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Report No. 38507 - ZM

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED CREDIT

IN THE AMOUNT OF SDR 6.3 MILLION
(US$10 MILLION EQUIVALENT)

TO

THE REPUBLIC OF ZAMBIA

FOR A

SECOND ECONOMIC MANAGEMENT AND GROWTH CREDIT

April 22, 2008

Department; AFTP1
Country Management Unit: AFCS2
Region: Africa

***ZAMBIA* - GOVERNMENT FISCAL YEAR**
January, 1 – December, 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of April 17, 2007)

Currency Unit	Kwacha
USD1.00	3450

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

ABB	Activity Base Budgeting
AGM	Agricultural Marketing
ART	Anti-Retroviral Therapy
BoZ	Bank of Zambia
CAE	Zambia's Country Assistance Evaluation
CAS	Country Assistant Strategy
CEM	Country Economic Memorandum
CP	Cooperating Partners
CRB	Credit Reference Bureau
DFID	Department of International Development (UK)
EMGC	Economic Management and Growth Credit
DPO	Development Policy Operation
DFID	Department for International Development
EBZ	Export Board of Zambia
EITI	Extractive Industry Transparency Initiative
FSAP	Financial Sector Assessment Program
FSDP	Financial Sector Development Plan
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus Acquired Immunodeficiency Syndrom
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IFI	International Financial Institution
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
iPAF	Interim Performance Assessment Framework
JASZ	Joint Assistance Strategy for Zambia
LASF	Local Annuities Superannuation Fund
LCMS	Living Conditions Monitoring Survey
MACO	Ministry of Agriculture and Cooperatives
MDG	Millennium Development Goal
MoFNP	Ministry of Finance and National Planning
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NER	Net Enrollment Rate
NRFA	National Road Fund Agency

PAC	Public Accounts Committee
PACRO	Patent and Registration of Companies Office
PE	Personal Emolument
PER	Public Expenditure Review
PEMFAR	Public Expenditure Management and Financial Accountability Report
PHC	Preferred Health Center
PMEC	Payroll Management and Establishment Control
PRBS	Poverty Reduction Budget Support
PREM	Poverty Reduction and Economic Management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Service Capacity Building Project
PSM	Public Service Management
PSPF	Public Sector Pension Fund
PVA	Poverty and Vulnerability Assessment
RDA	Road Development Agency
REER	Real Effective Exchange Rate
RTSA	Road Transport and Safety Agency
SAC	Structural Adjustment Credit
SAG	Sectoral Advisory Group
SEDB	Small Enterprise Development Board
SMP	Staff Monitored Program
SWAP	Sector Wide Approach
TA	Technical Assistance
TNDP	Transitional National Development Plan
WHiP	Wider Harmonization in Practice
ZDA	Zambia Development Agency
ZEPZA	Zambia Export and Processing Zone Agency
ZIC	Zambia Investment Center
ZNBC	Zambia National Building Society
ZPA	Zambia Privatization Agency
ZRA	Zambia Revenue Authority
ZK	Zambia Kwacha

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THE REPUBLIC OF ZAMBIA

SECOND ECONOMIC MANAGEMENT AND GROWTH CREDIT

TABLE OF CONTENTS

List of Tables

List of Boxes

List of Figures

List of Annexes

List of Appendices

MAP IBRD No. 33514

The Second Economic Management and Growth Credit was prepared by an IDA team consisting of Anke Reichhuber, Christine Richaud, W. Marie Sheppard, Patricia Palale, Elisabeth Heid, Andrew O. Asibey, Mark Dorfman, Gary Hendricks, Alex Mwanakasale, Pavel Lukyantsau, Paavo Eliste, Ben Gericke, Jonathan Pavluk, Suzanne Morris, Davies Makasa, Susan Mpande, Marjorie Mpundu, Ahmet Soylemezoglu, Mushiba Nyamazana, Kebede Feda, Jos Verbeek, and Ohene Nyanin, Country Manager at the time that the operation was initiated. Valuable inputs were received from various collaborating partners. Peer reviewers were Elena Ianchovichina and Brian T. Ngo. Dotilda Sidibe and Lulu Milinga provided invaluable administrative assistance.

CREDIT AND PROGRAM SUMMARY

REPUBLIC OF ZAMBIA

SECOND ECONOMIC MANAGEMENT AND GROWTH CREDIT

Borrower	Republic of Zambia.
Implementing Agency	Ministry of Finance and National Planning.
Amount	SDR 6.3 million (USD10.0 million equivalent).
Terms	Standard IDA terms with 40 years maturity and a 10-year grace period.
Tranching	One Tranche to be released at effectiveness.
Description	The Credit of USD10 million is the second Development Policy Lending Operation (DPO) to support policy and institutional reforms as outlined in the Country Assistance Strategy (CAS) for FT04-07 (Report No. 27654-ZA). The FY04-07 CAS envisages that over the four-year period of CAS implementation, there could be two multi tranche Development Policy Lending Operations or one multi tranche plus two single tranche DPOs to support CAS implementation. This credit's reform program and objectives aim to facilitate Zambia: • To maintain and deepen Zambia's macroeconomic framework conducive to robust growth; • To strengthen the credibility and institutional capacity of the public sector; • To enhance Zambia's growth opportunities while improving its poverty impact. In addition, the expected results of the Credit are embedded in the CAS for FY08-11 and contribute to its goals and objectives. IDA and the Government of the Republic of Zambia agree that achieving these objectives in part depend on the implementation of specific reforms in the areas of: (i) public sector management; (ii) macro economic management including the reduction of arrears and the establishment of a credit rating bureau; (iii) agriculture; (iv) infrastructure; and (v) business environment.
Benefits and Results	The actions and outcomes under the development policy operation will help deepen and consolidate the macroeconomic gains that Zambia has registered over the last three years , will contribute to the sustainability of the reform process in the area of public sector management, financial sector development and private sector development. In addition, it will also contribute towards the bridging of a financing gap that exists in the implementation of Zambia's Fifth National Development Plan and it will contribute towards improving

	aid effectiveness by being part of a harmonized approach to budget support. More specifically the operation aims to contribute to (i) improved management of public resources and credibility of Government vis-à-vis domestic suppliers by reducing arrears; (ii) timely payment of pensions by Zambia's Public Pension Fund (PSPF); (iii) availability of creditworthiness information of borrowers to Commercial Banks; (iv)improved ability to execute in year programs and reduced disconnect between plans and budget execution; (v) improved quality of data maintained in Zambia's civil service Payroll Management and Establishment Control (PMEC) system; (vi) a simplified institutional framework to reduce bureaucratic procedures for businesses; (vii) the reaching of consensus on the roles and mandates of each actor, public and private, in the agricultural marketing sectors; and to (viii) the ability of the road agencies to operate their statutory tasks.
Risks	Given that the proposed DPO is a one-tranche operation, the main risk is sustainability of the implemented reforms. This is mitigated through the fact that the operation is embedded in a medium term program that is aligned with the country's own development strategy and is undertaken in conjunction with all donors, which are providing budget support. *Political Risk.* The outcome of the elections in the fall of 2006 has shown that the current regime is susceptible and vulnerable to populous ideas. This can affect the attention needed to stay the course with the ongoing economic reform efforts to further strengthen the effectiveness of the public sector and the commitment to work towards a more private sector friendly economic environment. To mitigate these challenges some of the macroeconomic and public sector management areas supported by the proposed operation are also supported, though from a different angle, by the IMF's PRGF arrangement. *Macroeconomic stability.* Even though fiscal discipline has taken root in Zambia, ineffective public expenditure management processes and populist tendencies can generate risks for macroeconomic performance. *External Developments.* The country is vulnerable to terms of trade shocks and droughts. The upsurge in copper prices might re-ignite the hope that Zambia once more can count on the copper sector for economic success. A reoccurrence of a drought would harm the recent gains in food security and could see a surge in the need for food imports. *Malaria and HIV/AIDS pandemic.* Malaria and HIV/AIDS remain the most significant health threat to Zambia's population and hence to its prosperity. The impact of these diseases is increasingly visible in all spheres of Zambia's society and economy. With prevalence rates remaining in double-digit figures, the potential damage is enormous.
Operation ID Number	ZM-PE-P074445

PROGRAM DOCUMENT FOR A PROPOSED SECOND ECONOMIC MANAGEMENT AND GROWTH CREDIT TO THE REPUBLIC OF ZAMBIA

I. INTRODUCTION

1. This program document presents a proposed Development Policy Operation (DPO) to the Government of the Republic of Zambia (GRZ) for SDR 6.3 million (USD10 million equivalent) to finance a second Economic Management and Growth Credit (EMGC II) to support the Government's reform program in support of Zambia's Fifth National Development Plan (FNDP). The proposed operation is part of a collective effort by the Government of the Republic of Zambia (GRZ) and Poverty Reducing Budget Support (PRBS) donors[1] to provide predictable and performance related annual budget resources to support the Government's effort to implement its Poverty Reduction Strategy (PRS)/Fifth National Development Plan (FNDP), which covers the period 2006-10.

2. The focus and scope of the FNDP covers numerous important areas for Zambia's development, which are reflected in the Performance Assessment Framework (PAF) (see Annex 2), which is jointly prepared by GRZ and PRBS donors. This credit selectively assists the economic reform efforts of GRZ in three areas. The included areas from the PAF are (i) public sector with a focus on reforms that strengthen management of public resources and improve quality and accuracy of data maintained in Zambia's civil service Payroll Management and Establishment Control (PMEC) system; (ii) macro economic management with a focus on reducing arrears to general contractors and to Zambia's public service pension fund (PSPF), and on improving Zambia's credit culture; (iii) wealth creation with a focus on developing a market friendly Agricultural Marketing Act (AGM), ensuring that the newly created road agencies are appropriately staffed, and on assisting GRZ to reduce bureaucratic procedures that negatively affect the investment and business practices of the private sector.

3. Economic management reforms in each of these areas are to contribute to prolongation of the durable improvements made in the country's macroeconomic environment, enhance its growth opportunities, and improve the poverty reduction impact of Zambia's growth. These actions build on and expand upon past achievements and lessons learned in the area of economic management that were supported by a two tranche Economic Management and Growth Credit (EMGC) of USD40 million approved in December 2004 and fully disbursed in December 2005[2]. The EMGC was the first of two DPOs that were identified in the baseline lending scenario of the Country Assistance Strategy (CAS) for FY04-07 to assist GRZ with policy and institutional reforms. The proposed operation is in many ways a continuation of the previous DPO as it aims to maintain and expand on the positive strides made. In addition, the proposed operation is

[1] The PRBS donor group comprises DFID (UK), the African Development Bank, the European Commission, Finland, Germany, Netherlands, Norway, Sweden, and IDA.
[2] See appendix 1 for an overview of the credit release milestones of the EMGC and its outcomes. A full overview of EMGC I can be found in its Implementation Completion Report No. 36495.

also to extend Zambia's track record of policy and institutional reform and thus sets the stage to move towards a programmatic approach under the new CAS FY08-11 to support the policy and institutional reform agenda identified in the FNDP and incorporated in the PAF.

4. In addition, the proposed operation builds also on an earlier three-tranche Fiscal Sustainability Credit of USD170 million approved in May 2001 and fully disbursed in June 2002 and complements implicit budget support provided under the Multilateral Debt Relief Initiative (MDRI), which became effective in July 2006. Other critical inputs to the proposed operation are provided through the Public Service Management Project approved in January 2006 and a variety of economic sector work (ESW). The ESW includes a Public Expenditure Management and Accountability Report (PEMFAR), a Country Economic Memorandum (CEM), an Investment Climate Assessment (ICA), a Foreign Investment Advisory Services' (FIAS) Administrative Barriers to Investment, a Poverty and Vulnerability Assessment (PVA), as well as the diagnostic work on pro-poor growth undertaken by the Poverty group in PREM. In addition, the credit draws on reports and evaluations carried out by GRZ such as Zambia: Public Financial Management Performance Report and Performance Indicators.

II. COUNTRY CONTEXT

5. ***Recent Economic Developments.*** Macro economic performance supported by the IMF's Poverty Reduction and Growth Facility (PRGF) has been positive with the notable exemption of the exchange rate, which appreciated sharply in November 2005 and has shown a certain degree of volatility since then (see figure 1). GDP growth has remained robust in 2007; inflation has remained in single digits, and high copper prices and additional debt relief through the Multilateral Debt Relief Initiative (MDRI) have improved Zambia's external position significantly. See table 1 for Zambia's key economic indicators.

Figure 1: Exchange rates (REER & ZK/USD);

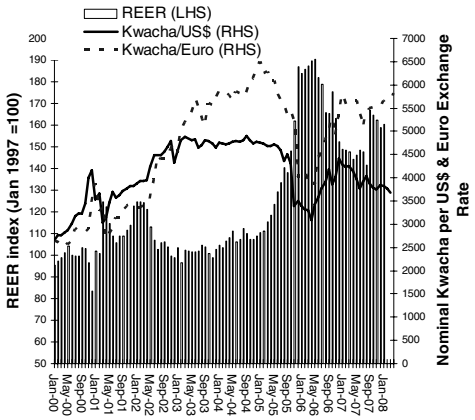
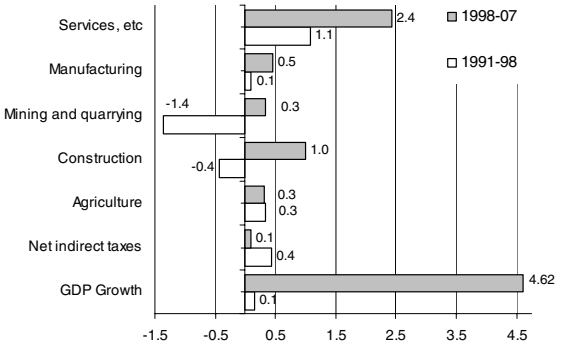


Figure 2: GDP Growth and Contribution by sector for 1991-1998 and 1999-2007



Source: IMF, CSO, BoZ, and Staff estimates

6. Zambia is experiencing a robust growth period with positive broad based GDP growth for nine consecutive years. GDP growth has been particularly strong in construction and services, while mining has shown a very strong rebound during these last nine years. This experience contrasts sharply with the early period of reform in 1991-1998 (see figure 2). Consequently, the overall poverty headcount has declined from 73 percent in 1998 to 64 percent at the end of 2006.[3] Even though this decline is less than needed to reach the poverty related Millennium Development Goal (MDG), the decline is a welcome outcome after many decades of decreasing incomes and increasing poverty. Real GDP growth is estimated to have equaled 5.7 percent for 2007 and GDP growth for 2008 is projected to remain around 6 percent as rainfall has been favorable and production of copper is to rebound from a small contraction in 2007.

7. These positive growth and poverty developments are supported, and for a large part driven, by favorable external developments. Zambia's terms of trade improved over 100 percent since 2004. This has lead to an enormous improvement in the current account balance (including grants) from a negative seven percent of GDP in 2004 to a projected positive balance of around 3 percent in 2006. The main source of this improvement is the exceptional rise in copper prices since 2003 by approximately 300 percent. This, combined with a recovery in copper production, has allowed growth of export proceeds to outperform increases in imports. Imports rose sharply during this period as well triggered by rising fuel costs and imports of mining related investment goods in particular. Non-copper exports have also grown rapidly amounting to a USD1.2 billion for 2007, up from USD330 million in 2000. As a result, overall export levels in 2006 amount to USD4.5 billion, more than six times the level of exports in 2000.

8. These improvements in the external situation have resulted in a much needed increase in international reserves which stood at 2.5 months of imports at the end of 2007. Reserves are still at a relatively low level, but up from less than 1 month of imports at the beginning of this millennium. The favorable external developments have also impacted the kwacha, which has been appreciating in real effective terms by approximately 8 percent annually in 2003 and 2004, and appreciated excessively in the second half of 2005. Even though in 2005, no serious negative impact on Zambia's competitiveness had become evident as the nominal appreciation occurred in November/December 2005, the profitability of producers of non-copper exports has been negatively affected. The depreciation of the kwacha in nominal as well as real terms in the second half of 2006 (see Figure 1) has helped restore some of their viability. This can be seen from a still healthy increase in export revenues by the non-copper sector.

9. After years of weak fiscal policy implementation, the authorities have improved overall budget execution and reduced their domestic financing needs drastically. The main adjustment was made in 2004, when domestic borrowing was reduced from 5.1 percent of GDP in 2003 to 0.8 percent of GDP. This has crowded in credit resources available to the private sector and reduced yields on bonds and T Bills significantly. In 2006, the overall fiscal deficit was 2.9 percent of GDP, while the preliminary outcome

[3] The Poverty and Vulnerability Assessment (Report No 32573-ZM), which is based on the LCMS02/03, estimates poverty at 55 percent of the population. However, the LCMS06, which is dynamically comparable to the LCMS98 but not to the LCMS02/03, provides the figures quoted in the text.

for 2007 was 0.2 percent of GDP. The decrease in the deficit in 2007 was caused in part by higher revenues, in particular from the mining sector, as well as from delays encountered in the implementation of capital projects.

Table 1: Key Economic Indicators

Annual data	2003	2004	2005	2006	2007est.
Real Economy /1					
GDP Growth (constant prices)	5.1	5.4	5.2	6.2	5.7
Agriculture growth (constant prices)	5.0	4.3	-0.6	2.4	1.9
Mining growth (constant prices)	3.4	13.9	7.9	11.8	-1.4
Public Finances /1					
Government revenues, (% of GDP) of which	24.9	23.7	23.0	21.5	23.4
Domestic Revenues (% of GDP)	18.0	18.2	17.4	16.9	18.7
Government expenditures (% of GDP) of which	30.9	26.7	25.7	23.1	24.6
Wages and salaries (% of GDP)	8.4	7.8	7.6	7.2	7.8
Interest payments (% of GDP)	3.9	3.5	2.7	1.9	1.7
Government overall balance (% of GDP) of which	-6.6	-1.7	-2.6	-2.9	-0.2
Domestic financing (as % of GDP)	5.1	0.8	1.9	1.9	-0.1
Prices, Interest Rates, Terms of Trade, and Exchange Rates /2					
Inflation CPI (end of period, y/y, % change)	17.2	17.5	15.9	8.2	8.9
T-bill yield (90 days, end of period, %)	30.0	18.3	15.3	9.1	11.4
Lending rate (end of period, %)	36.0	29.8	27.6	21.6	18.3
Change in Terms of Trade (period average, %)	..	34.7	10.4	55.2	7.9
Real Effective Exchange Rate (end of period, y/y,% change) /3	-1.0	4.1	69.4	-17.0	6.8
Nominal Exchange Rate (K/US$, end of period)	4645.5	4771.3	3509.0	4406.0	3844.0
External Developments /1					
Exports of goods (US$, millions) of which	1090	1847	2278	3929	4594
Copper exports (US$, millions)	607	1075	1516	3029	3407
Imports of goods (US$, millions)	1393	1872	2161	2636	3611
Current account balance, incl. grants (% of GDP)	-9.3	-7.0	-4.4	3.0	-2.5
Reserves as months of imports of goods	1.3	1.1	1.5	2.2	2.5
External Debt Developments					
External Debt (% of GDP)	156.5	126.8	86.0	8.8	9.9

1/ Figures for 2007: IMF and World Bank Staff forecast
2/ Figures for 2007: based on last available observation i.e.September 30
3/ INS-IMF ReeR, increase indicates appreciation; 2007 12 months figure as of end of June
4/ 2005 is still before MDRI. 2006 includes MDRI.
Sources: CSO, BoZ, IMF and Bank Staff estimates

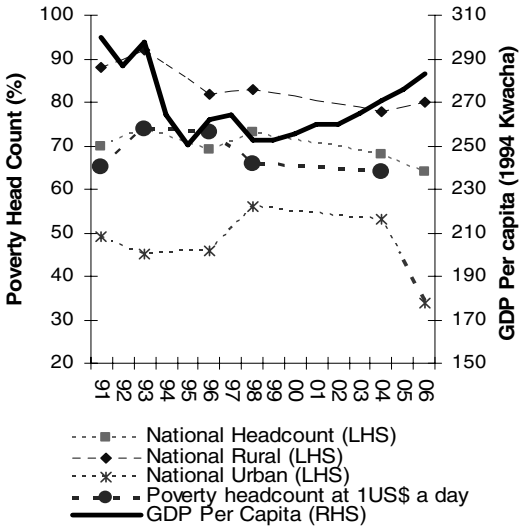
10. The reduction of the fiscal deficit has taken the fiscal angle out of inflation. Tight monetary policy, assisted by lower food prices, due to a recovery in food production after the drought during the 2004/5 planting season, has reduced inflation to single digit for the first time in over three decades in 2006. Inflation at the end of 2006 stood at 8.2 percent, significantly lower than the 15.9 percent recorded for inflation at the end of 2005. Inflation has remained subdued and equaled 8.9 percent at the end of 2007. The reduced domestic borrowing requirements by the public sector has allowed strong domestic credit expansion. At the end of 2007, loans and advances to the private sector by commercial bank equaled 11.2 percent of GDP up from 7.2 percent of GDP at the end of 2005.

