attention of Board members...", it is our strong view that changes in the planned loan-program should be put forward to the Board for approval, not only attention.

ZCCM

5. The privatization of ZCCM is a core issue for the economy of Zambia. Presently, the ZCCM is draining the state budget of approx. USD 20 million per month. Urgent action is therefore needed to find a solution. Great efforts should be put into finalizing the negotiations with private partners. IFC could possibly play a central role.

6. The present offer may, however, be problematic. We wonder how the public and private interests can be matched together for the benefit of the Government of Zambia.

7. Whichever the case may be, we believe that successful restructuring and privatization of ZCCM is a first necessary step for economic recovery. Further action will be needed to handle non-viable parts of ZCCM; retrenchment problems, etc. short-, medium- and long-term plans will be needed to deal with these issues.

The CAS

8. Taking the insecure economic situation into consideration, we find that the general outline of the CAS document is good. The Bank's aim of increasing its efforts on governance-related issues is welcome. The country program matrix in annex B10 is also very good. However, we find that the document should pay even more attention to the creation of economic growth in sectors outside the copper-mining, as this is fundamental to secure long-term economic and social development.

9. The CAS provides a description of the economic situation of Zambia that can be characterized as overoptimistic. The fact of the matter is that the reform process has gradually lost momentum and has now, with a few exceptions, virtually come to a standstill. A number of major issues remain unresolved. The impact on social indicators and the economy is clear: during the last ten years, the economy has shrunk, poverty levels have increased, school enrollment has dropped and child malnutrition and mortality have increased. On the macro-economic side, inflation remains high and the external reserves position is far from satisfactory. Progress on the Public Sector Reform Program has been very slow since its inception in 1993. The Government's commitment to the economic reform program can be questioned, as adherence to agreed ESAF programs has been weak. During the first ESAF, starting in 1996, Zambia was on track for one quarter. Agreement on a subsequent ESAF could only be reached in March 1999, and indications are not convincing that performance is now satisfactory. The economy showed negative growth in 1998 and the same is likely to occur in 1999, to a large extent due to the delay in the privatization of ZCCM.
10. These negative developments have not, however, received due attention in the CAS, and the overall view of Zambia is, in our view, simplified and too optimistic. A more realistic assessment of the situation is necessary in order for the CAS to be able to produce the right picture of the present status of Zambia.

11. There is broad agreement about the need to strengthen macroeconomic management, with focus on fiscal management and careful use of limited financial resources to maximize impact of public programs. Another priority in the CAS is to enhance accountability and transparency, and lastly there is also a call for closer dialogue between Government and its development partners. The World Bank possesses a tool, which would be a mechanism to address all three concerns outlined above: the Public Expenditure Review (PER). The latest PER was carried out in 1995, and we find it important that a clear schedule for PER should be included in the CAS and initiated as soon as possible. We would also like it to be a process which involves a wide spectrum of development partners in order for the process to contribute to the objective of enhancing interaction between Government and donors.

12. The CAS rightly underscores the importance of economic growth and that ordinary Zambians are yet to see the benefits. A discussion on income distribution is, however, lacking in the document, and Zambia is a case in point. Income distribution is becoming increasingly skewed in Zambia today, and this issue has to dovetail with the discussion on economic growth. Without equity, economic growth does not lead to development.

13. The analysis of the role of the private sector, the difficulties it faces, and what are the remedies that could be of support, is lacking. For example, there is no analysis on the credit market and how it restricts private sector investments, nor any mentioning of how to deal with the informal sector and how to gradually integrate it into the economy. Furthermore, the proposed intervention, a study on local Growth Centers, has been explained inadequately in terms of addressing one of the most serious challenges Zambia is facing.

14. During the run-up to the presidential elections in 2001, one cannot overlook the risk of inappropriate use of funds and assets by the ruling party for political purposes. Experience from the last presidential elections give reason for such assumptions, and there is a risk that this might be repeated. Distribution over time of IDA lending must take this potential risk into account.

15. As the CAS states, the HIV/AIDS incidence is over 19 percent of the population at the moment and by 2000 around 11 percent of children will be orphans. We, therefore, welcome that the impact of HIV/AIDS is addressed in the CAS and that a lending operation is part of the CAS. The question, however, is: Why wait till 2002 with this operation? Can we afford not to give urgent attention to this problem now?

Closing comments

16. In our view Zambia has not only come to a crossroad; Zambia is near the edge of a
free fall. Over the last 15 years a large number of reform programs and rescue operations have failed. To us it is obvious that stronger commitment from the Zambian government is necessary. Big amounts of balance of payments support have not produced expected results. This leaves us to ask what needs to be done differently. We must ask that question now and come up with answers to guide us as we move forward.

17. We certainly need a stable Zambia that can also promote stability in southern Africa. So far the role of Zambia as a stabilizing factor in a troubled region is commendable. A failure in the negotiations of a ZCCM-solution can cause serious economic and social problems in Zambia as well as in the neighboring countries.

18. With successful conclusion of the ZCCM restructuring, strong Government commitment to reforms, a good new start on governance issues, effective donor support for Zambia is a more likely to be mobilized.

19. And finally on the CAS consultation process: The comprehensive consultation process through which the Zambia CAS has been developed has had positive implications as regards the will of the Zambian government to look at the long-term challenges for the country. The process has also led to a stronger focus on coordination of donor assistance. As a result of the process a draft-CDF has been designed for Zambia and included in the CAS as Annex C. This is a very useful tool and may form a basis for a better use of development resources. The Bank should do its part in following up and further elaborating the draft-CDF for Zambia.