11. ***Macroeconomic outlook.*** The Government's FNDP supported by the 2008-10 Medium Term Expenditure Framework (MTEF)[4] identifies as targets for its macroeconomic framework: (i) achieve economic growth of at least six percent per annum; (ii) reduce inflation to no more than five percent; (iii) limit domestic borrowing to allow for further expansion of domestic resources available to the private sector; and (iv) increase the coverage of official gross reserve to at least three months of imports in 2008, reaching comfortable levels of four to five months of imports by the end of 2009. This is to be supported by improving financial and exchange rate stability, while sustaining a viable balance of payments, and external and domestic debt position (see Table 2). See Box 1: Zambia's Growth and Poverty Reduction Potential for a more detailed discussion.

Box 1: Zambia's Growth – Poverty Reduction Potential

During 1999–2007 real GDP grew at an average rate of 4.6 percent a year. **This stronger performance has not translated into significant declines in poverty.** This can be seen in Figure A: the overall poverty headcount has declined from 73 in 1998 to 64 at the end of 2006. While the depth and severity of poverty fell rapidly during the 1990s, this downward trend has tapered off, suggesting that the poorest population has not benefited considerably from recent growth. One explanation for the weak growth-poverty relationship is that recent growth has been concentrated in mining, construction and whole sale and retail trade which are rather capital intensive and urban based and which are less pro-poor than the expansion of agriculture (see figure B and C).

Figure A: Growth and Poverty, 1991-2006*



Source: FNDP and Central Statistical Office

Shared Growth Prospect

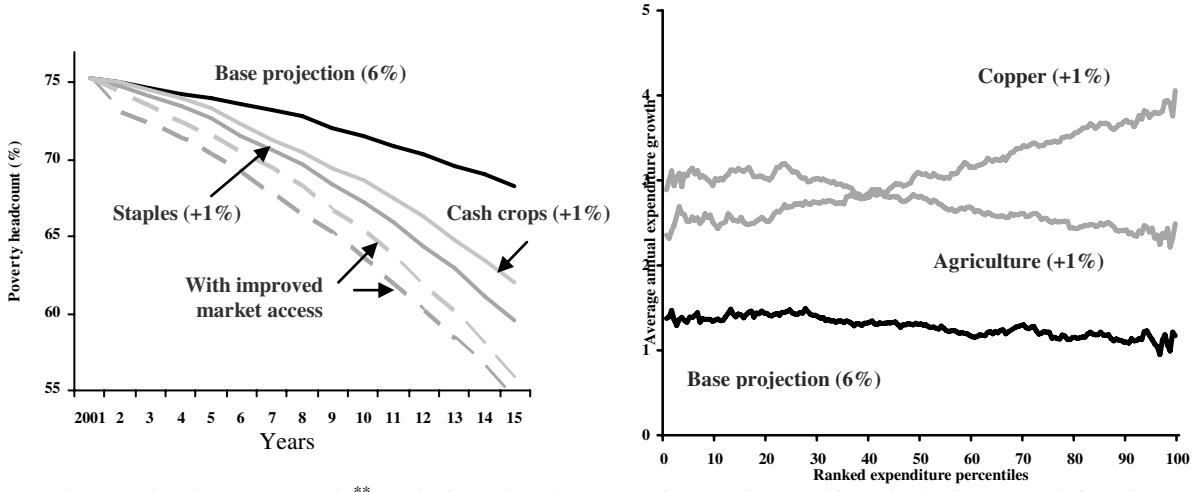
Zambia's prospects for growth and poverty reduction over the next decade depend on both exogenous factors and policy and institutional measures. A computable equilibrium model (CGE), which was developed for the Country Economic Memorandum (CEM), completed in FY05 and expanded for the Pro-Poor Growth Study by the PREM Poverty group, simulates the growth and welfare impact of both exogenous changes and alternative Government policies over the next ten years (2006-2015). Under the base case scenario, Zambia is projected to grow at an annual average rate of 6.0 percent, which is equal to the projected growth path for the Fifth National Development Plan.

The simulation results provide several useful insights. First, continuing on a growth path driven by capital intensive and urban-based activities, poverty is projected to decline to approximately 62 percent by 2010. For a more rapid decline in poverty rates, there is a need to focus on expanding those sectors that create employment and income opportunities for the poor, in particular in the rural areas. Hence, the need to focus on the agricultural sector, traditional and nontraditional crops, which have strong potential to be exported. This is the most effective way to enhance inclusive growth (see Figure B and C). The pro-poor

[4] In November of every year, the Ministry of Finance and National Planning issues a so-called Green Paper, which articulates its fiscal framework for the following three years. The Green Paper also includes since 2005 indicative expenditure allocations by head for Personal Emoluments (PE) and other PE related expenditures and non-PE expenditures.

outcomes of agricultural expansion would be greatly enhanced if market access through investment in (feeder) roads were increased on a large scale. Improving the condition of the road network and extending the network to remote areas is a key step not only to increasing growth but also to ensure growth reduces rural poverty. Therefore, successful implementation of the FNDP based strategy could further reduce poverty by another 2-3 percentage points by 2010. Even under this scenario, Zambia will not be able to halve poverty until after 2030. This is not sufficient; Zambia needs to move to a much higher growth path—estimated to be between 9-10 percent per annum—to reach this particular MDG.

Figure B and C: Alternative Growth Paths - Growth incidence curves & Poverty reduction curves within agriculture



A recently completed country study** exploring what the constraints are in Zambia to inclusive growth found that despite a positive, relatively broad-based and stable growth record in recent years and immense untapped potential in agriculture, mining and services, Zambia's poverty rates have not declined significantly and remain high. It concluded that income growth is limited by the absence of positive coordination externalities due to poor access to domestic and international markets, inputs, extension services and information. High indirect costs – most of which attributable to infrastructure service-related inputs into production including energy, transport, telecom, water, but also insurance, marketing and professional service – undermine Zambia's competitiveness, limit job creation and therefore serve as a major constraint to inclusive growth. The study also mentioned that continued real appreciation is another serious threat to the competitiveness of export-oriented and import-competing sectors and to job creation. Consequently, for Zambia to stay competitive and sustain the growth momentum, the study mentions that it will be critical to improve productivity – including the productivity of its labor force, and to lower indirect production costs related to basic services. Carefully crafted monetary and fiscal policies will also be critical in responding to the real appreciation pressures. Improving the quality and access to secondary and tertiary education is essential if the poor are to benefit from future growth of the non-farm economy.

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* These official poverty estimates are based on the Priority Surveys (1991, 1993) and Living Conditions Monitoring Surveys (1996, 1998, 2004, and 2006). GDP per capita is based on National Accounts of CSO.

** E. Ianchovichina and S. Lundstrom, What are the Constraints to Inclusive Growth in Zambia? Washington, D.C., World Bank mimeo, 2008

12. The fiscal program as specified in the MTEF 2008-10 and the proposed new PRGF program for 2008-11, envisages the need to reduce further net domestic financing to anchor stabilization. Increased tax revenues, through higher taxes mainly from the mining sector, and increased VAT revenues, will facilitate a further reduction in domestic borrowing. Scaling up by bilateral donors is not foreseen until 2008-2009 when many bilateral agencies are to revisit their multi year programs. Major increases in public

investment to support the FNDP investment program will have to be financed from additional domestic resources e.g., increased mining revenues, or from debt service savings made available by HIPC and MDRI.

13. Monetary policy will need to remain firm to ensure that the gains made in inflation translate into a further reduction of inflation to international comparable levels. In addition, a large portion of the Bank of Zambia's (BoZ) holdings of non-marketable Government securities has recently been converted into marketable securities. This will increase BoZ's capacity to carry out open market operations with an aim to sterilize excess liquidity.

14. ***Debt sustainability.*** Zambia reached HIPC completion in April 2005 and became eligible for the Multilateral Debt Relief Initiative as of July 1, 2006. This has greatly reduced Zambia's external debt obligations, which currently stand at less than ten percent of GDP. Nevertheless, Zambia will need to remain prudent with regard to its external borrowing strategy in order to not fall back. The Government is preparing a debt management strategy that encompasses external as well as domestic debt and has recently completed a validation of its on-lending operation. Both activities aim to assist GRZ to maintain a viable level of indebtedness.

Table 2: Zambia Selected Indicators: 2006-2010

Annual data	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.
Real Economy				
GDP Growth (constant prices)	5.7	6.2	6.3	6.5
Inflation (e.o.p.)	8.9	7.0	5.0	5.0
Public Finance				
Government overall balance (% of GDP)	-0.2	-1.1	0.9	0.4
Total domestic financing (as % of GDP)	-0.1	-0.1	-1.5	-0.9
External Developments				
Current account balance, incl. grants (% of GDP)	-2.5	-2.1	2.0	-1.0
Reserves as months of imports of goods	2.5	3.2	4.7	5.5
External Debt Developments				
NPV of External Debt (as % of GDP)	6.0	5.6	5.7	6.1

Source: MTEF 2008-10; LIC DSA, IMF PRGF and Staff estimates

15. A Low Income Countries Debt Sustainability Analysis (LIC-DSA) was completed in 2007 as part of the IMF's Article IV consultations. It concluded that Zambia faces a low risk of debt distress.[5] At the end of 2006, to al large extent because of HIPC and MDRI, Zambia's NPV of public external debt was estimated to equal 16 percent of exports and 6 percent of GDP at the end of 2006. Zambia's external debt ratios are projected to remain well below the risk threshold for the period covered by the LIC DSA i.e., 2007-27. The NPV of total public debt equaled 25.9 percent of GDP at the end of 2006. In the baseline scenario of the LIC DSA, Zambia's public debt is expected to

[5] See Appendix I for the full LIC DSA.

decline over the 20 year projection period. The NPV of domestic debt would decline from 18.6 percent of GDP in 2006 to 10.4 percent by 2027. Because of this and the decline in external debt, the NPV of public debt to GDP is projected to drop to 16 percent by 2027. The sensitivity analysis as well as alternative scenarios, including a more rapid decline in copper prices, shows that the outlook for public debt sustainability is benign.

III. THE GOVERNMENT'S PROGRAM

16. ***Introduction***. GRZ has articulated its long term development objectives in the National Vision 2030, which stipulates that Zambia wants to become "*a prosperous middle income country by the year 2030.*" The vision calls for economic and expenditure policies plus institutional reforms that accelerate growth and leads to sustained poverty reduction. The FNDP, covering 2006-10, is an important tool in reaching the goal set by the National Vision 2030.[6] The topic of the FNDP is *"Broad Based Wealth and Job Creation through Citizenry participation and technological Advancement,"* with a strategic focus on developing Zambia's economic and human infrastructure.

17. Zambia's FNDP covers over twenty economic and social sectors. It identifies macroeconomic stability, including proper public expenditure management and financial accountability processes as a pre-requisite, while recognizing governance, HIV/AIDS, environment, and gender as cross cutting issues. The FNDP states further that 'good governance' plays a critical role in realizing the objectives set in the FNDP. Accountability, political and administrative, as well as financial and budgetary, are all seen as important building blocks that will help the nation improve governance and contribute to a reduction in corruption. Improvements in administrative and financial and budgetary accountability are anchored in two pillars of public sector reform, i.e. Public Sector Management reform and Public Expenditure Management and Financial Accountability programs.

18. The Government's program identifies the need to make Zambia's growth more inclusive. The FNDP has identified two critical areas on which public expenditure programs should focus if growth is to be accelerated and reach the poor more strongly. These two main areas are: (i) strengthening Zambia's physical and human infrastructure, with a particular focus on (rural) roads; and (ii) enhancing agriculture and rural development. These priorities need to be accompanied by reforms that improve the business and investment climate in Zambia and strengthen public sector management to ensure effective delivery of public services.

19. Recognizing that accelerating the pro-poor impact of growth will require supporting diversification of the economy, the growth and poverty reduction strategy articulated in the FNDP focuses in particular on supporting rural development, especially agriculture, encouraging linkages between agriculture and agro-processing, stimulating tourism, and strengthening Zambia's manufacturing base through investment promotion,

[6] The Fifth National Development Plan and its accompanying Joint Staff Advisory Note, Report No. 40127-ZM, were discussed in August 2007 with the Executive Board.

development of the small and medium enterprise (SME) sector, and economic empowerment. The FNDP recognizes the importance of a well functioning financial sector geared not only towards providing financial services to the established business sector, but also to the SME sector, which is hampered by a relatively unknown credit history.

20. The FNDP, supported by the Performance Assessment Framework (PAF), jointly prepared by GRZ and its cooperating partners, including IDA, identifies four areas that are crucial to a successful implementation of the FNDP and which lend themselves to direct budget support. These broad areas are: (i) public sector reform; (ii) macroeconomic management; (iii) wealth creation; and (iv) social equity.

21. The remainder of this section will discuss the Government's program that deals with reforms in those four areas and identify the prior actions supported by the proposed credit.

A. Improving Public Sector Management

22. In the early 1990s, the Government identified that its public service was bloated, inefficient, ineffective, and inadequately responsive to the needs of the public. In addition, it was characterized by poor discipline and inadequate professionalism and accountability, resulting in poor service delivery. To redress this situation, the Government embarked on implementing the public service reform program (PSRP) in 1993 as a systematic long-term measure to reform the public service. In 2000, the Government commenced the implementation of the Public Service Capacity Building Project (PSCAP) in order to facilitate, sustain, and revitalize the reform efforts. The initial phase focused on rightsizing and pay reform; improved financial management, accountability and transparency; improved capacity of the judicial and legal systems; and decentralization and participatory governance.

23. In 2003, GRZ acknowledged the need to focus on three main aspects of its PSRP i.e., (i) Public Expenditure Management and Financial Accountability (PEMFA); (ii) Public Sector Management (PSM); and (iii) Decentralization as means to improve the accountability, transparency, efficiency and effectiveness of its expenditure programs and service delivery. For each of these broad areas strategies were prepared, implementation plans developed, and institutional structures to monitor and facilitate implementation put in place.

24. **Strengthening public service management.** GRZ has completed its rightsizing/restructuring exercise (i.e., ensuring that ministries and institutions have staff complements that are appropriate to their agreed mandates and affordable). Under the FNDP, it now embarks on the ***rightsizing/restructuring of provinces and districts*** as well as local authorities. The restructuring of provincial and district administration is supported under the PAF. In 2006 and 2007 a comprehensive implementation plan, which includes the development of strategic plans, organization structures, and results oriented job descriptions, has been developed. It is expected that over the next two years several provinces and districts will be restructured.

25. The PAF will also support the Government's efforts to ***institute service delivery charters*** as a means to ensure that all ministries and institutions are managing performance effectively within an agreed framework, and are taking action to bring their service delivery up to those standards. The Ministry of Lands and the Department of Immigration will pilot the service delivery charters and formally adopt them in 2008. Additional institutions will be identified over the next two years to develop and adopt service delivery charters as a means to improve and strengthen service delivery by the public administration.

26. Another important component under public service reform is progress with the ***preparation and implementation of a comprehensive pay policy.*** Pay levels for civil servants remain an issue of contention, as they are considered inadequate and inconsistent with performance, meaning the public service is unable to attract and retain essential technical and professional staff. A diagnostic study with a focus on these issues has been initiated and will be undertaken and completed in 2008. This is to translate into a new and adopted public service pay policy in 2008, whose implementation will commence soon thereafter. An important supporting step to be completed in 2008 or early 2009 is a job evaluation of all public servants.

27. Building on the achievements under EMGC I, the operationalizing of ***the Payroll Management and Establishment Control (PMEC) system will focus on improving direct access by human resource departments of line ministries and their department.*** All the line ministries were brought into the system in 2005**.** However, at the time access was limited to officers at Zambia's Cabinet Office. The PAF foresees that central spending agencies will be able to access the PMEC system directly from their location. In 2006 and the first part of 2007, the Zambia Police, Public Service Management Division, Ministry of Finance and National Planning, Ministry of Works and Supply, Ministry of Home Affairs, and Ministry of Agriculture and Cooperatives have been connected directly to the PMEC system from their own location. This should lead to improved quality and timeliness of the data in the Payroll and Establishment Management Control system. This process is to continue and by 2009, about 23 central spending agencies and six provinces are to be directly connected to the main PMEC system.

28. **Public finance management**. The Government's program in the area of ***public expenditure management supported by the PAF focuses on budget execution, internal and external accountability, and clearing of arrears***, with an aim to improve the credibility of the budget process and to measure progress of the PEMFA program that GRZ is implementing as part of the underlying principles used by the cooperating partners to evaluate Zambia's readiness to receive budget support (see section IV: Collaboration with other donors).

29. The specific indicators chosen to monitor ***budget execution*** are: (i) percent of quarterly budget releases are between 95 and 105 percent of the budget allocation identified in the spending agencies quarterly allocation plan. In 2006, over 70 percent of agencies should have received their budget releases between these limits up from a low 25 percent in 2005. This is to rise to 80 percent in 2007 and to 90 percent in 2008.

However, due to a revenue shortfall of close to one percent of GDP, which was caused by an unanticipated appreciation of the kwacha in the first half of 2006, and measures introduced during the last quarter of 2006 to reduce bunching of releases at the end of the year, quarterly releases compared to expenditure plans submitted at the beginning of the year were off by a large margin. The result was that this indicator only improved to 28 percent, well off its intended target of 70 percent; (ii) percentage of expenditure variance between original budget and total expenditure for selected sectors. The baseline value stood at almost 20 percent for this indicator in 2005. Given that MoFNP has revised its financial management system to include all aid inflows into its 2007 budget, no benchmarks have initially been set in the PAF. However, this indicator improved to 15.6 percent in 2006, indicating that the execution of the budget approved by parliament is improving; and (iii) percent of heads that has calculated annual expenditure[7] between 95 and 105 percent of total annual funding. In 2005, this number stood at 27 heads out of 49, which equals 55 percent. In 2006, this indicator improved to 69 percent i.e., 34 out of 48 heads. To strengthen further the monitoring of the execution of the budget, the Government revised its quarterly budget execution report. The revised quarterly budget execution report includes now an analysis of budget provision, releases, and expenditures.

30. To improve the effectiveness of the annual ***external audit*** report, the Government has agreed for the period that the PAF covers, i.e., 2006-08, to act on 95 percent of the recommendations of the Public Accounts Committee (PAC) in parliament. Indeed, for 2006 all recommendations by the PAC on the 2004 annual audit report have been acted upon.

31. Government has struggled for some time to find the ***financial resources to clear arrears*** with its contractors. Many of the arrears stem from the less than optimal commitment control system that was operational before 2004. The Government program includes reduction of arrears from a level of ZK533 billion in 2005, which is equal to 1.6 percent of GDP, to zero by 2009. The decline in arrears in 2006 to ZK491 billion, which is equal to 1.2 percent of GDP, was less than anticipated in the PAF for 2006. However, during 2007, government reduced these arrears to ZK370 billion, or 0.8 percent of GDP The budget for 2008 and the MTEF/Green paper for the period 2008-2010, reconfirm Government's commitment to reduce supplier arrears to negligible levels. The approved 2008 budget has a provision of ZK350.5 billion to further dismantle the arrears with suppliers of goods and services.

32. To reduce the ability of new arrears to accumulate, the Government has embarked on an implementation plan that will strengthen the commitment control system by integrating the following stand alone financial management modules, the activity based budgeting, funding, and cash flow forecasting and expenditures modules, into the overall Financial Management System.

[7] In Zambia, total releases do not include fees and donor funding that comes to a spending agency outside of the budget. However, these figures are reconciled on an annual basis by the office of the accountant general.

33. ***Performance under EMGC I***. With support from EMGC I, the government, in its effort ***to improve the functioning of the public sector*** undertook several actions in the area of civil service reform. Government transferred the payroll for civil servants to the, at that time, newly introduced PMEC system; a new annual performance appraisal system was implemented for all management positions, which made annual salary increments dependent on employee performance, and cabinet approved the new structure of those ministries that had not finalized their restructuring plans. This was part of a reform program to ensure that functions and structures of the Government would meet better the demands of a market-oriented economy.

34. ***To increase the credibility of the budget process and its execution***, parliament approved the revised Finance Act that strengthens Zambia's financial management and accountability. MoFNP has since then prepared implementation regulations to make the new act operational. A major effort is being made to create a Treasury Department within the MoFNP. Once the Treasury Department has been established, one of the first tasks it will take on is to gradually move towards a single treasury account for Government resources, which will reduce vulnerability to corruption and improve cash management. MoFNP has continued to prepare MTEF/Green Paper in the 4th quarter of each calendar year by which the ministry outlines a three-year forward looking fiscal framework. This includes not only the impact of the projected macro framework on the fiscal position but also articulates indicative budget ceilings per head, including ceilings for personal emoluments.

35. The ministry also submitted a proposal to the Constitutional Review Committee (CRC), which among others would allow presentation of the budget to parliament prior to the start of the fiscal year for which it is prepared and would restrict retroactive approval of supplementary appropriations. In the interim, cabinet continues to fund unbudgeted expenditure requirements to the limits of the contingency resources indicated in the budget or only after cabinet has approved any changes, by finding compensatory funding within the approved budget resources. The reduction of general arrears, excluding pension arrears, has progressed and has been reduced from 2.6 percent of GDP at the end of 2004 to 1.6 percent at the end of 2005 during the EMGC I implementation period.[8]

36. Although not directly supported through the EMGC I operation, government made ***progress with the introduction of the Integrated Financial Management Information System (IFMIS),*** which was, however, part of the HIPC program. After a protracted period, the contract to rollout the IFMIS was signed at the end of 2006. Implementation, supported through the joint donor PEMFA project, has started and piloting of the system has been expanded from the four spending agencies initially targeted to eight. A prototype of the system has been developed and the initiation of the IFMIS system in the pilot spending agencies has commenced

[8] Note that under EMGC I, the reduction of arrears was treated as an issue of correcting macroeconomic imbalances. Since the level has been reduced significantly, the issue is now being assessed as one of budget execution.

37. ***EMGC II supported measures.*** Under the public sector management component the proposed operation has supported the further roll-out of the PMEC system to another six central spending agencies. The proposed operation has assisted GRZ in the area of public finance management with the implementation of the following two milestones:

- (i) MoFNP has ensured more predictability of budget execution by providing to 34 out of 49 budget heads with annual calculated expenditures of between 95 percent and 105 percent of the total funding for fiscal year 2006; and

- (ii) MoFNP has reduced domestic arrears to suppliers with: (i) stocks diminishing from ZK532.8 billion at the end of 2005 to equal or less than ZK491.8 billion at the end of 2006; (ii) ZK147 billion released to further pay down the arrears in 2007; and (iii) a commitment expressed in the 2008-2010 MTEF/Green paper and the 2008 budget to reduce these arrears to negligible levels by 2009.

B. Macroeconomic Management.

38. Government and cooperating partners are aware of the importance that the macroeconomic environment has for growth and poverty reduction. Zambia's macroeconomic environment has improved significantly over the last three years with inflation in the single digits for the first time in almost three decades and a budget deficit below three percent. The Government has indicated that maintaining and building on these achievements is an important objective of the FNDP. The IMF has provided assistance to GRZ through its PRGF arrangement to reach this positive position. The PRGF arrangement has formally expired in September 2007. GRZ has indicated that it has reached agreement with the IMF on a new (low access) three-year PRGF arrangement that is to be discussed with the IMF executive board in the second quarter of 2008.

39. ***Financial sector development.*** Zambia's financial sector is characterized by relatively high cost of borrowing, thin capital markets, the absence of financial services in most of the rural and peri-urban areas, and a relatively poor payment culture. Zambia's Financial Sector Development Plan (FSDP), which builds upon the recommendations of the Financial Sector Assessment Program (FSAP), focuses therefore on developing capital markets, enhancing the role of micro finance, developing of rural finance, strengthening of banking and non-bank financial institutions, and introducing mechanisms to monitor debtor's payment history. Zambia's credit culture, which has been undermined by non-timely servicing of financial obligations, is seen as one serious shortcoming. To overcome this deficiency, the authorities have taken the initiative and prepared the legal and regulatory regime that allows for the operation of a private sector credit reference bureau. The PAF for 2006 monitored this initiative and by the end of 2006, a credit reference bureau was established. The credit reference bureau is now in the process of signing service level agreements with commercial banks and financial institutions to govern the sharing and treatment of information.

40. ***Public Service Pension Fund.*** As articulated in the FNDP (and in the program document of EMGC I), the two public sector pension funds, i.e. PSPF and Local

Annuities Superannuation Fund (LASF) are both insolvent, although both hold some assets and are owed sizeable amounts in contribution arrears.[9] However, to correct the imbalance between contribution and benefit accrual rates, article 124 of the Constitution, which specifically protects accrued benefits, will need to be revised. These needed revisions are included in the proposed amendments to the Constitution prepared by the Constitutional Review Commission (CRC). Once adopted, a revision of benefits can be implemented and PSPF and LASF can be put on a sound financial footing. To ensure that PSPF can continue to pay benefits until the amendments have been adopted, MoFNP has agreed to: (i) to reduce annually during the 2007-09 period its contribution arrears to PSPF; and (ii) not accumulate any significant new pension arrears.

41. ***Performance under EMGC I***. As noted previously, the Government maintained a satisfactory macro economic framework during the implementation of the EMGC I supported measures. ***EMGC I supported various measures to improve the soundness of the financial system***. This include, finalizing the FSDP, resolving state-owned NBFIs, strengthening the governance structure of the Bank of Zambia, and improving Zambia's overall credit culture. In each of these areas the authorities made progress: The FSDP continues to be the guiding strategy for Zambia's financial sector, the state-owned NBFIs are being supervised by the supervision department of the Bank of Zambia and progress is being made to bring them under the Companies Act; and the legal and regulatory regime that allows for the operation of a private sector credit reference bureau has been adopted.

42. In addition to the program supported by EMGC I, the Government finalized the sale of Zambia National Commercial Bank (ZNCB) in early 2007. The privatization of ZNCB was initiated under the HIPC completion program and substantively completes the liberalization of the financial sector in Zambia.

43. EMGC I assisted the authorities with increasing awareness on the need to reform the civil service pension system. Without having actuarial fair benefit levels, the civil service pension funds will face serious financial shortcomings in the medium term. In the mean time, PSPF and LASF have taken measures to reduce their administrative costs and the authorities have agreed to a phased pay down of their contribution arrears such that benefits can continue to be paid out. EMGC I also assisted the National Pension Scheme Authority (NAPSA) to improve its corporate governance and to put in place additional safeguards with regard to its investment policy.

44. ***EMGC II supported measures.*** In the area of macroeconomic management the proposed EMGC II operation will support the authorities with the implementation of the following two benchmarks:

- (i) The Bank of Zambia has issued a license for the creation of Credit Reference Bureau; and

[9] See Appendix one of the EMGC program document, No. 29294 ZA, for a detailed description. Note that both funds are closed to new entrants. New civil service hires join the National Pension Scheme Authority (NAPSA), which was established in 2000 and serves the private sector and the new hires in the civil service.

- (ii) The Ministry of Finance and National Planning has implemented a phased reduction of arrears of contributions owed by the Government to the Public Service Pension Fund with: (i) stocks diminishing from ZK 464 billion at the end of 2005 to equal or less than ZK 388 billion at the end of 2006; (ii) ZK 112 billion released to further pay down arrears in 2007; and (iii) a commitment expressed in the 2008-2010 MTEF/Green paper and the 2008 budget to reduce these arrears to negligible levels by the end of 2008.

C. Wealth Creation

45. The theme of the FNDP is broad based wealth and job creation through citizen participation and technological advancement, while the strategic focus is economic infrastructure and human resource management. The component of wealth creation therefore focuses primarily on agriculture, infrastructure, and private sector development, while the social equity component highlights the need for improvements in health, education, and HIV/AIDS outcomes.

46. ***Agriculture.*** Agriculture features prominently in Zambia's FNDP is seen to hold great promise for accelerating poverty reduction (see also Box 1: Zambia's growth and poverty reduction potential). The FNDP will pay particular attention to the top priority programs that were identified in the agricultural sector which include: irrigation development; agricultural infrastructure and land development; livestock development; agricultural services and technology development; and fisheries development. At the same time, the FNDP acknowledges that Zambia needs to improve its agricultural productivity and market competitiveness in order to increase and sustain sector's contribution to growth and poverty reduction. Notwithstanding, it should also be noted that the agricultural sector has contributed significantly to Zambia's overall economic diversification, while the sector itself has also diversified and has increased production in a variety of crops such as cotton, coffee, tobacco, and horticultural and floricultural products. The recent impressive performance of agricultural exports has been largely driven by private outgrower schemes which involve about 1/3 of country's smallholder households companies and large export oriented commercial farms.

47. Several actions have been identified in the FNDP to improve the sector's ability to contribute more effectively to growth and poverty reduction. The main milestones identified for inclusion in the PAF for 2006 are: (i) the need to increase the allocation from GRZ's budget to investment programs of the Ministry of Agriculture and Cooperatives (MACO) from a meager ZK23.3 billion in 2005 to ZK88 billion in 2006 and indicative figures of ZK226, and ZK193 billion in 2007 and 2008 respectively; (ii) to improve access to additional land that can be used for agriculture through the provision of infrastructural services such as connection to the electricity grid, roads and water, and irrigation services. The basic infrastructure for this exercise has been developed in 2006, opening up an additional 50 thousand hectares annually for agriculture in 2007 and 2008; (iii) to define the roles and responsibilities of the public and private sector when it comes to Zambia's agricultural marketing system. To accomplish this task, a new Agricultural Marketing Act is being developed. In 2006, the Act has been drafted and all required

consultations concluded. The Act has been submitted to all line ministries in 2007, with adoption by parliament and implementation substantially starting in 2008.

48. ***Infrastructure.*** It is clear that for a country as large as Zambia, which is also landlocked, a well-designed and maintained road network is of critical importance to link its communities and to minimize the impact of transport cost on its overall competitiveness. The FNDP, therefore, has put its strategic focus on improving the road network. To improve the predictability of financing and strengthen implementation capacity, three new road agencies, each assigned with a specific task, were created. The National Road Fund Agency (NRFA) is responsible for the coordination and management of the road financing functions, including collection, disbursement, management, and accounting of Zambia's road fund; a Road Development Agency (RDA), which is tasked with the management responsibility of the public/proclaimed network, and which includes planning, programming, implementation, monitoring and overall supervision of all road works in the country; and a Road Transport and Safety Agency (RTSA), will be responsible for implementing policy on road transport and traffic management, road safety and enforcement of laws regulating road transport, traffic safety, and axle load control in the country. In addition, this agency is responsible for planning, programming, implementation, and monitoring and evaluation of road transport regulations and approved safety programs.

49. An important step to have the agencies operate effectively is to ensure that vacancies in the new agencies are filled. Under the PAF for 2006-08, it was agreed this is a priority and that by the end of 2006, 80 percent of all posts will be filled and that from 2007 onwards all posts will be occupied. The PAF also monitors kilometers of roads upgraded, rehabilitated, and kilometers of unpaved roads maintained.

50. The FNDP also puts emphasis on the need to further enhance the performance and access of other infrastructure service delivery sectors such as water and sanitation, electricity and telecommunications. Hence, policy improvements and investments are taking place in these sectors as well. However, the PAF for 2006-08 does not include indicators to monitor their development partly because of the need to make sure that the process remains manageable for Government, and partly because Government and PRBS donors agreed that, the road transport is of a critical importance for Zambia's development.[10]

51. ***Private Sector Development*** (PSD). In order to reduce the cost of doing business in Zambia and to increase participation by Zambians in the economic process, GRZ has undertaken some legislative and institutional initiatives:

52. The Zambian Development Agency (ZDA) has taken on the responsibilities of the Zambia Investment Council (ZIC); Zambian Privatization Agency (ZPA); Zambian Export and Processing Zone Agency (ZEPZA); Small Enterprise Development Board

[10] This does not preclude the inclusion of other infrastructure service delivery sectors into the PAF at a later stage as the process is of revising and extending the PAF with an additional year of coverage takes place on an annual basis and thus allows for a revision of priorities.

(SEDB); and Export Board of Zambia (EBZ). The Act establishing ZDA was passed in 2006 and a workplan has been developed for removal of barriers to export and setting up a business. In addition, the Patent and Registration of Companies Office (PACRO) was reengineered so as to streamline the business registration process. The Lusaka PACRO office is operating more efficiently and two pilot offices will be completed by end 2008. The Tourism and Hospitality Act was passed, and the Ministry of Tourism and Natural Resources is currently working on the accompanying Statutory Instruments (with the support of IDA and PEP IFC) so as to streamline licensing for tourism related businesses. These efforts will combine to reduce the length of time it takes to establish a business by 2008 from level of 35 days in 2005 by at least seven days.

53. The Citizen's Economic Empowerment Act has been passed by parliament, and a Citizen's Economic Empowerment Authority has been established and a plan for information and communication will has been put in place. 2007 and 2008 will focus on establishing its fund and making it operational.

54. ***Performance under EMGC I.*** Even though there were no credit release milestones under the previous lending operation, several relevant initiatives to EMGC II were supported. For example, the Government in collaboration with IDA and other Cooperating Partners organized a private sector development forum to assess progress made on the PSD reform program and recommend measures to improve its efficacy. As a result, the PSD Reform Program was revised and the number of working groups reduced from twelve to three, in an effort to increase focus and expedite results.

55. ***EMGC II supported measures.*** In the area of agriculture, the proposed EMGC II operation has supported

- The Ministry of Agriculture and Cooperatives with the drafting and finalization of consultations with stakeholders on an agricultural marketing act.

56. In the area of infrastructure, the proposed EMGC II operation has supported

- The strengthening of Government's capacity to address identified bottlenecks to development in the management of the road infrastructure by filling 80 percent of the staffing vacancies of the National Road Fund Agency, the Road Development Agency, and the Road Transport and Safety Agency.

57. Reducing administrative barriers is a priority in the area of private sector development and therefore the proposed operation has supported

- (i) the establishment of the Zambia Development Agency and its taking on the responsibilities of the former Zambia Investment Center, Zambia Privatization Agency, Zambia Export and Processing Zone Agency, Small Enterprise Development Board, and Export Board of Zambia; and (ii) the development of an implementation plan for the ZDA to accomplish further progress in the areas of removal of barriers to export and setting up of businesses).

D. Social Equity

58. ***Health sector***. A healthy, well educated population, which is aware of HIV/AIDs prevention and treatment, is critical to ensure positive long-term per capita growth and poverty reduction. To improve the chances of Zambians to live healthy lives several initiatives have been incorporated in Zambia's FNDP and a number of indicators for health have been included into the PAF. These indicators focus on assisting the vulnerable and disenfranchised in Zambia, by improving the percentage of institutional deliveries; increasing the percentage of fully immunized children under one year of age in the 20 worst performing districts; improving the utilization of Preferred Health Care (PHC) facilities; and ensuring that an increasing amount of the health budget is released to the district level.[11]

59. ***Education.*** Zambia implemented a policy of free access to primary education in 2003 and this has resulted in increases in net enrollment for the affected grades 1-7. However, some districts have not done as well as others. The FNDP acknowledges this issue and is targeting those districts that still have net enrollment rate (NER) of less than 80 percent. In 2005, 10 districts out of 72 still had a NER of less than 80 percent. In addition, girls leave school earlier than boys and pupil teacher ratios in several districts are very high, e.g., in 2005 in 12 districts pupil teacher ratios stand at over 100. The PAF supports actions included in the FNDP to address these shortcomings and to gradually improve completion rate for girls and reduce the number of districts with pupil teacher ratios of over 100 for grade 1-4.[9]

60. ***HIV/AIDS.*** The human toll of AIDS for families and communities in Zambia is startling. Even though levels of infection have stabilized, the sheer number of people living with HIV/AIDS is astounding. The FNDP states that estimates put the prevalence rate at 16 percent among the 15-49 years age group. About 1 million Zambians are infected with HIV, of which over 200,000 are in need of anti-retroviral therapy (ART). About eight percent of boys and 17 percent of girls aged 15-24 are living with HIV and 40 percent of infants born to HIV infected parents are HIV infected. The PAF supports the effort by the authorities to increase the number of people tested and number of people accessing Anti-Retroviral drugs.

61. Given the presence of several donors, including IDA and the nature of the interactions in the area of social equity, the proposed operation does not to have any release milestone in the area of social equity.

IV. BANK SUPPORT TO THE GOVERNMENT'S STRATEGY

62. ***Link to the Country Assistance Strategy.*** The FY04-07 CAS, discussed with the board in March 2004, is explicitly rooted in a results framework, which links the objectives of the predecessor of the FNDP, i.e., the Transitional National Development

[11] See Annex 2 - PAF for the specific values for each of the indicators for health, education, and HIV/AIDS.

Plan (TNDP), to specific outcomes to be supported by IDA. The focus of IDA activities under the FY04-7 CAS were structured around three strategic priorities: (i) Sustained Economic Growth Anchored in a Diversified and Export-Oriented Economy; (b) Improved Lives and Protection of the Vulnerable; and (c) Efficiently and Effectively Managed Public Sector. The FY08-11 CAS, which is proposed to be discussed in conjunction with the proposed EMGC II, aligns itself with the FNDP and proposes selective interactions in four priority areas. These four areas are: (i) macro economic management; (ii) infrastructure development; institutional capacity; human capital development.

63. Both CASs state that a DPO depends on upfront actions and results and be the instrument to initiate and support policy and institutional reforms. Table 4 lists the proposed credit release milestones. Section III describes in detail how the milestones relate to the FNDP and the PAF. Annex 3 explicitly identifies how the key areas of reform are aligned with each priority area of the CASs and FNDP. The full Performance Assessment Framework (PAF) for 2006-08 identifies clearly the link for each indicator with the FNDP.

64. ***Collaboration with other donors.*** A Memorandum of Understanding (MoU) that guides the process for providing Poverty Reduction Budget Support (PRBS) to GRZ was signed in mid 2005 between GRZ and CPs. In addition to IDA, the following CPs-Netherlands, Norway, Sweden, United Kingdom, and European Commission-signed the MoU. Since then, Finland, Germany and the African Development Bank have formally joined The proposed operation is part of this joint effort and all proposed release milestones are part of the PAF, which has been prepared jointly with GRZ and cooperating partners (see also Box 2: Good Practice Principles on Conditionality).

Box 2: Good Practice Principles on Conditionality

Principle 1: ***Reinforce Ownership***

- The proposed operation draws directly from the Performance Assessment Framework (PAF), which was jointly prepared by representatives of the Ministry of Finance and National Planning (MoFNP) and Poverty Reduction Budget Support (PRBS) donors. The PAF itself is linked to priorities and actions spelled out in Zambia's new Poverty Reduction Strategy Paper (PRSP)/Fifth National Development Plan (FNDP), which covers 2006-10. As was done for the PRSP/FNDP, all indicators selected for the PAF were discussed in the relevant Sectoral Advisory Groups (SAG), which consist of Government officials, representatives of Non-Government Organizations (NGO), civil society, business organizations, and donors. The SAGs are also the main forum used by GRZ to discuss the PRSP/FNDP and progress with its implementation.

- The PAF builds on the interim PAF[12] (iPAF), which was developed in 2005, and which included several actions of the previous EMGC operation. Its implementation was generally satisfactory. In addition, the previous EMGC operation disbursed both tranches although the second tranche disbursed with some delay. The implementation of the iPAF and the previous EMGC operation together with the broadly satisfactory implementation of the Poverty Reduction and Growth Facility of the IMF provides an adequate track record.

- The PRSP/FNDP, the PAF, and other ongoing reform efforts, in particular in the area of public sector management, have benefited extensively from IDA and other joint analytical work. For example the Country Economic Memorandum (CEM), Poverty and Vulnerability Analysis (PVA), and the Public Expenditure Management and Financial Accountability Report (PEMFAR) have all influenced the supported reforms including the PAF and ongoing TA projects.

Principle 2: ***Agree up front with the Government and other financial partners on a coordinated accountability framework***

- IDA's support is summarized in a brief and focused policy matrix and draws all its proposed measures from the PAF used by all PRBS donors providing budget support. Note that the PAF is for three years and as such provides an accountability framework for the years 2006-08 and will be of a rolling nature. In addition, the cooperating partners which are part of the Wider Harmonization in Practice (WHiP) group, which includes IDA, are preparing a Joint Assistance Strategy for Zambia (JASZ) as a response to the new PRSP/FNDP in order to further increase aid coordination and reduce transaction cost to GRZ.

Principle 3: ***Customize the accountability framework and modalities of Bank support to country circumstances***

- Building on what has been articulated under principle one and two; IDA's budget support operation is part of the support provided by all PRBS donors. As such, the bi-annual reviews agreed upon by GRZ and the PRBS donors are used to agree on the content of the forward-looking PAF, the performance under the PAF, and the aid modalities that GRZ can expect for its upcoming fiscal year. The first two issues mentioned are part of the discussions that take place in June of each year, while the announcement of the expected aid modalities in the form of budget support are communicated during the October review.

Principle 4: ***Choose only actions critical for achieving results as conditions for disbursement***

- All proposed IDA release milestones are chosen from the PAF. The total indicators monitored through the PAF are 34 of which eight are proposed to guide IDA's disbursement under this operation. The

[12] Note that IDA did not use the iPAF for disbursing its funds as the previous EMGC operation which provided IDA's budget support for 2004 and 2005 through two tranches was already in place. EMGC I was prepared before other cooperating partners, except the EU, were ready to provide direct budget support. IDA was however a full partner in the preparation of the iPAF.

milestones chosen are those that overlap with the objectives of the CAS and the PRSP/FNDP and are thus critical to support the results agenda under the CAS.

Principle 5: ***Conduct transparent progress reviews conducive to predictable and performance-based financial support***

- Building on what is stated under principle 3, IDA announces in conjunction with all other PRBS donors its expected amount for budget support for GRZ's next fiscal year at the October PRBS review meeting. These dates are chosen indeed to allow GRZ to prepare its budget knowing the amounts it can expect as budget support.

- The PAF is a mix of process and outcome indicators (see Annex 2 (with process indicators mostly identified for the first year, i.e. 2006, as a means to pave the path to reaching the results, which are identified in accompanying outcome indicators in the outer years.

65. The MoU identifies two categories of performance that are important for disbursement. First, performance is measured against so-called underlying principles. These comprise of: (i) GRZ's commitment to fight poverty, including through a pattern of public expenditure consistent with poverty reduction priorities as identified in Zambia's National Development Plan; (ii) GRZ's commitment to peace, democratic principles, the rule of law, good governance and integrity in public life, including the fight against corruption; (iii) GRZ's commitment to public financial management reforms as witnessed by satisfactory progress with the PEMFA program; (iv) GRZ's commitment to pursuing sound macro-economic policies, as is shown by a positive IMF assessment of overall macro-economic performance. Second, performance against specific process and outcome indicators as specified in the PAF. The PAF itself does not include indicators related to the underlying principles.[13]

66. The MoU allows each donor to decide how much it will disburse against the underlying principles and/or against all or a subset of indicators spelled out in the PAF. At present there are 34 indicators and milestones included in the PAF. For each of the indicators and milestones a baseline figure for the year 2005 has been included as well as outcomes for the years 2006, 2007, and 2008. The targets for the outer two years may be revised based upon performance for the year 2006. The proposed IDA operation is linked explicitly to eight release milestones out of 34 indicators identified in the PAF for 2006 (see table 4: EMGC II - credit milestones).

67. ***Preparation and review process of PAF***. The PAF for 2006-08 was jointly prepared with GRZ, in particular with staff of MoFNP, and PRBS donors, including IDA. Extensive consultations took place with the Sectoral Advisory Groups (SAGs), which consist of Government officials, representatives of Non-Government Organizations (NGO), civil society, business organizations, and donors. The SAGs are also the main forum used by GRZ to discuss the PRSP/FNDP and progress with its implementation. All PRBS donors at the October 2006 review meeting endorsed the final version of the PAF.

[13] The PAF does include indicators that measure macro economic performance and public expenditure management but the underlying principles include a wider set of indicators and actions on which the donors evaluate the performance of the Government.

68. The Government and the PRBS donors meet twice a year to review performance in relation to the agreed PAF for the previous year, and to agree the contents of the PAF for the next year. The joint review meetings take place each year in June and October:

a. The June review meeting focuses on the PRBS donors and Government coming to a joint view on performance, which serves as the basis for commitments for the next budget year. The review is based on the National Development Plan's Annual Review, the annual Public Expenditure Management and Financial Accountability (PEMFA) progress reports, Quarterly Budget Execution Reports and related information, plus the national audits;

b. The October review meeting focuses on dialogue on forward planning and budgeting and agreement on the PAF for the next budget year. This dialogue is based on the annual Financial Reports of the previous budget year, the Annual PEMFA Evaluation and the ceilings in the annual budget for the next budget year, as specified in Zambia's MTEF Green Paper. During this Review meeting, each member of the PRBS Group confirms the volume of its commitment. During this review meeting, Government and PRBS donors agree on the PAF for the next budget year, and any PRBS donor i.e. IDA, intending to provide a floating element will confirm against the new PAF the specific milestones, indicators and/or targets that will trigger, when met, an immediate disbursement at the relevant review meeting in the following year.

The first review of the full PAF took place in June 2007 and its evaluation is attached to the program document as Annex 2..

69. ***Collaboration with the IMF.*** The achievements of the proposed EMGC II goals are strengthened by IDA's close collaboration with the IMF. Benchmarks designed to improve the management of public expenditure through greater financial discipline and accountability complement the IMF's support for revenue mobilization and expenditure control. The IMF's structural policy benchmarks are again developed in close consultations with IDA and also stress the complementarities between the two programs. The IMF PRGF program was approved in June 2004 and expired in September 2007. An understanding has been reached between the IMF and the authorities on a new three-year arrangement, which is expected to be presented to the IMF's executive board in the second quarter of 2008.

70. ***Relationship to other IDA operations.*** IDA has several operations and ongoing knowledge based activities that overlap with the areas covered by the proposed operation. In the area of Public Sector Reform IDA has in place a TA operation, Public Service Management Program[14] assisting GRZ in the area of civil service and pay reform as well as with reforms in the area of public expenditure management and financial

[14] The PSM project in the amount of USD30 million was approved by the board on January 5, 2006 and was declared effective on May 10 2006. The operation contributes to a pooled funding arrangement and is for a part a follow up on the Public Sector Capacity Building project (PSCAP) which closed in 2005.

accountability, including the installation of an Integrated Financial Management Information System (IFMIS). The reforms in the area of wealth creation are complementary to ongoing investment operation in infrastructure,[15] agriculture,[16] and private sector development with a focus on economic diversification.[17] One of the main challenges for infrastructure development to contribute to economic growth and increase access is resources for maintenance and investment, which is hampered by tariff levels that do not guarantee revenue adequacy. In the area of social equity, IDA is currently implementing a HIV/AIDS project,[18] and after the closure of its Basic Education project in June 2006, IDA has taken on the roll of providing knowledge transfers to GRZ and cooperating partners for the remainder of the CAS. As such, IDA has prepared a Public Expenditure Review for the education sector. In the health sector, IDA currently also provides knowledge based services and is in the process of finalizing a PER for the health sector.

71. ***Lessons learned***. It will be necessary to take on board lessons learned from the recently completed EMGC, which have been articulated in its Implementation Completion Report (ICR) and IEG's evaluation of the EMGC operation,[19] and from the Country Assistance Evaluation by the World Bank's Independent Evaluation Department (IED)[20] as it will improve effectiveness of this and future IDA programs. In developing the program supported by the proposed operation, lessons learned from the two reports, have led to recognizing that (a) institutional reforms require a longer time horizon than one year quick disbursing credit by anchoring the reforms in a three your rolling Performance Assessment Framework; (b) the need for experienced staff in the continuity of policy dialogue by teaming up with other cooperating partners who bring specialized skills to the team; (c) the need for continuity in the policy dialogue by signing up jointly with other cooperating partners and GRZ to an institutionalized implementation arrangement, which stipulates regular meetings between GRZ and PRBS donors to review progress and identify potential bottleneck with regard to GRZ's ability to reach the identified targets in the PAF. The latter has resulted in an agreement to have a high-level discussion on important policy issues at least once a year.

72. ***Analytical underpinnings***. The proposed operation draws from a variety of economic sector work that includes the Public Expenditure Management and Accountability Report (PEMFAR), Country Economic Memorandum (CEM), Investment Climate Assessment (ICA), Foreign Investment Advisory Services' (FIAS)

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[15] The Roads Rehabilitation and Maintenance Project of USD50 million was approved by the board on March 9, 2004 and declared effective on June 15, 2004. Additional financing in the amount of USD25 million was approved in 2007. A Water Sector Performance Improvement Project was approved by the board on October 5, 2006 in the amount of USD23 million.

[16] The Agriculture Development Support Program in the amount of USD37.2 million was approved by the board on May 16, 2006 and declared effective on September 12 2006.

[17] The SEED project in the amount of USD28.2 million was approved by the board on July 29 2004 and declared effective on November, 10 2004.

[18] The HIV/AIDS project, Zanara, in the amount of US42 million, was approved by the board on December 30, 2002 and declared effective on July 8 2003.

[19] See ICR of the EMGC operation, report No. 36495 ZA and IEG's evaluation dated March 26, 2007

[20] See the program document of the EMGC, report no. 29294 ZA, page 3, for an overview of its main recommendations for adjustment lending to GRZ.

Administrative Barriers to Investment report, Poverty and Vulnerability Assessment (PVA) as well as the diagnostic work on pro-poor growth undertaken by the Poverty group in PREM. In addition, the credit draws from reports and evaluations carried out by GRZ such as "Zambia: Public Financial Management Performance Report and Performance Indicators (PEFA)." In the social sectors the PAF has drawn on the recently completed PER on the education sector and on the preliminary findings of the Health PER.

73. The CEM combined with the Pro-Poor Growth publication by the Bank's PREM poverty group analyzes the potential of enhancing pro-poor growth in Zambia. One of its main conclusions is that the impact of growth on the poor can be enhanced by ensuring that rural dwellers can better participate in the economic process. The challenge identified is to improve the functioning of the agricultural sector while improving access to markets through a better road network and access to (micro) finance. This has influenced the FNDP and its focus on agriculture and physical infrastructure i.e. roads. The PVA confirms that to have a significant impact on poverty, particular attention needs to be paid to integrate more of the rural population into the economy.

74. The investment climate assessment ranks cost of finance and macroeconomic stability as the two main constraints to business. Obviously, the cost of finance is related to macro economic performance and to the functioning of the financial sector. In addition, the FSAP points directly to the need to improve the credit culture in Zambia as a means of reducing the cost of doing business in the financial sector. Both these reports have influenced the focus of the FSDP, which has guided the FNDP and the PAF for the financial sector. The Doing Business indicators, the Administrative barriers study as well as the DTIS have helped identify the need to reduce administrative barriers in particular in the areas of trade and licenses. These are the two main categories in which Zambia scores poorly. The milestones and indicators in the area of PSD are based on these findings.

75. The PEMFA report has guided the comprehensive reforms the Government is implementing in the area of public sector management. These reforms are supported under the PEMFA project, which receives funding from a large group of CPs including IDA. In addition, GRZ's PEFA reports have all identified the main areas of public sector management in which Zambia should make improvements. This to ensure the sustainability of the macro economic framework, the ability to direct resources to those expenditure programs that are a priority of Zambia's PRSP, and to improve the credibility and accountability of the Government with the business sector as well as civil society.

V. THE PROPOSED SECOND ECONOMIC MANAGEMENT AND GROWTH CREDIT

76. ***Operation description and Policy areas***. Partly at the request of Government and partly because of the need to increase the impact of growth on the poor, this operation focuses on those components of the FNDP, i.e., wealth creation, macroeconomic management and public sector reform that enhance the positive impact of growth on the poor, add to the sustainability of the current growth momentum, and contribute indirectly

to the sustainability of (social) service delivery and contribute to the results specified in the CASs (see Annex 3: results framework and alignment with the strategic priorities of the CAS and FNDP). Accordingly, the proposed operation has selected eight credit release milestones in the areas mentioned. See Table 4: EMGC II – Credit Milestones.

Table 3: **EMGC II - CREDIT MILESTONES**

By Board presentation (Prior Actions)
A. Public Sector Reform
A.1. Public Service Management
PSMD in cabinet office has implemented a payroll management and establishment control system in six additional central spending agencies enabling the human resource officers to directly access the system.
A.2. Public Finance Management
The Ministry of Finance and National Planning has ensured more predictability of budget execution by providing to 34 out of 49 budget heads with annual calculated expenditures of between 95% and 105% of the total funding for fiscal year 2006.
The Ministry of Finance and National Planning has reduced domestic arrears to suppliers with: (i) stocks diminishing from ZK532.8 billion at the end of 2005 to equal or less than ZK491.8 billion at the end of 2006 (ii) ZK 147 billion released to further pay down the arrears in 2007; and (iii) a commitment expressed in the 2008-2010 MTEF/Green paper and the 2008 budget to reduce these arrears to negligible levels by 2009. .
B. Macro Economic Management
B.1. Financial Sector Development
The Bank of Zambia has issued a license for the creation of a credit reference bureau.
B.2. Public Service Pension Fund
The Ministry of Finance and National Planning has implemented a phased reduction of arrears of contributions owed by the Government to the Public Service Pension Fund with: (i) stocks diminishing from ZK 464 billion at the end of 2005 to equal or less than ZK 388 billion at the end of 2006; (ii) ZK 112 billion released to further pay down arrears in 2007; and (iii) a commitment expressed in the 2008-2010 MTEF/Green paper and the 2008 budget to reduce these arrears to negligible levels by the end of 2008.
C. Wealth Creation
C.1. Agriculture
The Ministry of Agriculture and Cooperatives has drafted and finalized consultations with stakeholders on an agricultural marketing legislation.
C.2. Infrastructure
The authorities have strengthened its capacity to address identified bottlenecks to development in the management of the road infrastructure by filling 80 percent of the staffing vacancies of the National Road Fund Agency, the Road Development Agency, and the Road Transport and Safety Agency.
C.3 Private Sector Development
The authorities have: (i) established the Zambia Development Agency taking on the responsibilities of the former Zambia Investment Center, Zambia Privatization Agency, Zambia Export and Processing Zone Agency, Small Enterprise Development Board, and Export Board of Zambia; and (ii) developed an implementation plan for the ZDA to accomplish further progress in the areas of removal of barriers to export and setting up of businesses

VI. OPERATION IMPLEMENTATION

77. ***Poverty and social impacts.*** The proposed EMGC II will have an important, though indirect, effect on poverty reduction, since it will support the Government's effort with regard to FNDP implementation. It will facilitate poverty reduction mainly through three channels. The first channel is by assisting the Government to maintain a growth conducive macroeconomic environment, which will aid the robustness of the current growth momentum. The second channel is through the continued support to improve public sector management processes that will enhance the Government's ability to direct its scarce resources to those expenditure programs that will reduce poverty more efficiently and more effectively. The third channel is by contributing to a reduction in the cost of doing business in Zambia, by putting in place or making operational institutional arrangements that can directly or indirectly contribute to increased productivity of the private sector.

78. ***Environmental impacts***. An effort was made to assess and address the likelihood of significant effects of policies supported by the DPO on the environment, natural resources, or forests including assessment of the government's systems for reducing adverse effects and enhancing positive effects. There are two areas of the proposed EMGC II that require further attention with respect to environmental issues. These are: (i) the development of an Agricultural Marketing Act, and (ii) increased staffing of three new road agencies.

79. ***Development of Agricultural Marketing Act.*** EMGC II supports the effort to develop a competitive, efficient, and transparent public and private sector driven marketing system for agricultural commodities. As the draft Agricultural Marketing Act (AGM) act is still under preparation, any environmental impacts are difficult to predict. In the past, discretionary policies by the government negatively affected the ability of the private sector to invest in the market. If the new AGM Act will include clear rules for the private and public sector, the predictability of market outcomes for all participants will increase. As a result, the private sector will face reduced costs related to risk and uncertainty, such that the profitability of commercial agriculture is likely to increase, leading to production enhancing investments. In principle, increased agricultural activity may lead to encroachment of previously forested lands for agriculture production and increased intensification. Environmental impacts associated with the development of a more transparent marketing system are therefore likely.

80. In the short to medium term, the majority of agricultural investments induced by an improved Agricultural Marketing Act will be carried out by large scale commercial farms and corporations (ca 700 in total) and by emergent, commercial farmers (totaling 50,000). For two reasons, significant negative effects of these investments are less likely. First, the Environmental Protection and Pollution Control Act (EPPCA) from 1990 requires that an EIA be prepared for all investments that have a major impact on the environment. EIA procedures are defined by the Environmental Impact Assessment Regulations (1997) and include the identification and implementation of adequate environmental mitigation measures. As EIAs are the main source of income for the Environmental Council of Zambia (ECZ), it has a strong incentive to follow up on these regulations. Second, due to the strong presence of the Bank as a lead donor in

agriculture, actively supporting the development of commercial agriculture, an additional mechanism to monitor these investments is in place.

81. The FNDP identifies the agricultural sector as one of the main sources of growth and broad-based poverty reduction in Zambia. In the medium to long term, the pressure on natural resources, arable and rangelands is therefore likely to increase. The FNDP recognizes that sustainable management of the natural resource base will be key to maintaining current and sustaining future growth and poverty reduction in Zambia. While as yet unapproved, the National Policy on Environment (NPE) is designed for a 15 year period from effectiveness, to create "a comprehensive framework for effective natural resource utilization and environmental conservation", while being "sensitive to the demands of sustainable development". The main impact of agricultural growth on the environment will therefore depend on the implementation of the NPE. Currently, the implementation of environmental policies is limited by a lack of information management systems to establish trends in the status of Zambia's natural resources. It is therefore recommended that the Bank support the development of appropriate Information and Monitoring Systems for natural resource management.

82. ***Increased staffing of three new road agencies.*** The EMGC II supports the appropriate staffing levels of the newly created road agencies, National Road Fund Agency (NRFA), Road Development Agency (RDA), and Road Transport and Safety Agency (RTSA). The main objective of the creation of these new road agencies is to increase the predictability of financing and to strengthen implementation capacity. Part of the new structure is an Environmental Management Unit within the Planning Department of the Road Development Agency. As a result, environmental concerns are an integral part of the planning and design process. This is an improvement to the past, where environmental aspects were only considered at a very late stage of the planning process. The EMGC II support to the new road agencies is therefore expected to have a positive impact on the environment

83. ***Implementation and monitoring and evaluation***. The agreement reached between cooperating partners and GRZ and made explicit in the MoU for budget support, defines reporting requirements, bi-annual meetings to discuss progress and possible revision of the PAF, as well as institutional arrangements and platforms for evaluation. In addition the cooperating partners under the MoU have agreed to provide budget support in a way that: (i) is aligned with GRZ cycles for planning, implementation, monitoring, reporting and funding; (ii) improves harmonization by eliminating bilateral administrative and reporting requirements as well as bilateral reviews; (iii) ensures transparency in Zambia of conditions and funding; and (iv) enhances the capacity of GRZ to meet its commitments by providing appropriate technical assistance and capacity building.

84. ***Disbursement.*** After Credit effectiveness and upon receipt of a withdrawal application signed by an authorized signatory, the single tranche withdrawal from the Credit Account will be deposited by IDA into an account designated by the Borrower at the Central Bank of Zambia which forms part of the country's foreign exchange reserves. The Borrower will ensure that upon deposit of the Credit proceeds into said account, an equivalent amount is credited in the borrower's accounting system to an account,

acceptable to the Bank, which finances budget obligations. The Government will confirm these transactions in writing within 30 days after receipt of the deposit from IDA. The proceeds of the Credit may not be used to finance expenditures excluded under the Credit Agreement. If the proceeds of the credit are used for ineligible purposes (for example, to finance goods or services on IDA's standard negative list), IDA will require the borrower to refund the amount directly to IDA.

85. ***Auditing, and Closing Date.*** The use of the equivalent amount of the Credit proceeds as described above for budgetary expenditure is subject to audit by the Auditor-general. IDA reserves the right to require an audit of the foreign exchange account at the Central Bank of Zambia (deposit account). MoFNP will arrange for the audit of the deposit account upon request by IDA in accordance with auditing standards and terms of reference acceptable to IDA and by auditors acceptable to IDA. The MoFNP will make the report on the audit of such account available to IDA not later than four months after the date of the Association's request. However, IDA will coordinate with other PRBS donors in the case it request an Audit as the memorandum of Understanding for PRBS donors includes the provision of an annual audit. The closing date of the Credit will be December 31, 2008.

86. ***Risks and risk mitigation.*** It is useful to make a distinction between the risks related to the proposed DPO and the implementation of the overall medium term program as articulated in the PAF of which the first year is supported by the proposed DPO. The risk related to this DPO is one of sustainability and maintenance of the implemented reforms. This is actually mitigated through the fact that the operation is embedded in a medium term performance assessment framework (PAF) that is aligned with the country's own development strategy, i.e., FNDP, and is undertaken in conjunction with all donors, which are providing budget support. Nevertheless, successful implementation of the PAF could face risks of the following nature: (i) political; (ii) macro economic; (iii) external developments; (iv) failure to contain the further spread of the HIV/AIDS pandemic; and (v) implementation capacity.

87. ***Political Risk***. The outcome of the elections has shown that the current regime is susceptible and vulnerable to populous ideas. This can affect the attention needed to stay the course with the ongoing economic reform efforts to further strengthen the effectiveness of the public sector and the commitment to work towards a more private sector friendly economic environment. To mitigate these challenges IDA, through the activities identified under the FY08-11 CAS, will assist the authorities to strengthen the institutional capacity of key oversight agencies and support bottom-up initiatives that emphasize good governance.

88. ***Macroeconomic stability***. Even though fiscal discipline has taken root in Zambia, relatively ineffective public expenditure management processes and populist tendencies can generate risks for macroeconomic performance in particular given the expected additional tax revenues coming from the mining sector under the revised fiscal regime for mining. The recent progress in regaining control over the fiscal situation and the decline in inflation together with the fact that Zambia has reached HIPC Completion and subsequently benefits from MDRI, could reduce the Government's willingness to

maintain a growth conducive macro economic framework. In addition, pressure by civil service unions for increases in wages and allowances and other non-priority sectors such as defense could potentially risk the successful execution of the fiscal program. A new three PRGF arrangement, membership of EITI++, and monitoring of budget execution through the PRBS related biannual reviews assist addressing these potential risks.

89. ***External Developments***. The country is vulnerable to terms of trade shocks and droughts. The upsurge in copper prices and expended production of copper might re-ignite the hope that Zambia once more can count on the copper sector for economic success. This could potentially reduce the efforts to diversify the economy and as such reduce the pro-poor nature of Zambia's growth. IDA in collaboration with other cooperating partners supports GRZ's efforts to manage its mineral wealth such that it contributes to increased diversification. This includes assistance to increase institutional capacity to harness the mining boom and improvements in the business environment that improve productivity and thus Zambia's competitiveness. A reoccurrence of a drought would harm the recent gains in food security and could see a surge in the need for food imports. Several activities are supported to reduce the dependency on rain-fed agriculture. IDA is proposing under the FY08-11 CAS to support GRZ with an irrigation project as well as a water resource assistance strategy that can help the authorities to improve the management of its water resources partly with an aim to reduce the impact of droughts.

90. ***HIV/AIDS pandemic***. HIV/AIDS remains the most significant health threat to Zambia's population and hence to its prosperity. The impact of the disease is increasingly visible in all spheres of Zambia's society and economy. With prevalence rates remaining in double-digit figures, the potential damage is enormous. Besides that the PAF, and thus EMGC II, monitors GRZ's efforts to fight the pandemic, the Bank's FY08-11 CAS requires that issues of HIV/AIDS are part of each IDA operations.

91. ***Implementation capacity***. In addition to the risks identified in the CAS in this area, GRZ's weak policy implementation record, limited Government administrative capacity, and coordination among relevant agencies could lead to delays in the implementation of key measures. Several programs in particular through PEMFA are in place to assist the authorities to improve its capacity to manage the economy.

ANNEXES

Republic of Zambia

MINISTRY OF FINANCE AND NATIONAL PLANNING

[All correspondence should be addressed to the Secretary to the Treasury]
[Website: www.mofnp.gov.zm, Email: mfnl@mofnp.gov.zm]

REF:
MFAL/102/12/828

15th April, 2008

Mr. Robert B. Zoellick,
President
International Development Association
1818 H St. NW
Washington, D.C.
UNITED STATES OF AMERICA

Dear Mr. Zoellick,

RE: LETTER OF DEVELOPMENT POLICY: SECOND ECONOMIC MANAGEMENT AND GROWTH CREDIT

1. I am writing to request on behalf of the Government of the Republic of Zambia, a Credit of US$10 million equivalent from the International Development Association (IDA) in support of our reform efforts. This Credit, the Second Economic Management and Growth Credit (EMGC II), aims at helping Zambia to sustain the economic gains it has achieved over the last few years and to further enhance our capabilities to sustain growth and reduce poverty, while providing us with financial resources that will be used for the implementation of our Fifth National Development Plan (FNDP).

A. Fifth National Development Plan.

2. In January 2007, our Government launched our Fifth National Development Plan (FNDP), which is Zambia's second Poverty Reduction Strategy Paper (PRSP) for the period 2006-2010. Our FNDP is guided by the National Vision 2030 (NV2030), which has as its goal to transform Zambia into "a prosperous middle income country by the year 2030." The FNDP is organized around the theme of "broad-based wealth and job creation through citizenry participation and technological advancement" and it focuses on "economic infrastructure and human resources development.

P.O Box 50062, Chimanga Road, Lusaka, Phone: +260 211 251843, 250857, 253786, Fax: +260 211 251078, 254335, 254995 & 251294

3. The FNDP builds upon the achievements of the first PRSP, forexample, strong improvements in macroeconomic performance and progress in public expenditure management. The FNDP has a strengthened focus on key issues relevant for Zambia's development, emphasizes achieving tangible results, and includes monitoring and evaluation arrangements. On policies, it continues to place emphasis on the importance of a stable macroeconomic framework, improved domestic revenue collection, good governance, increased production and productivity in agriculture, and strengthened human resource development.

4. The preparation of the FNDP was highly participatory. All the major stakeholders—civil society, cooperating partners, the private sector, permanent secretaries, members of parliament and the Cabinet—were involved in the preparation of the strategy. The priorities were arrived at through a series of consultative meetings with Sector Advisory Working Groups (SAGs) and other key stakeholders. This consultative process integrated the views of 21 SAGs and included the preparation of 72 district development plans that were approved by the respective Provincial and District Development Coordinating Committees. Consequently, the FNDP has a high degree of ownership.

5. The importance of institutional frameworks for implementation, monitoring and evaluation are acknowledged and prioritized by the FNDP. The newly created Planning and Economic Management Division (PEMD) of the Ministry of Finance and National Planning will be the focal point for institutional linkages. This division will institutionalize five-year development planning as the means to guide the budget preparation process. With the formal creation of the Monitoring and Evaluation Unit under PEMD during the implementation of the first PRSP, the Plan seeks to institutionalize a system to monitor inputs, outputs, outcomes and impacts so that resources are strategically managed and progress tracked. In particular, monitoring and evaluation process will provide essential data and insights for drawing lessons, priority setting and informed review of the FNDP implementation. The monitoring system will also include process indicators that are related to the implementation of the FNDP at both the macro and sectoral levels. These indicators will be closely linked to the performance assessment framework (PAF) that is currently used in the context of direct budget support and from which the proposed credit draws its prior actions.

B. Macro-economic Environment.

6. Government is aware of the importance that a sound macroeconomic environment has for growth and poverty reduction. In this regard, Zambia's macroeconomic environment has improved significantly over the last three years with inflation in the single digits for the first time in almost three decades and a budget deficit below three percent. The Government is committed to maintaining and building on these achievements, which is an important objective of the FNDP. The IMF has provided assistance to GRZ through its PRGF arrangement to reach this positive position. The current PRGF arrangement expired formally in September 2007 and a new low access three-year PRGF arrangement with the IMF is expected to be concluded in May 2008.

C. The Performance Assessment Framework

7. In line with the Government's aspirations in the Aid Policy and Paris Declaration, Zambia's preferred mode of aid delivery is General Budget Support. In this regard, a number of Cooperating Partners have indicated their willingness to provide funds in this manner, which culminated in the development and signing of a Memorandum of Understanding (MoU) for Poverty Reduction Budget Support (PRBS). At present nine cooperating partners have signed up to this MoU, namely the European Commission, DFID, Germany, Norway, Sweden, Finland, the Netherlands, the World Bank, and the African Development Bank while a number of other partners have expressed their interest to join in the short and medium term.

8. A framework has since been developed for assessing performance under the PRBS MoU referred to as the Performance Assessment Framework (PAF). It provides the basis for discussions over the effectiveness of PRBS on a bi-annual basis. The PAF 2006-8 was developed after detailed consultations between the Ministry of Finance and National Planning (MoFNP) and Poverty Reduction Budget Support cooperating partners and representatives from the various sector ministries/institutions. The ministries also engaged in a further series of consultations, through the Sector Advisory Groups (SAGs) in their selection of the indicators and areas for inclusion in the PAF.

9. The Government and the PRBS donors meet twice a year to review performance in relation to the agreed PAF for the previous year, and to agree the contents of the PAF for the next year. The joint review meetings take place each year in June and October:

a. The June review meeting focuses on the PRBS donors and Government coming to a joint view on performance, which serves as the basis for commitments for the next budget year. The review is based on the National Development Plan's Annual Review, the annual Public Expenditure Management and Financial Accountability (PEMFA) progress reports, Quarterly Budget Execution Reports and related information, plus the national audits;

b. The October review meeting focuses on dialogue on forward planning and budgeting and agreement on the PAF for the next budget year. This dialogue is based on the annual Financial Reports of the previous budget year, the Annual PEMFA Evaluation and the ceilings in the annual budget for the next budget year, as specified in Zambia's MTEF Green Paper. During this Review meeting, each member of the PRBS Group confirms the volume of its commitment. During this review meeting, Government and PRBS donors agree on the PAF for the next budget year, and any PRBS donor i.e. IDA, intending to provide a floating element will confirm against the new PAF the specific milestones, indicators and/or targets that will trigger, when met, an immediate disbursement at the relevant review meeting in the following year.

10. The first review of the full PAF took place in June 2007 and I attach for your information the Report on Progress under the Performance Assessment Framework, which provides a detailed discussion of the areas covered and the performance of our government against each of the 30 indicators evaluated.

11. At present, there are 33 indicators and milestones included in the PAF covering four broad areas – Public Sector Reform, Macroeconomic Management, Wealth Creation and Social Equity 30 of these have been used to assess progress for 2006. The choice of these four broad areas is in line Fifth National Development Plan (FNDP) theme and strategic focus. Further, the indicators in the PAF are a subset of the monitoring and evaluation framework of the FNDP and are therefore fully consistent with the Key Performance Indicators of the FNDP.

12. In the remainder of this letter, the focus will be on the areas that are supported by the PRSB donors and included in the PAF. For a more comprehensive overview of the Government's strategy, I attach the summary of the Fifth National Development Plan.

13. ***Public Sector Reform.*** The Government with assistance of the collaborating partners prepared and adopted an updated and revised Public Sector Reform Program in 2003. The updated reform program acknowledges the need to focus on three main aspects of the program that is: (i) Public Sector Management (PSM); (ii) Public Expenditure Management and Financial Accountability (PEMFA); and (iii) Decentralization as means to improve the accountability, transparency, efficiency and effectiveness of its expenditure programs and service delivery. For each of these broad areas, strategies have been prepared, implementation plans developed, and institutional structures to monitor and facilitate implementation put in place.

14. In the area of ***public service management***, the Government has completed the rightsizing of the central line ministries and has now embarked on reviewing the provinces and districts with the aim to strengthen their ability to deliver services. For the restructuring of provincial and district administration, a comprehensive implementation plan was developed. In the first part of 2007, generic plans and structures for provincial and district administration and local councils have also been developed. It is expected that in 2007 the restructuring plans will be adopted and that implementation will commence in 2008.

15. An important part of our public service reform program is to institute service delivery charters as a means to ensure that all ministries and spending agencies manage performance effectively within a well-specified framework. This should assist each of the institutions in question to evaluate their performance and develop plans on how they can bring their service delivery up to the standards set. We expect that by the end of 2007, Service Delivery charters for four institutions in the public service, specifically Ministry of Lands, Department of Immigration, Public Service Management Division, and Department of National Registration, Passport and Citizenship will have developed their respective service delivery charters.

16. Another important component under public service reform is progress with the preparation and implementation of a comprehensive pay policy. Pay levels for civil servants remain an issue of contention, as they are considered inadequate and inconsistent with performance, meaning the public service is unable to attract and retain essential technical and professional staff. A diagnostic study with a focus on these issues has been initiated and will be undertaken and completed in 2008.

17. To improved quality and timeliness of the data in the Payroll Management and Establishment Control (PMEC) system, government has embarked on a process of enhancing the PMEC system such that human resource officers of spending agencies can access the system directly from their own location and works station. This enhancement to the PMEC system was rolled out to three agencies (Zambia Police, Public Service Management Division and Ministry of Finance and National Planning) in 2006 and a further three MPSAs have been connected – Ministry of Works and Supply, Ministry of Home Affairs and Ministry of Agriculture and Cooperatives in 2007.

18. In the area of ***public expenditure management***, the program supported by the PRBS donors focuses on budget execution, internal and external accountability, and clearing of arrears to suppliers. The areas are indeed of critical importance and will assist GRZ to strengthen our credibility with regard to budget and are supportive of important areas that are part of our Public Expenditure Management and Financial Accountability (PEMFA) project, which aims to improve our institutional capacity in these areas as well. The PEMFA covers also other parts of the public expenditure management system, for example, the implementation of an Integrated Financial Management Information System (IFMIS), the creation of a Treasury Department, strengthening of procurement systems, internal and external audit systems, and our debt management system.

19. Government has struggled for some time to find the financial resources to clear arrears with its contractors as well as to put in place a commitment control system that would minimize the ability of new arrears arising. The Government program includes reduction of arrears from a level of ZK533 billion in 2005, which is equal to 1.6 percent of GDP, to zero by 2009. The decline in arrears in 2006 to ZK491 billion, which is equal to 1.2 percent of GDP, was disappointing. However, the budget for 2008 and the MTEF/Green paper for the period 2008-2010, reconfirm Government's commitment to reduce supplier arrears to negligible levels by 2009. To reduce the ability of new arrears to accumulate, the Government has embarked on an implementation plan that will strengthen the commitment control system by integrating the following stand alone financial management modules, the activity based budgeting, funding, and cash flow forecasting and expenditures modules, into the overall Financial Management System. We have made some progress but the system is not perfect yet. We expect that once the IFMIS is operational, the occurrence of new arrears will be kept to a minimum.

20. ***Financial Sector***. To support the positive developments in our macro-economic environment, the Government in consultation with other stakeholders has prepared a Financial Sector Development Plan (FSDP), which was endorsed by cabinet in 2004 and which provides for a systematic and coherent action plan that would lead to the realization of a well functioning financial sector in Zambia. Since then the authorities

have enhanced the role of micro finance, strengthened the supervision of banking and non-bank financial institutions, and introduced mechanisms to monitor debtor's payment history. The latter resulted in the licensing of a credit reference bureau, which was part of the indicators monitored under the PAF.

21. ***Public Pension Funds.*** As articulated in the FNDP, the two public sector pension funds, that is, Public Sector Pension Fund (PSPF) and Local Annuities Superannuation Fund (LASF) are both technically insolvent, although both hold some assets and are owed sizeable amounts in contribution arrears. To correct the imbalance between contributions and benefit accrual rates, article 124 of the Constitution, which specifically protects accrued benefits, will need to be revised. These needed revisions are included in the proposed amendments to the Constitution prepared by the Constitutional Review Commission (CRC). Once adopted, a revision of benefits can be implemented and PSPF and LASF can be put on a sound financial footing. To ensure that PSPF can continue to pay benefits until the amendments have been adopted, Government has agreed to reduce annually during the 2006-09 period its contribution arrears to PSPF; and not to accumulate any significant new pension arrears. This has been incorporated in the budget for 2008 and the MTEF for 2008-2010.

22. ***Wealth Creation***. The FNDP articulates programs in many areas that are relevant for the creation of wealth in Zambia, but I would like to articulate here those that are deemed most important and as such have been incorporated in the PAF. These areas are agriculture, road infrastructure, and private sector development.

23. *Agriculture*. Agriculture features prominently in the FNDP and holds great promise for accelerating poverty reduction. The FNDP acknowledges that agricultural productivity is currently being negatively affected by inadequate access to productive assets; limited access to agricultural inputs; high energy and transport costs; lack of mechanisms to mitigate climatic risks; low soil fertility; inadequate access to agricultural service support, such as credit and markets; and disease and pest attacks on both crops and livestock. In addition, HIV/AIDS has had a negative impact on labor supply and has generally undermined the productive capacity of households.

24. As acknowledged in the FNDP, Zambia needs to improve agricultural production, productivity and market competitiveness in order to grow out of poverty. Notwithstanding, it should also be noted that the agricultural sector has contributed significantly to Zambia's overall economic diversification, while the sector itself has also diversified and has increased production in a variety of crops such as cotton, coffee, tobacco, and horticultural and floricultural products. It is important to realize that the recent increases in production have mainly been due to support provided to small-scale farmers by private out grower companies and large export oriented commercial farms.

25. Several actions have been identified in the FNDP to improve the sector's ability to contribute more effectively to growth and poverty reduction. The main milestones identified for inclusion in the PAF are (i) the need to increase the allocation from GRZ's budget to investment programs of the Ministry of Agriculture and Cooperatives (MACO) from a meager ZK23.3 billion in 2005 to ZK88 billion in 2006 and indicative figures of

ZK226, and ZK193 billion in 2007 and 2008 respectively; (ii) to improve access to additional land that can be used for agriculture through the provision of infrastructural services such as connection to the electricity grid, roads and water, and irrigation services. It is expected that the basic infrastructure for this exercise will be developed in 2006, opening up an additional 50 thousand hectares annually for agriculture in 2007 and 2008; (iii) to define the roles and responsibilities of the public and private sector when it comes to Zambia's agricultural marketing system. To accomplish this task, a new Agricultural Marketing Act is being developed. In 2006, the Act was drafted and all required consultations were concluded.

26. *Infrastructure.* It is clear that for a country as large as ours, which is also landlocked, a well-designed and maintained road network is of critical importance to link its communities and to minimize the impact of transport cost on its overall competitiveness. The FNDP, therefore, has put its strategic focus on improving the road network. To improve the predictability of financing and strengthen implementation capacity, three new road agencies, each assigned with a specific task, were created. The National Road Fund Agency (NRFA) is responsible for the coordination and management of the road financing functions, including collection, disbursement, management, and accounting of Zambia's road fund; a Road Development Agency (RDA), which is tasked with the management responsibility of the public/proclaimed network, and which includes planning, programming, implementation, monitoring and overall supervision of all road works in the country; and a Road Transport and Safety Agency (RTSA), will be responsible for implementing policy on road transport and traffic management, road safety and enforcement of laws regulating road transport, traffic safety, and axle load control in the country. In addition, this agency is responsible for planning, programming, implementation, and monitoring and evaluation of road transport regulations and approved safety programs.

27. An important step to have the agencies operate effectively is to ensure that vacancies in the new agencies are filled. Under the PAF, it was agreed that this is a priority and as such basically a 100 percent of all posts have been filled. The FNDP also monitors kilometers of roads upgraded, rehabilitated, and kilometers of unpaved roads maintained and we are committed to ensure in cooperation with donors, that the ambitious targets set for the improvements in our road network will be accomplished.

28. Government recognizes that improvements are also required in other infrastructural sectors. Therefore, the FNDP puts emphasis on the need to further enhance the performance and access of other infrastructure service delivery sectors such as water and sanitation, electricity and telecommunications. Hence, policy improvements and investments are taking place in these sectors as well. Even though the current PAF does not include indicators to monitor their development partly because of the need to make sure that the process remains manageable for Government, I assure you that Government is committed to implement the plans as articulated in the FNDP.

29. *Private Sector Development*. In order to reduce the cost of doing business in Zambia and to increase participation by Zambians in the economic process, Government has taken two legislative initiatives: which are: (i) merging several agencies supporting the private sector in order to reduce bureaucratic procedures for investing and obtaining an appropriate business license; and (ii) empowering Zambian citizens through the Citizens Empowerment Act so as to increase employment and participation of Zambians in the economic development process.

30. The Zambian Development Agency (ZDA) is to take on the responsibilities of the Zambia Investment Center (ZIC); Zambia Privatization Agency (ZPA); Zambia Export and Processing Zone Agency (ZEPZA); Small Enterprise Development Board (SEDB); and Export Board of Zambia (EBZ). The Act establishing ZDA was passed in 2006 and a workplan has been developed for removal of barriers to export and setting up a business. This has to lead to a reduction of at least 8 working days in length of time it takes to establish a business by the end of 2007 from a level of 33 days in 2006.

31. The Citizen's Economic Empowerment Act was passed by Parliament and a Citizen's Economic Empowerment Authority has been established including putting in place an information and communication plan. Key staff has been recruited and a strategic plan has been developed. In 2007, we allocated K70 billion to the Citizens Economic Empowerment trust fund and the 2008 budget has made a provision of K50 billion. It is expected that by the end of the second quarter of 2008, the fund will become operational.

32. ***Social Equity***.

33. *Health sector*. A healthy, well educated population, which is aware of HIV/AIDs prevention and treatment, is critical to ensure positive long-term per capita growth and poverty reduction. To improve the chances of Zambians to live healthy lives several initiatives have been incorporated in Zambia's FNDP. This includes improving the percentage of institutional deliveries, increasing the percentage of fully immunized children under one year of age in the 20 worst performing districts, improving the utilization of primary health centres facilities, and ensuring that an increasing amount of the health budget is released to the district level.

34. *Education*. Government implemented a policy of free access to primary education in 2003 and this has resulted in increases in net enrollment for the affected grades 1-7. The results show that this policy has worked. Nonetheless, some districts have not done as well as others. The FNDP acknowledges this issue and Government is targeting those districts that still have Net Enrollment Rate (NER) of less than 80 percent. In 2005, 10 districts out of 72 still had a NER of less than 80 percent. In addition, girls leave schools earlier than boys and pupil teacher ratios in several districts are very high, for example, in 2005, in 12 districts pupil-teacher ratios stood at over 100. The Government supports actions included in the FNDP to address these shortcomings and to gradually improve completion rate for girls and reduce the number of districts with pupil teacher ratios of over 100 for grade 1-4.

35. *HIV/AIDS.* The human toll of AIDS for families and communities in Zambia still remains a challenge. Even though levels of infection have stabilized, the number of people living with HIV/AIDS is still high. It is estimated that the prevalence rate stands at 16 percent among the 15-49 years age group. About 1 million Zambians are infected with HIV, of which over 200,000 are in need of anti-retroviral therapy (ART). About eight percent of boys and 17 percent of girls aged 15-24 are living with HIV and 40 percent of infants born to HIV infected parents are HIV infected. One of the areas of focus is to increase the number of people tested and number of people accessing Anti-Retroviral drugs.

36. The Government of the Republic of Zambia believes that the measures listed in the PAF, of which the proposed IDA Credit directly supports a critical subset, will contribute to achieve robust economic growth and poverty reduction within a sustainable macroeconomic framework. Further, the outlined policies, programs and reforms in the Performance Assessment Framework will create a conducive environment for the effective and efficient utilization of IDA assistance and will support the FNDP's implementation.

Sincerely,

Ng'andu P. Magande, MP
MINISTER OF FINANCE AND NATIONAL PLANNING

MINISTRY OF FINANCE AND NATIONAL PLANNING
(Planning and Economic Management Division - PEMD)

Report on Progress under the Performance Assessment Framework for the Period 2006 – 2008

for the Joint Assessment of the Poverty Reduction Budget Support at the June 2007 Joint Annual Review

(3rd Draft, 21st June 2007 Version 3.2)

Performance Assessment Framework 2006 – 2008

Report on Performance in 2006

1. Introduction

In line with its aspirations in the Aid Policy and Paris Declaration, Zambia's preferred mode of aid delivery is General Budget Support. In this regard, a number of Cooperating Partners have indicated their willingness to provide funds in this manner, which culminated in the development and signing of a Memorandum of Understanding (MoU) for Poverty Reduction Budget Support (PRBS). At present nine cooperating partners have signed up to this MoU, namely the European Commission, DFID, Germany, Norway, Sweden, Finland, the Netherlands, the World Bank, and the African Development Bank while a number of other partners have expressed their interest to join in the short and medium term.

A framework has since been developed for assessing performance under the PRBS MoU referred to as the "Performance Assessment Framework" (the PAF). It provides the basis for discussions over the effectiveness of PRBS on a bi-annual basis.

The PAF 2006-8 was developed after detailed consultations between the Ministry of Finance and National Planning (MoFNP) and Poverty Reduction Budget Support cooperating partners and representatives from the various sector ministries/institutions. The ministries also engaged in a further series of consultations, through the Sector Advisory Groups (SAGs) in their selection of the indicators and areas for inclusion in the PAF.

At present, there are 33 indicators and milestones included in the PAF covering four broad areas – Public Sector Reform, Macroeconomic Management, Wealth Creation and Social Equity (see Table 1), 30 of these will be used to assess progress for 2006. The choice of these four broad areas is in line Fifth National Development Plan (FNDP) theme and strategic focus. The theme of the FNDP is broad based wealth and job creation through citizenry participation and technological advancement while the strategic focus is economic infrastructural and human resources development. Further, the indicators in the PAF are a subset of the monitoring and evaluation framework of the FNDP and are therefore fully consistent with the Key Performance Indicators of the FNDP.

Table 1: Overview of Indicators and Targets for PAF 2006-8

Sectors	Number of Indicators
Public Sector Reform	***8***
Public Service Management	4
Public Finance Management	4 (+1)
Macroeconomic Management	***7***
Macroeconomic Indicators	3
Financial Sector Development	2
Public Service Pension Fund	2
Wealth Creation	***9***
Agriculture	3
Infrastructure	4
Industry, Commerce and Private Sector Development	2
Social Equity	***9***
Health	4
Education	3
HIV/Aids	2
Total	***33 (+1)***

Under each broad heading there are a number of sub headings, for which indicators or milestones have been presented. For each of the milestones a baseline figure for the year 2005 has been included, as well as targets for the years 2006, 2007 and 2008. The targets for the later years may be revised based on the performance in the current year. These will be included in the PAF 2007-09 that will be finalised after the June review and presented to the October 2007 review meeting of the PRBS.

This is the first report on performance produced under the PAF, which has replaced the interim arrangement, on which reports in 2006 were made. It is organised as follows: section 2 provides an overview of the findings; section 3 provides an analysis of the findings based on the four broad areas; section 4 presents the Government's conclusions. The following annexes are also provided:

- Annex I: Performance indicators for 2006 in matrix form
- Annex II: Commitments and disbursements under the MoU for the PRBS
- Annex III: Releases by Head 2006
- Annex IV: Reported and calculated expenditure against releases in 2006 by head
- Annex V: Overview of education indicators, by district (in Maps)
- Annex VI: Overview of education indicators, by district
- Annex VII: Overview of health indicators, by district (in Maps)
- Annex VIII: Overview of health indicators, by district
- Annex IX: Variance calculation for expenditure in 2006
- Annex X: Indicator by indicator assessment of the PAF

2. Overview of Findings

The overall performance against the indicators and targets included in the PAF for 2006 shows a slight downward trend, consistent with the serious budgetary constraints faced in 2006. During the year, the targets for 19 of 30 indicators were fully achieved, and substantial progress was observed on a further four, while seven indicator targets showed no achievement at all (see Table 2). This is the equivalent of a score of 21 out of 30 (or in percentage terms 70.0 per cent), lower than the score of 85 per cent achieved in 2005. However, it is not possible to make a direct comparison as the indicators used for making the assessment are different, and in all cases the targets, and therefore the expected level of performance, were set at a higher standard.

In terms of the broad areas looked at, most progress appears to have been made under the umbrella of wealth creation, followed by social equity, which was brought down by a somewhat disappointing performance in education and the ability to target improvements in certain under performing districts. This was followed by the area of macroeconomic management, affected negatively by issues connected to the Public Service Pension Fund (PSPF) and the clearance of arrears, as well as the Government Domestic Borrowing as a proportion of GDP. The most disappointing area was that of Public Sector Reforms, where most targets were only partially met or not at all met, of particular concern were releases to MPSAs on a timely basis and the clearance of domestic arrears. This is a specific area that will require closer attention if performance for 2007 is to improve.

Table 2: Overview of Performance under the PAF 2006

Sector	Targets fully Achieved	Targets partially achieved	Targets not achieved	Score (%)
Public Service Management	1	1	0	75.0
Public Finance Management	1	1	2	37.5
Macroeconomic Indicators	2	0	1	66.7
Financial Sector Development	1	0	0	100.0
Public Service Pension Fund	0	1	1	25.0
Agriculture	3	0	0	100.0
Infrastructure	2	1	1	62.5
Industry, Commerce, PSD	2	0	0	100.0
Health	3	0	1	75.0
Education	2	0	1	66.7
HIV/Aids	2	0	0	100.0
Total	**19**	**4**	**7**	**70.0**

With view to the particular budgetary challenges Government faced in 2006, the achievements against the PAF targets reported here, though disappointing after the good performance in earlier years, as recorded in the iPAF, are perhaps in line, or slightly ahead of, expectations for the year.

One general finding is that with the expansion of the PAF to include additional areas, some of the indicators and targets set for 2006 were somewhat unrealistic, overambitious, or simply not in line with agreed definitions under the PRGF or various Sector Initiatives. Moving forward, there may be the need to revise some of these indicators as well as some of the targets, especially when the entire PAF for the 2007-2009 will be reviewed.

3. Analysis of Findings in the Four Broad Areas

This section presents the findings in the four broad areas.

3.1 Public Sector Reform

Under the heading of Public Sector Reform, there are two sub sectors, dealing with Public Service Management and Public Finance Management (PFM).

Public Service Management

Of the four indicators included under Public Service Management, three had targets included for 2006. These are the restructuring of provincial and district administration, the adoption of a public service pay policy and a Diagnostic Pay Study. The fourth indicator, referring to the development of service delivery charters for four institutions in the public service did not have a target included for 2006, so will not be included as part of the assessment. The major issues that emerge are the following:

- For the restructuring of provincial and district administration, a comprehensive implementation plan was developed; this is undergoing a review and approval process at present. In the first part of 2007 generic plans and structures for provincial and district administration and local councils have also been developed. This is in line with the target for 2006.
- Consultants have been identified to develop Service Delivery charters for four institutions in the public service, specifically Ministry of Lands, Department of Immigration, Public Service Management Division, and Department of National Registration, Passport and Citizenship. Suggesting the target for end 2007 can be achieved.
- The Diagnostic Pay Study, due to be carried out in December 2006, was not conducted. It will now be merged with the consultancy to develop the pay policy. This process was further delayed by problems associated with the start of the PSM component of the Public Service Reform Programme (PSRP). The process of identifying the consultants for the work on the pay policy started in early 2007. These amendments to workplans were discussed and agreed with CPs active in the sector. While some progress has been made, this is a fundamental change to the indicator and target, as a result it should be assessed for this year.
- The Payroll Management and Establishment Control (PMEC) system was rolled out to three agencies (Zambia Police, Public Service Management Division and Ministry of Finance and National Planning), as opposed to the five that was the target for the end of 2006. However, since the start of 2007 a further three MPSAs have been connected – Ministry of Works and Supply, Ministry of Home Affairs and Ministry of Agriculture and Cooperatives, bringing the total of MPSAs connected to six. Therefore, the target for 2006 is still being considered as partially achieved.

Public Finance Management

The following assessment is based on the five PFM indicators included in the PAF, rather than being a full assessment of Public Expenditure and Finance Management in Zambia. The major highlights are as follows:

- Unlike in previous years, when the average release was regularly higher, Government in 2006 could only release **87.7** per cent of the total budget approved by Parliament at the start of the year. This is a direct consequence of the revenue shortfall of K359.1 billion, mainly caused by the Kwacha

appreciation and the holding of the tripartite election which required front loading to institutions facilitating elections.

The respective indicator requires that the quarterly releases of 70% of the MPSAs fall within a bandwidth of 95-105%. However, during the calculations for 2006 a number of issues emerged, Personal Emoluments are paid against actual cash books and are 100 per cent met, grant aided institutions are regularly funded based on one twelfth of their annual budget allocations per month and only the remaining part is released against monthly funding requests. Regarding this, when a request for funding in the first quarter is not fully met subsequent demands take account of the shortfall in releases in earlier quarters, meaning that the sum of demands for the year is greater than the budget allocation. The 2006 data on quarterly profile shows that the total amounts profiled by MPSAs in most cases was higher than the amounts appropriated for the year in the budget, thereby making the analysis of funding against profile difficult. This is compounded by the fact the MPSAs are not advised of the funds that will be made available to them in line with projected revenues.

Measures will be put in place by the budget office in MoFNP to review the system to overcome these teething problems associated with the new funding system and ensure that the total profiles match the approved budget provisions and projected revenues.

In the absence of quarterly figures, the year end figures for 2006 revealed that only 14 of 48 expenditure heads had received releases of between 95 and 105 per cent, up slightly on figures from 2005. If the range is increased to between 90 and 110 per cent this increases to 26, the equivalent of 54 per cent. Nevertheless, 14 MPSAs received less than 90 per cent of the budgeted figures, with eight receiving more than 110 per cent of the budgeted amount. These were the Office of the Vice President, Cabinet Office – Office of the President, Police and Prison Service Commission, Zambia Police – Ministry of Home Affairs, Ministry of Justice, Ministry of Defence, Zambia Security Intelligence Service and Ministry of Agriculture and Cooperatives. As is apparent, these are mainly agencies involved in the facilitation of the tripartite elections.

Of the priority MPSAs identified in the PAF, three received more than their original budget (Ministries of Health, Education and Agriculture and Cooperatives), with only the Ministry of Works and Supply receiving less than 90 per cent of its budget (at 85 per cent). When combined, releases to the eight priority MPSAs was 102.5 per cent, considerably better than the releases for all MPSAs.

Table 3: Releases in % of Budget, 2006, Key Heads

7	Office of the Auditor General	90.49
13	Ministry of Energy and Water Development	91.38
29	Ministry of Local Government and Housing	**95.55**
37	Ministry of Finance and National Planning	**100.83**
46	Ministry of Health	108.70
64	Ministry of Works and Supply	84.95
80	Ministry of Education	**100.24**
89	Ministry of Agriculture and Cooperatives	112.16
	Total Specified Heads	*102.5*
	Total (including Head 99)	**87.69**

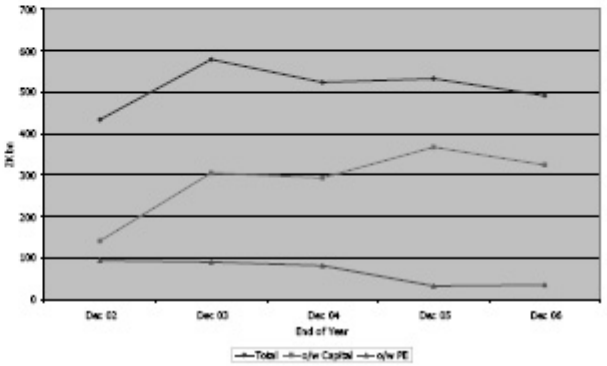
- The number of MPSAs where calculated expenditure was between 95 and 105 per cent of releases was 34 out of a possible 49, representing a percentage figure of 69.4 per cent. This shows an improvement against a recalculated baseline for 2005 of 55.1 per cent (27 out of 49 heads). While the target for 2006 of 80 per cent has not been reached, it would appear that this has been set at an unrealistically high level. In this regard an assessment of partly met is included to take account of the substantial improvement on the previous year. A number of other points are worth drawing attention to:

- For all MPSAs calculated expenditure is 97.3 per cent of total funding, similar to the 2005 figure of 98.3 per cent.
- The figures used for the calculations in 2005 and 2006 were from June, the intention to have the data available by the end of March was not met due to hardware problems at the Office of the Accountant General.
- Further 37 heads (or 75.5 per cent) have a reported expenditure of between 95 and 105 per cent of calculated expenditure, a reflection of Government's ability to account for the money that has been spent. For all MPSAs, reported expenditure is 96.9 per cent of total funding.

There remains scope for improvement in the 2006 figures, including carrying out additional reconciliations for those MPSAs that have not yet retired their outstanding imprest amounts. Earlier presentations of accurate figures will also depend on overcoming the current constraints in processing the data within the Accountant General's Office, including considerations of late settlements for previous year's imprests done in the current year, the main factor causing figures of reported against calculated expenditure of over 100%.

- Domestic arrears remain a cause for concern, despite having declined in 2006 by 7.7 per cent from K532.8 billion in 2005 to K491.8 billion. While the definition of what constitutes an arrear is the same as that included in the PRGF reviews, the PAF indicator has been designed to focus on total domestic arrears, whereas the PRGF indicator has focused on the clearance of arrears beginning 2002, disaggregated by housing, suppliers of goods and services and pension arrears. This has led to difficulties in terms of the targets set for the years 2006 to 2008, which were taken as being the same for the two indicators, however these are patently unobtainable and require revision. This target is assessed as not met, with an agreement that new targets for 2007-09 need to be established.

Figure 1 Trend in Domestic Arrears, 2002 - 2006



Source: Accountant General's Office / Internal Debt Management, Ministry of Finance and National Planning

- The Office of the Auditor General (OAG) submitted their report for 2005 to parliament on time (that is, within 12 months of the end of the fiscal year). The actions taken on the previous year's OAG report, as outlined in the Treasury Minute, have been evaluated by the Office of the Accountant General, and showed all cases have been dealt with, meaning that the target for this indicator was met. However, the number of cases for which the controlling officer have been contacted but no progress had been reported is, however, still too high at 24.6 per cent.

Table 4 State of Issues Raised in 2004 Auditor General's Report

	Government MPSAs		Parastatal Companies		Total	
Dealt with / Remedial Action still in progress	69	34.5%	74	67.9%	143	46.3%
Followed up by the ST and referred back to the AG for verification	65	32.5%	20	18.3%	85	27.5%
Before the Courts of Law	4	2.0%	1	0.9%	5	1.6%
Relevant Controlling Officers were written to, but no progress reported.	62	31.0%	14	12.8%	76	24.6%
No action taken	0	0.0%	0	0.0%	0	0.0%
Total number of issues raised	**200**	**100%**	**109**	**100%**	**309**	**100%**

Source: Accountant General's Office, Ministry of Finance and National Planning

The methodology for this assessment needs to be improved somewhat with a more precise definition, in order to come to an "objectively verifiable" assessment. This can be done for the 2007-9 PAF, taking the calculation from this year as a more comprehensive baseline. The specific definition could be to include recommendations from the Public Accounts Committee (PAC) that were

- Dealt with / remedial action still in process
- Followed up by the ST and referred back to the AG for verification
- Before the Courts of Law

In addition, the OAG is in the process of producing a report on "outstanding issues" which they intend to table with the 2005 report.

- It was agreed that the expenditure variance, defined as the weighted average deviation between expenditure and the original budget using absolute figures, is reported but not considered in the assessment. For 2006, the total figure comes to 15.6 per cent. If Constitutional and Statutory expenditures are excluded, the variance figure is reduced to 9.2 per cent, and if one singles out the eight key MPSAs for the PAF, then the figure is somewhat similar at 10 per cent. This also represents an improvement over the 2005 position when the total variance was 19.9 per cent (see table below).

Table 5: Absolute Value Expenditure Vs Budget, 2006 (ZKw)

	Absolute Value Variance
Ministry of Health	117,812,465,685
Ministry of Education	85,404,899,377
Ministry of Energy and Water Development	3,952,007,089
Ministry of Agriculture and Cooperatives	57,402,096,722
Ministry of Works and Supply	20,939,134,246
Ministry of Local Government and Housing	4,540,839,940
Office of the Auditor General	1,909,175,308
Ministry of Finance and National Planning	30,881,967,907
Total Selected	322,842,586,274
Variance Selected	*10.0*
Total All MPSAs	1,230,527,095,458
Variance All MPSAs	*15.6*
Total all MPSAs (less Constitutional and Statutory)	597,447,338,651
Variance all MPSAs (less Constit. and Statutory)	*9.2*

As a means of addressing the various issues raised under the PFM heading and monitoring releases more closely on a quarterly basis government proposes to do the following in 2007.

(a) Produce a consolidated quarterly allocation profile for all MPSAs based on projected revenues and the requirements of MPSAs for the year against which releases can be checked and

(b) Reinstitute the Budget Execution Working Group to look at issues around this and produce a quarterly input monitoring report.

3.2 Macroeconomic Management

This sector includes three specific sub-sectors – macroeconomic indicators, financial sector development and indicators related to the Public Service Pension Fund (PSPF).

Macroeconomic Indicators

The underlying principle of the Memorandum of Understanding for Poverty Reduction Budget Support is that Zambia must show a commitment to pursuing sound macroeconomic policies as evidenced by a positive IMF assessment of overall macroeconomic performance. In addition, three specific macroeconomic indicators are included in the PAF (Government domestic borrowing, wage bill, and domestic revenue). The highlights from the assessments are as follows:

- Government domestic borrowing was 2.4 per cent of GDP, which is above the target of 1.6 per cent. However, this is explained by the large amount of carry-over funds from 2005 that were only spent by MPSAs in 2006. These funds were not adjusted for in 2006 (so they do not form part of the financing) but were counted as additional financing. The PAF targets on this indicator therefore need to be aligned with the latest IMF PRGF report, which projected target figures for 2007 and 2008 at 1.6 per cent and 1.2 per cent, respectively.
- Government has managed to keep the Central Government wage bill down and in line with projections. For 2006 this was clearly achieved with K2,833 billion, which is below the agreed target ceiling of K2,967 billion.
- Domestic revenue as a percentage of GDP fell in 2006 from 17.4 per cent in 2005 to 16.8 per cent. However, this is in line with the PAF targets of the current year. The target has therefore been achieved.

Financial Sector Development

The two indicators included under this sub-sector are; (1) "Facilitation of the creation of a private sector Credit Bureau", and (2) "Development of a comprehensive rural finance policy and strategy".

- Following the issuance of a licence to Credit Reference Bureau Africa Limited (CRBAL) in June 2006, the institution was officially launched on 12 January 2007. CRBAL is now in the process of signing service level agreements with banks and financial institutions to govern the sharing and treatment of information.
- The microfinance regulations came into force in January 2006, encouraging MFIs to come under the supervisory ambit of the Bank of Zambia, suggesting the target of having a rural finance policy and strategy by 2007 will be met. The short-listing of officers for the Project Management Unit of the Rural Finance project has been done and a no objection is being awaited from the IFAD.

Public Service Pension Fund

Two specific indicators on the Public Service Pension Fund (PSPF) were included, dealing with reducing arrears owed to the PSPF. The highlights of the findings are the following:

- The Ministry of Finance released the full budgeted amount of ZK 100 million in 2006 for the clearance of pension arrears. However, the PAF target figure was an allocation of 1.5 per cent of GDP towards the payment of pension arrears. This target is unrealistic and requires correction (it is in excess of even the stock of pension arrears at end 2005). One

suggestion is to have the targets for the allocation towards the clearance of the arrears in the outer years aligned with those in the MTEF in Kwachas. (The original calculation also included funding components to the Pensions Fund other than for arrears). An alternative is to have the indicator read *total value of pension arrears*, in which case new targets have to be developed. It is considered that the release of 100 per cent of the budget allocation for 2006 demonstrated Government's commitment to the clearance of the pension arrears. However, while the target can be assessed as being partly met in definitional terms CPs consider that the reduction in arrears could have been more substantial as part of Government's target of eradicating arrears by 2008. Against this, an assessment of partly met is proposed.

Table 6: Public Service Pension Fund Arrears

	2004	2005	2006	2007
Nominal GDP (K'Billion)	**25,997.4**	**32,648.6**	**39,299.0**	**45,821.0**
Pension Arrears Allocation	25.9	0.0	100.0	112.0
Grant	35.0	142.0	154.0	154.0
Total Grant	35.0	159.0	254.0	266.0
Total Arrears at 2005		464.0	388.0	
As % of GDP				
Pension Arrears Allocation	*0.00%*	*0.05%*	*0.25%*	*0.24%*
Grant	*0.13%*	*0.43%*	*0.39%*	*0.34%*
Total Grant	*0.13%*	*0.49%*	*0.65%*	*0.58%*
Total PSPF Arrears in 2005 and projections to 2007		*1.3%*	*1.0%*	*0.8%*

Source: Public Service Pension Fund submission to MoFNP.

- The second indicator refers to the generation of new arrears to the PSPF for the year in question. The total arrears accumulated represented 31.7 per cent of the expected contributions in the calendar year. While this is a lower figure than the 2005 one (of 37 per cent), it is still considerably above the proposed target of two per cent. In this case, it is acknowledged that the target for 2006 was not met.

To address these problems, the PSPF has made a number of suggestions including re-opening the PSPF to new entrants, infusing new assets into the fund's portfolio, adjusting the scheme parameters and streamlining collection procedures.

3.3 Wealth Creation

Three sub-sectors were included under wealth creation, specifically agriculture, infrastructure and private sector development. The major highlights, as identified through the PAF, for each of these sectors follows.

Agriculture

The targets for the three agriculture sector indicators have all been met.

- Investment programmes, which were identified as all core agricultural programmes, including salaries to extension workers under the FNDP, were targeted to receive K88 billion in 2006. This target was topped by the K109 billion actually released.
- A total of 70,000 hectares were identified for irrigation infrastructure development, 100,000 hectares of land (in Luena, Kalumwange, Mungu, Solwezi, Mwasempangwe) was identified for development in farm blocks along with 5,000 hectares for ZANAP.
- Although the Agricultural Marketing Act has not yet been adopted, a nationwide consultation process has been carried out in conjunction with the Agricultural Consultative Forum (ACF), and with major representation from districts. The Act is now to be resubmitted to Cabinet for recirculation to Ministries

Infrastructure

Four indicators were included for infrastructure (which is predominantly road construction); two, related to rehabilitation and maintenance of trunk / main / district roads, were met and one on the staffing of the three roads agencies – the Road Development Agency (RDA), Road Traffic Safety Agency (RTSA) and National Road Fund Agency (NRFA) – was partially met. The target for road upgrading was missed. The specific highlights in the sector are as follows:

- In terms of the staffing for the three newly established road agencies, the RDA has 90 per cent of positions filled, and the NRFA is fully staffed. However, due to budgetary constraints, staffing at the Road Transport Safety Agency remained at only 5 per cent at the end of 2006.
- The revenue shortfalls in 2006 also led to severe delays and shortfalls of funding releases for works contracts. In addition, the prioritisation process of roads maintenance and the complicated procurement procedures delayed the contracting process. Despite these, the targets for rehabilitation and maintenance of trunk / main / district roads were achieved.
- The original indicators as agreed at the November 2006 PRBS review for the PAF were (a) Kilometres of road upgraded (b) kilometres of road rehabilitated and (c) kilometres of unpaved roads maintained, with each disaggregated by tourist, primary and district. However, in order to match the PAF indicators more closely with the FNDP and the Roadsip, the use of road classification needs to be adjusted slightly to read *(a) kilometres of trunk / main / district road rehabilitated* and *(b) kilometres of trunk / main / district road maintained.* This would then be disaggregated by (a) paved and (b) unpaved roads. Performance for 2006 is included in the following table:

Table 7 Performance of the Road Sector: Trunk, Main and District, 2006

	Rehabilitated			Maintained		
	Target	Actual	%	Target	Actual	%
Trunk / Main / District Roads						
Paved	238.8	255.6	107.0	4,978.4	7,927.2	159.2
Unpaved	1,246.8	2,693.2	216.0	5,743.2	5,836.7	101.6

Source: Roadsip MIS, Ministry of Works and Supply

From this it is apparent that the targets for road rehabilitation and maintenance can be assessed as fully met.

- There is continued concern, however, that performance in the rehabilitation and maintenance of Feeder roads is not achieving the targets set in the Roadsip. (This indicator was not included for the PAF or explicitly in the FNDP).

Table 8 Performance of the Road Sector: Urban and Feeder Roads, 2006

	Rehabilitated			Maintained		
	Target	Actual	%	Target	Actual	%
Urban and Feeder Roads						
Urban	224.9	60.2	26.8	1,320.0	310.6	23.5
Feeder	1,075.1	0.0	0.0	9,003.2	2,361.8	26.2

Source: Roadsip MIS, Ministry of Works and Supply

To this end, it is recommended that the indicator on upgraded (which is a component of the data presented in rehabilitated and maintained) be replaced with an indicator that reads *Unpaved Feeder Roads (a) Rehabilitated (b) Maintained* with targets set for each level of disaggregation. The indicator would specifically focus on Unpaved Feeder Roads because of their importance in improving the access of people in rural areas to, amongst other things, markets and social services.

Private Sector Development

Two indicators and targets for 2006 were included under the heading of Private Sector Development. The major achievements throughout 2006 on this were

- As a 2006 milestone on the way to reduce the time to set up business, the Zambia Development Agency (ZDA) Act had to become operational. It was enacted in 2006 (as Act 11 of the year), and an interim Director General was appointed to run the ZDA. In the meanwhile, also a Board of Directors has been appointed. The auditing of the former independent institutions brought together under the umbrella of the ZDA has been undertaken by Grant Thornton.
- The Citizen's Economic Empowerment (CEE) Bill was passed by Parliament in 2005, subsequently Commissioners have been appointed by His Excellency the President and the Citizen's Economic Empowerment working group has been put in place.
- The CEE communication campaign has started and will run until April 2008.
- The CEE fund will be delayed until 2008. However, the Commission will focus on developing the guidelines and procedures for disbursement of funds.

The main future target for this sector is focussing on the length of time taken to establish a business, which is to be reduced to seven days by 2008 (from 35 days in the baseline year of 2005). An appropriate target for 2006 still needs to be established, and a system to monitor the indicator needs to be developed.

3.4 Social Equity

Three particular sectors were selected to show progress in the field of social equity, namely health (with four indicators and targets), education (with three), and HIV/AIDS (with two).

Health

The four indicators and targets set for the health sector dealt with issues of institutional delivery, child immunisation, utilisation of primary health centres (PHC) facilities and Ministry of Health releases to district level. The performance for the year can be summarised as follows:

- The immunisation of children in the 20 worst performing districts in 2006 was slightly better than in 2005, raising this proportion from 65 per cent to 67 per cent.
- The utilisation rate of PHCs has increased considerably, from 0.48 in the base year to 0.6 in 2006 (against a target of 0.5). This is because of the introduction of two specific policy interventions, specifically the removal of user fees and the distribution of free ARVs.
- However, there was virtually no improvement in terms of the percentage of institutional deliveries (based on the number of deliveries assisted by midwives, nurses, doctors, clinical officers and medically trained Traditional Birth Attendants), with the proportion stagnating at 43 per cent. This was attributed to inadequate health personnel particularly trained midwives, and while efforts are being put in place to address this, through the opening of new colleges and an improved staff establishment being put in place, this will remain a problem for the foreseeable future.
- The Ministry of Health has carried out a detailed assessment of the indicator "releases to district level" taking various potential numerators. With a definition that includes all

expenditure of direct benefits to the districts plus a proportion of all PEs and other RDCs (estimated at 61 per cent), a total of 62 per cent of funds can be said to be released to district level. This is an increase from previous year's amount of 53 per cent (using the same calculation) and above the target of 57 per cent. The calculation of this indicator requires a greater deal of dialogue in future years, particularly in terms of the basis for the calculations and reaching an agreed methodology for the calculations.

Education

The three education indicators refer to Net Enrolment Rates (NER), Completion Rates (specifically targeting Gender Parity) and the Pupil Teacher Ratio, covering issues of access, equity and quality. Performance in the sector in 2006 was average with two of the indicators being met and one not met. This underlines the need for continuous discussion and consultation in the sector to ensure that the gains of recent years are not lost, and issues such as equity are addressed.

- The NER in Grades 1-7 for 2006 stood at 97.3 per cent, with that for girls being slightly above average at 98.2 per cent and for boys at 96.4 per cent (see table below). The target for 2006, however, focused on reducing the number of districts with an NER of below 80 per cent to eight. Initial figures from the ed*assist database suggested this had not been achieved, with nine districts – Mazabuka, Chadiza, Chienge, Katete, Lundazi, Lusaka, Petauke, Nyimba and Shangombo falling below this level.

  However further investigations revealed an anomaly for Mazabuka district where the NER of Grade 1-9 was almost three percentage points higher than Grades 1-7. This was investigated by a team from the Ministry of Education who discovered a number of schools had submitted data late and were not captured. When this was included, the NER in Grades 1-7 actually rose to 82.5 per cent. It appears this is related to the long run problem of non-responding schools, which is a problem across the country, but is more pronounced in Mazabuka.

Table 9: Net Enrolment Rates by Gender, 2006

Grades	*Male NER*	*Female NER*	*Total NER*
1 – 7	96.4	98.2	97.3
1 – 9	95.6	95.7	95.7
1 – 12	91.4	86.0	88.7
10 – 12	25.5	22.2	22.1

Source: Ed*Assist database, Ministry of Education

  This means that the indicator has been met in the very strictest sense, however, CPs feel that insufficient attention has been given to putting efforts in place to target these poorly performing districts, and therefore they will continue dialogue with MoE to support targeted actions in those districts.

- The completion rate of boys at Grade 9 showed an improvement between 2005 and 2006, up from 46.7 to 47.1 per cent; however, the completion rate for girls decreased slightly, from 39.4 to 39.2, suggesting that the gender differentials have in fact worsened, meaning the target for the indicator in question has not been achieved. The Ministry of Education has proposed that this indicator be replaced with one related to the Gender Parity Index, as assessed by the number of girls in school as a proportion to the number of boys in school in Grades 1-9 for the PAF 2007-9. The targets would be written in a way that also targets the worst performing districts.
- The national average Pupil Teacher ratio in the lower basic grades has improved over the past 12 months to a level of 76.5 to 1 (down from the previous level of 80 to 1). To document the improved equity across the country, the number of districts with a PTR of greater than 100 to 1 was to be

tracked. This has gone down from 12 to eight, as targeted. These remaining low performing districts are Chiengi, Chilubi, Isoka, Kaputa, Luwingu, Mporokosa, Mungwi and Nchelenge.

- The difficulties with the NER calculation have unearthed some issues that need to be considered during the coming year, these include
  - The national verification of data entered is not adequate and the whole procedure needs to be improved, with more attention given to districts where there are apparent discrepancies.
  - The change from imputing values for schools where data sheets had not been returned as the response rate approached 100 per cent in 2006 may have had a negative impact on figures in districts with a lower response rate.
  - The population projections for some districts may be wrong. This will have implications for indicators such as NER, and is an area that needs to be considered when developing the National Statistical Development Strategy (NSDS).

During the finalisation of the education section of the assessment, Cooperating Partners expressed the desire that the dialogue in the sector be strengthened specifically to discuss issues such as equity and the allocation of resources to district level. This dialogue needs to include the indicator and target redefinition for the PAF 2007-9 as a matter of urgency, particularly as the data for 2007 has already been collected but before encoding and data analysis is done. In addition, areas for further investigation, such as that identified and undertaken in Mazabuka could be jointly agreed on, within a more regularised structure. This would help to identify issues for research, such as why there appears to be a larger problem with NER in Eastern Province than elsewhere in the county. The Ministry of Education has welcomed this suggestion and has agreed to act on it.

HIV/AIDS

The two indicators identified for the period 2006 to 2008 deal with testing and acceptance of results, and the number of HIV-infected people accessing ARVs.

The overall performance under this sub-sector is positive as both the targets have been met, albeit at an output level. There has been a large increase in the number of people tested for HIV and accepting results, especially due to the roll out of the Prevention of Mother to Child Transmission programme, where all pregnant women are tested. Similarly the number of people accessing ARVs has increased dramatically from a figure of 50,000 in 2005 to slightly under 90,000 in 2006, considerably above the target of 70,000 for the same year.

4. Conclusion

The 2006 Progress Report on the PAF reveals a number of challenges Government faced during the year, and which are still affecting progress in 2007. These mainly include the unexpected shortfall in Government revenue because of the Kwacha appreciation in the first part of the year, as well as the budget constraints related to the expenses for conducting the elections. The first of these underlines the relative vulnerability of a Small Open Economy such as Zambia. These factors contributed to targets being missed and should be borne in mind when an overall assessment of the year is made.

Notwithstanding the mitigating circumstances, during the review Cooperating Partners expressed their particular concern about the need for releases to MPSAs to be in line with budget allocations, not only on a total basis but also on a regular basis as required by MPSAs, throughout the year. Another area of major concern is the continued clearance of domestic arrears and arrears to the PSPF, the targets for which will need to be reformulated. Targets for all of these were at best partly met in 2006 and will have to receive greater attention in future years if the targets are to be achieved.

To address issues of public finance management in particular and monitoring releases more closely on a quarterly basis government proposes to do the following in 2007.

- Produce a consolidated quarterly allocation profile for all MPSAs based on projected revenues and the requirements of MPSAs for the year against which releases can be checked and
- Reinstitute the Budget Execution Working Group to look at issues around this and produce a quarterly input monitoring report.

However, the 2006 assessment has also shown that some of the targets set in the PAF are overly ambitious, if not unrealistic. The most striking example for this is the unrealistic figure of 1.5% of GDP to be used for settling pension arrears. If such an amount had spent on this issue, very little would have been left for public sector investments and service delivery.

Difficulties of collecting information from sector institutions could be cited as other areas that need further improvements. While this has already been much better than in previous reporting periods, it is still unsatisfactory.

Moving forward, it is acknowledged that improving the overall performance has to remain a Government priority, in order to meet the expectations not only of the Cooperating Partners who are providing budget support, but also of the Zambian taxpayers to whom Government is accountable. To improve the process, Government is developing a way forward for the PAF that would centre on improving communication between

- MoFNP and MPSAs
- MoFNP and Cooperating Partners
- Those operating at Sector Level

As well as strengthening the Sector Advisor Groups with the longer terms aim of strengthening the consultation process around the FNDP.

Further, the sensitisation of Government decision makers, as well as of the interested Zambian public on the PAF are tasks that have to be continued and even intensified in order to make the budget support and the joint assessment of the performance the success that they were expected to become.

In summary, Government is convinced that it would have performed even better and would have continued on its path of constant progress as demonstrated in the previous years, had it not been affected by the revenue shortfalls experienced in 2006. Government is very confident that in 2007, with the major adverse factors being contained, this path of progress can be continued. In line with this, the performance assessment with respect to the 2007 indicator targets is expected to be more favourable.

Annex I: Performance Indicators for 2006 Review

Public Sector Reform

Public Service Management

Public Service Reform Milestones for PAF (PAF)									
Indicators / Issue	**Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PSM 1. Restructuring Provincial and District Administration	Restructuring entails developing strategic plans, optimal organisation structures and result oriented job descriptions and specifications. An entity is said to be restructured when Cabinet (Office) approves the new structure and it is reflected on the PMEC system.	**Target**	Generic strategic plans and organisation structures have been prepared	Comprehensive Implementation Plan Developed	Plans and Structures for Provincial and District Administration adopted	9 Provinces restructured 72 District Administration Offices restructured	The Indicator is related to the Rightsizing Program under Central Administration which is Chapter 24 of the NDP Consistent with the Decentralisation Policy's stated aim of Devolution of authority from central ministries to Local Authorities for the districts.	Management Development Division (MDD) in Cabinet Office	**Reason for Variance:** Not Applicable. **Assessment:** 2006 target has been achieved. **Recommendations for the future:** As regards the 2007 target, the generic plans and structures for provincial and district administration, as well as local councils have been developed. The adaptation process of these starts on the 28th May, in line with the plan. The adoption and approval of the structures are expected before the end of the year.
		Actual		Comprehensive Implementation Plan developed and is under going the review and approval process					

Assessment of Performance 2006

Public Service Reform Milestones for PAF (PAF)									
Indicators / Issue	**Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PSM 2. Service Delivery Charters institutionalised in the Public Service	Social / service contracts signed between ministries and their clients defining minimum standards, procedures for feedback and measures for addressing shortcomings Adoption = charters signed off by minister of the ministries	**Target**	No service delivery charters in place and no objective basis for ministry / client interface over service delivery	[1]	Service delivery charters developed for four institutions.	Service delivery charters for the four institutions adopted and institutionalised	The indicator is related to the Service Delivery Improvement Program under Central Administration which is Chapter 24 of the NDP The specific indicator included for the NDP is *Number of (a) ministries (b) local authorities with a service delivery charter.*	MDD and the effected ministries / institutions	**Current Status:** The identification of consultants to develop four service delivery charters has commenced. The tenders for submission of detailed technical and financial proposals has closed and they were opened on 23rd March 2007. The proposals are currently being evaluated. **Assessment:** Because no target was included for 2006, this will cot be included in the assessment. **Recommendation for the future:** By the end of the years four charters would have been developed
		Actual							

[1] No target has been set for 2006 on this indicator, instead a progress report towards the target for 2007 will be requested

Assessment of Performance 2006

Public Service Reform Milestones for PAF (PAF)									
Indicators / Issue	**Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PSM 3. Adoption of public service pay policy	The milestones set under Pay Reform for the three years are self explanatory activities, and can be assessed as to whether they have been completed or not	**Target**	Remuneration is considered inadequate and inconsistent with performance, meaning the public service is unable to attract and retain essential technical, professional and managerial staff. Nobody receives a performance based salary	Diagnostic pay study conducted: this is an employee survey on performance that compares employee salaries in public and private sector	Pay policy designed and approved	Pay policy implementation commences. Job evaluation conducted.	The NDP indicator included is *Proportion of Government Employees whose salaries are described as being "Performance Based"* however the first target set for this is 2008, as a number of processes have to be undertaken first	PSMD in cabinet office	**Reason for Variance:** The consultancy did not take place in December 2006 because of a decision to merge it with the consultancy to develop the pay policy. This was further compounded by delays in the start of the implementation of the PSM component of the PSRP. **Assessment:** Because of the difficulties with initiating the contracting process and the agreed change in the workplans, this indicator will not be assessed for 2006. **Recommendations for the future:** It is expected that by the end of the year, the Diagnostic Studies would have been undertaken and the pay policy developed. Targets need to be adjusted to take account of revised work plans.
		Actual		Scheduled for December 2006 – Did not take place yet					
Indicator PSM 4. Payroll Management and Establishment Control	Number of (a) Central Agencies (b) Provinces where PMEC is made operational in a calendar year Within this, operational is defined as *Human Resource officers accessing the system from their own offices and stations and no longer have to travel to Cabinet Office to input the data*	**Target**	The PMEC system functions in a central location but has not been rolled out yet to any MPSA	(a) 5 (b) 0	(a) 5 (b) 0 – but infrastructure to roll it out is put in place in three provinces	(a) 3 (b) 3	The indicator is similar to one included in the NDP – *Annual number of (a) central agencies and (b) provinces where PMEC is made operational* the target is to have this rolled out to all provinces by the end of the FNDP period.	PSMD in Cabinet Office	**Reason for Variance:** The PMEC system is being rolled out using an interim measure (radio link). The ministries are able to access the PMEC system through their human resource officers. Three MPSAs were connected by the end of 200 and a further three in the first five months of 2007 **Assessment:** Partly Achieved **Recommendations for the future:** At present the PMEC system is being rolled out to Kasama in Northern Province. Due to the envisaged changes in IT the original plan of rolling PMEC to the provinces has been changed. Government intends to save a lot of resources by rolling out PMEC through riding on with the Zamtel or Zesco fibre link which is currently being installed.
		Actual		(a) the PMEC system was rolled out to three ministries (b) No provincial roll out					

Public Finance Management

Public Finance Management Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PFM 1. Percent of MPSAs whose quarterly budget releases are between 95% and 105% of the budget allocation identified in the quarterly allocation plan	Each MPSA will have a quarterly expenditure allocation plan outlining how the MoFNP will allocate its approved budget on a quarterly basis. The indicator is calculated by the (cumulative) number of MPSAs who received between 95% and 105% of expenditures for each quarter.	**Target**	25% At December 31st 2005, 12 heads had received funding of between 95 and 105 % (Report dated 05.06.06)	70%	80%	90%	The two FNDP indicators that are related are *% of MPSAs receiving less than 95% of their budget allocations on an annual basis* and *Budgetary releases for key sectors as a ratio of the allocation (a) Health (b) Education (c) Energy (d) Agriculture (e) Infrastructure (f) Water and Sanitation*	Comparison of Expenditure Against Release report produced by Accountant General's Office	**Reason for Variance:** At the start of the year, problems existed with the collection of revenues because of the Kwacha appreciation, hampering funds available for releases to MPSAs. **Assessment:** Not met – further, there have been difficulties in calculating this, **Recommendations for the future:** It is not possible at present to provide information on the quarterly allocation plans and requests. A firs attempt at this will be produced by Budget Office, which may be used as a baseline for later years. It is suggested that the target for 2007 remains a year total with an update provided on the quarterly allocations.
		Actual		28.6% At December 31st 2006, 14 of 48 heads had received allocations of between 95 and 105%					

Assessment of Performance 2006

Public Finance Management Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PFM 2. Percent of heads whose calculated expenditure is between 95% and 105% of the total funding	Calculated expenditures are annual expenditures reconciled to annual releases and adjusted for changes in BoZ bank balances	**Target**	55.1% This represents 27 out of 49 heads at December 2005 as opposed to previous misreported figure of 35 out of 48 heads (Report dated June 12th 2006)	80%	90%	> 95%	A number of sectors have included independent indicators on *proportion of Budget Releases spent*	Monthly releases, publications and monthly expenditure reports for Office of the Accountant General	**Reason for Variance:** The difficulties are predominantly with the calculation of the indicator, because the computerisation system is not suitable for the Accountant General's Office. **Assessment:** Part Met - there has been significant improvement, however the targets, as set, are too based on an incorrect baseline figure and need to be reformulated for 2007-9 **Recommendations for the future:** If the data processing and IT capacity of the Accountant General's Office is strengthened, this indicator seems achievable.
		Actual		69.4% 34 out of 49 heads					
Indicator PFM 3. Domestic Arrears at end Period	ZK amount of arrears at the end of the financial year, excluding statutory pension arrears The same definition of arrears will be used as that included in the PRGF	**Target**	ZK 532.8 billion (original baseline was an estimated amount of ZK 421 bn)	ZK 110 billion	ZK 95 billion	ZK 0	Similar to an FNDP indicator *Stock of domestic suppliers debt as % of GDP.*	Budget Office (MoFNP), Office of the Accountant General, Controller of Internal Audit, IDM	**Reason for Variance:** The actual amount for 2005 (Baseline Value) was higher than the estimate. **Assessment:** Not met. The total debt stock has declined and the floor on the cumulateive payment of domestic arrears (PRGF indicator) has been attained, however the rate at which the debt is declining is not adequate to meet target of clearing all arrears by 2008, even if annual targets are too high. **Recommendations for the future:** Change the indicator to one recording total debt stock Revise the indicator and targets for outer years in line with the PRGF.
		Actual		ZK 491.8 billion					

Public Finance Management Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PFM 4. Audit Reports submitted to Legislature and acted upon	Annual audit report to be submitted to parliament within four months of receipt of financial statement, and within 12 months of the end of the fiscal year. The PAC makes comments on these, which are passed by parliament and which then have to be acted upon. Acted upon is defined as having a clear action on the subject undertaken and reported on in the Treasury minutes as received from the Secretary to the Treasury by the PAC.	**Target**	Since 2002 the Audit report has been submitted to Parliament within the stipulated time.	95% of PAC recommendations on the 2004 report are acted upon	95 % of PAC recommendations of the PAC from the report for 2005 are acted upon	95 % of the recommendations of the PAC from the report for 2006 are acted upon	Included as a KPI in the Governance Chapter	Reports from PAC (Parliament) and Treasury Minutes – MoFNP and Auditor General	**Reason for Variance:** Not Applicable **Assessment:** Fully Met. **Recommendations for the future:** For future years the definition may need to be more specific and perhaps assess only the number of cases where recommendations have been - dealt with and remedial action still in progress - Followed up by the ST and referred back to the auditor general for verification - Before the courts of law The targets will need to be recalculated bearing in mind the more restrictive definition, taken 2006 figures as a baseline.
		Actual		Annual audit report submitted to parliament within 12 months of the end of the fiscal year. Some action indicated on 100% of recommendations, though detailed action identified on 75.4%					
Indicator PFM 5. % Expenditure Variance between original budget and total expenditure (selected sectors)	Expenditure Variance is the summed absolute values from each budget head (administrative classification) as a percentage of the total originally budgeted GRZ expenditure[2].	**Target**	19.9% (24.6%)					Office of the Accountant General, Budget Office (MoFNP)	**Reason for Variance:** Not Applicable **Assessment:** Agreed that this would not be assessed in 2007 **Recommendations for the future:** The inclusion of targets for this indicator should be considered for future years, based on current performance. Need to be clear what exactly is included in the variance calculation
		Actual		15.6% (10.0%)					

[2] This indicator has been included to facilitate discussion, however, due to difficulties with calculations it will not be utilised for disbursement purposes. There will however be a full overview provided on efforts to ensure that the data required is made available, covering progress on issues such as the Donor Database.

Macroeconomic Management

Macroeconomic

Macroeconomic Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator MAC 1. Government Domestic Borrowing as % of GDP	Central Government's net borrowing from banking and non-banking sectors recorded at cost (face value less discount).	**Target**		≤1.6%	≤1.0%	≤1.0%	The same indicator has been included as a Key Performance Indicator for the NDP and is also included under the IMF's PRGF assessment	BoZ Economics Department	**Reason for Variance:** Government domestic borrowing was 2.4 percent of GDP, which is above the target of 1.6 percent This is explained by the large amount of carry-over funds from 2005 which were only spent by the MPSAs in 2006. These funds were not adjusted for in 2006 (so that they do not form part of the financing) but were treated as additional financing in 2006. **Assessment:** Not Met **Recommendations for the future:** The PAF targets on this indicator therefore need to be aligned with the latest IMF PRGF report which projected target figures for 2007 and 2008 at 1.6 percent and 1.2 percent, respectively.
		Actual	1.9%	2.4					

Assessment of Performance 2006

Macroeconomic Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator MAC 2. Central Government Wage Bill	For the purposes of the wage bill, the definition of Central Government includes all heads covered in the 2006 Yellow Book. The Central Government's total wage bill will include payments on wages, salaries, allowances, and all other items specified as personal emoluments in the Yellow Book, and any direct or indirect payments of housing allowances to employees.	**Target**	**ZK 2,455 billion**	**ZK 2,967 billion**	**TBC**	**TBC**	Included under PRGF	Budget Office	**Reason for Variance:** Not Applicable. **Assessment:** Met **Recommendations for the future:** The projection for 2007 in the latest IMF PRGF review is ZK 3,513 billion. This should be adopted for this year.
		Actual		**ZK 2,833 billion**					
Indicator MAC 3. Domestic Revenue as a % of GDP	Revenue accruing to the Government, from tax and non-tax sources, expressed as a percentage of GDP.	**Target**	**17.4%**	**16.8%**	**17.5%**	**17.8%**	The same indicator has been included as a Key Performance Indicator for the NDP	ZRA / Budget office	**Reason for Variance:** Not Applicable **Assessment:** Met **Recommendations for the future:** The PRGF report predicts figures slightly above those in the PAF of 17.7% for 2007 and 17.9% for 2008. Suggest no real amendment necessary.
		Actual		**16.8%**					

Financial Sector Development

Financial Sector Development – Milestones for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Milestone FSD 1. Facilitation of the creation of a private sector Credit Reference Bureau	A CRB has been proposed in order to strengthen the credit culture in the country. The CRB will be considered created with introduction of guidelines and drafting of a substantive law by end 2006	**Target**	Currently, Zambia has no CRB, but is a point for action under the FSDP. In the interim, guidelines have been developed and a licence application has been submitted to BoZ for consideration	Creation of a CRB by end 2006				BoZ	**Reason for Variance:** Not applicable. **Assessment:** Fully met. **Recommendations for the future:** Not applicable – this indicator should be replaced in PAF 2007/9
		Actual		'Following the issuance of a licence to Credit Reference Bureau Africa Limited (CRBAL) in June 2006, the institution was officially launched on 12 January 2007. CRBAL is now in the process of signing service level agreements with banks and financial institutions to govern the sharing and treatment of information.					
Milestone FSD 2. Development of a comprehensive rural finance policy and strategy.	The development of a well functioning micro and rural financing system is required to improve access to financial services, particularly to lower income and rural population.	**Target**	Draft Micro Finance Institutions (MFI) regulations were reviewed and approved by MoFNP on 30.12.05. Further the drafting of a specific policy and strategy on rural finance has already begun under the Programme Management Unit at the MoFNP		Introduction of a rural finance policy and strategy by 2007			MoFNP / BoZ	**Reason for Variance:** Not applicable. **Assessment:** Achieved (on track for reaching the 2007 target). **Recommendations for the future:** The PMU will spearhead the process of formulating a policy and strategy for Rural Finance. The process of establishing the PMU was delayed due to the change in timeline which followed the pulling out of one of the potential partners of the project.
		Actual		The microfinance regulations came into force in January 2006, encouraging MFIs to come under the supervisory ambit of the BoZ. Short-listing of officers for the Project Management Unit of the Rural Finance project has been done and a no objection is being awaited from the IFAD.					

Public Service Pension Fund

Public Service Pension Fund Milestones for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PPF 1. Percentage of GDP allocated by Government to paying pension arrears at Public Service Pension Fund	(Total value of Government contribution towards payment of pension arrears / GDP) X 100 (This includes interest)	**Target**	At present GRZ has arrears of ZK 464 billion, which will be cleared between 2006 and 2008	1.5%	1.5%	1.5%	Government commitment is to have all pension arrears liquidated by 2008. This is consistent with objectives contained in the Macroeconomics Chapter of the NDP.[3]	Public Service Pension Fund Budget Office (MoFNP) CSO (for value of GDP)	**Reason for Variance:** Treasury released the entire allocated amount of ZK 100 billion included in the 2006 Budget. The variance of -1.24 percent is because the original submission with targets as % of GDP was unrealistic. **Assessment:** In definitional terms the target can be assessed as being partly met, however CPs consider that the reduction in arrears from KK 464 to ZK388 could have been more successful and that the spirit of the indicator has not been met. Part Met. **Recommendations for the future:** If the indicator remains as one on allocations an actual figure, reflective of the allocations or the total stock of arrears should be included. This could take the form of (a) value of pension arrears or (b) value of allocation to the reduction of pension arrears.
		Actual		0.26%					
Indicator PPF 2. Percentage of pension arrears (in the Public Service Pension Fund) accumulated annually	(Total arrears accumulated in calendar year / total expected contributions in the calendar year) X 100	**Target**	37%	<2%	<2%	0%	The subject is addressed under the Macroeconomics Chapter of the FNDP.	Public Service Pension Fund	**Reason for Variance:** A considerable portion of the value to be paid to the pension fund for 2007 was not made. **Assessment:** Not met **Recommendations for the future:** Consider PSPF suggestions on the re-opening the PSPF to new entrants, infusing new assets into the fund's portfolio, adjusting the scheme parameters and streamlining collection procedures.
		Actual		31.7%					

[3] This is also consistent with the Memorandum of Economic and Financial Policies (2006) submitted to the IMF

Wealth Creation

Agriculture

Agriculture Indicators and Milestones for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator AGR 1. Allocation to Investment Programmes within the budget of Ministry of Agriculture	Investment programmes are identified as all core agricultural programmes, including salaries to extension workers, as identified under the FNDP.	**Target**	ZK 23.3 bn	ZK 88 bn	ZK 226 bn	ZK 193 bn	The total budget is based on figures included in the MTEF, however the proportions for reducing re non-core expenditures comes from the FNDP budget.	MACO and Budget Office, Ministry of Finance and National Planning	**Reason for Variance:** Not Applicable **Assessment:** Target Met **Recommendations for the future:** The targets should be reconsidered for the outer years in line with the allocations included in the MTEF.
		Actual		ZK 109 bn					
Indicator AGR 2. Number of hectares on selected sites provided with agricultural infrastructure	Total number of hectares of land in selected sites (to be identified by the Ministry of Agriculture) that are provided with connection to the electricity grid, roads and water and irrigation structure.	**Target**	At present there are 100,000 hectares of land that have been developed for agriculture at Nasanga	Identify infrastructure to be developed	50,000 additional hectares	50,000 additional hectares	This is included as a priority activity in the FNDP (so is at output level), but is not identified as a KPI.	MACO – Department of Agriculture With input from Ministry of Lands and Ministry of Energy and Water Development	**Reason for Variance:** Not Applicable **Assessment:** Target Met **Recommendations for the future:** The targets should be maintained as planned for the outer years.
		Actual		70,000 hectares identified for irrigation infrastructure development, 100,000 hectares of land each (Luena, Kalumwange, Mungu, Solwezi, Mwasempangwe) farm blocks identified for development and 5000 hectares for ZANAP					

Agriculture Indicators and Milestones for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator AGR 3. Adoption of Agricultural Marketing Act	Indicator deals with reform of Agricultural Marketing System. This is assessed by adoption of the Agricultural marketing Act following the guidelines in the AMDP and AIM plan and implementation of associated actions.	**Target**	The AMDP and AIM plans have already been developed	Finalising consultation on draft Agricultural Marketing Act	Act submitted and approved by (a) Cabinet and (b) Parliament	Action plans developed, and implementation starts	This is one of the key reforms as identified in the FNDP and the National Agricultural Policy (NAP)	MACO, Cabinet Office, Ministry of Justice and Parliament.	**Reason for Variance:** The Consultation process throughout the country took longer than planned. **Assessment:** Met **Recommendations for the future:** Targets should remain the same for the outlying years. Act to be resubmitted to Cabinet for recirculation to Ministries – May Position
		Actual		The consultation phase has been completed					

Infrastructure

Infrastructure Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator INF 1. Three road agencies established (NFRA, RDA, RTSA)	Road agencies are said to be established once the requisite number of staff are in place. This is considered critical to the delivery of services in the road sector.	**Target**	> 10% (35 out of 373)	80% of the agencies posts filled	100% of the agencies posts filled	100% of the agencies posts filled	As a process indicator it is related to the achievement of further NDP indicators	NRFA / RDA / RTSA	**Reason for Variance:** Budgetary constraints prevented Government from fully releasing the allocated amounts. **Assessment:** Partially Met – two of the three agencies have staffing levels in line with the target, and in total, 55 percent of positions have been filled (310 out of 567) **Recommendations for the future:** The targets for outer years can still be achieved.
		Actual		90% of the positions in the RDA are filled; 100% of the positions in the NRFA are in place; 5% of the positions in RTSA are filled					
Indicator INF 2. Kilometres of road upgraded (a) Tourist (b) Primary (c) District	Kilometres of road upgraded (a) Tourist (b) Primary (c) District Targets are for each year – not cumulative.	**Target**	(a) 0 (b) 0 (c) 0	(a) 240 (b) 907 (c) 267	(a) 481 (b) 1,814 (c) 584	(a) 601 (b) 2,267 (c) 668	This is consistent with the NDP objective of wealth creation even though the NDP indicators primarily focus on maintenance and rehabilitation	NRFA / RDA / RTSA	**Reason for Variance:** Fund releases were delayed. **Assessment:** In total 37 out of 1,354 km of road were upgraded, about 3 percent. Not Met. **Recommendations for the future:** This indicator needs to be replaced going forward with one on
		Actual		(a) 0 (b) 37 (c) 0					
Indicator INF 3. Kilometres of Trunk / Main / District roads rehabilitated (a) Paved (b) Unpaved*	Kilometres of Trunk / Main / District roads rehabilitated (a) Paved (b) Unpaved To good condition Targets are for each year – not cumulative.	**Target**	(a) (b)	(a) 238.8 (b) 1,246.8	(a) 80.5 (b) 1,101.4	(a) 119.4 (b) 950.7	The original indicator for rehabilitation had a different level of disaggregation and therefore targets, however, this is too difficult to measure and is not in line with the FNDP or Roadsip. To overcome this the levels of disaggregation have been amended slightly to ensure consistency.	NRFA / RDA / RTSA (Roadsip)	**Reason for Variance:** The target for 2006 has been exceeded for both paved and unpaved roads. **Assessment:** Met **Recommendations for the future:** The targets for outer years should be left the same, with changes only made on the recommendation of the Roadsip steering committee after due deliberation. There may be a necessity to change this if there are changes in the classifications of road
		Actual		(a) 255.6 (b) 2,693.2	(a) (b)	(a) (b)			

* It is important to note that the classification of roads at present is consistent with the roadsip. However, during the Medium Term Review of the Roadsip, the classifications may change slightly, in which case the classifications used in the assessment would also be changed to ensure consistency with the data produced.

Infrastructure Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
									used in the Roadsip
Indicator INF 4. Kilometres of Trunk / Main / District roads Maintained (a) Paved (b) Unpaved	Kilometres of Trunk / Main / District roads Maintained (a) Paved (b) Unpaved in good or fair condition maintained in order not to graduate into fair and poor condition respectively. Targets are for each year – not cumulative.	**Target**	(a) (b)	a) 4,978.4 (b) 5,743.2	(a) 5,136.7 (b) 6,831.9	(a) 5,097.8 (b) 7.776.3	The original indicator for maintenance had a different level of disaggregation and therefore targets, however, this is too difficult to measure and is not in line with the FNDP or Roadsip. To overcome this the levels of disaggregation have been amended slightly to ensure consistency.	NRFA / RDA (Roadsip)	**Reason for Variance:** In addition to delayed fund releases, the prioritisation process of roads maintenance and the complicated procurement procedures delayed the contracting process. **Reason for Variance:** The target for 2006 has been exceeded for both paved and unpaved roads. **Assessment:** Met **Recommendations for the future:** The targets for outer years should be left the same, with changes only made on the recommendation of the Roadsip steering committee after due deliberation. There may be a necessity to change this if there are changes in the classifications of road used in the Roadsip
		Actual		(a) 7,927.2 (b) 5,836.7	(a) (b)	(a) (b)			
Indicator INF 3 (New). Kilometres of Feeder Roads (a) Rehabilitated (b) Maintained		**Target**		(a) 1,075.1 (b) 9,003.2	(a) 459.8 (b) 10,537.8	(a) (b)	This is in line with the Roadsip, but is not at present included in the FNDP. It would be used to replace the indicator on Upgraded in the PAF for 2007-9	NRFA / RDA (Roadsip)	**Reason for Variance:** **Assessment:** **Recommendations for the future:**
		Actual		(a) 0.0 (b) 2,361.8	(a) (b)	(a) (b)			

Industry, Commerce and Private Sector Development

Industry, Commerce and Private Sector Development Indicators / Milestones for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PSD 1. Average length of time taken to establish a business	To address imbalances and reduce bureaucratic procedures a one stop shop, Zambia Development Agency (ZDA) will be established. The ZDA will bring together the operations of ZIC, ZPA, ZEPZA, SEDB and EBZ[5] The ZDA will be assessed as established when it has • A new strategic framework incorporating all activities of the ZDA • A ZDA institutional framework rationalising the activities conducted by various agencies • Detailed staffing arrangements and plans in place The length of time to start a business will be finally defined during the development of the monitoring system for PSD	**Target**	The MCA quotes the World Bank's *Doing Business 2006* as saying that the average length of time taken to establish a business is 35 days The ZDA Bill has been initiated	ZDA Bill passed by parliament Roadmap on future steps to establish ZDA and implement act developed Working group under PSD develops workplan for removal of barriers		Length of time taken to establish a business should by 7 working days	The indicator suggested in the NDP is *Direct Foreign Investment in Manufacturing*, the establishment of the ZDA would be a major step towards achieving this.	Ministry of Commerce, Trade and Industry	**Reason for Variance:** Not applicable. **Assessment:** The targets for 2006 are fully achieved. **Recommendations for the future:** A system to monitor and assess, on a regular basis, the length of time take to establish a business needs to be identified. An appropriate target for 2007, possibly with a refinement of the indicator or milestone, still has to be agreed upon.
		Actual		Enactment of the Zambia Development Agency (ZDA) Act No 11 of 2006 Interim Board appointed to run the affairs of ZDA. Interim Director General appointed to run ZDA Auditing of Former Institutions Under ZDA being undertaken by Grant Thornton The roadmap to implement the act is in place. The working group to develop the workplan for the removal of barriers has been established.					

[5] Indicators is also consistent with proposals under the Millennium Challenge Account.

Industry, Commerce and Private Sector Development Indicators / Milestones for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator PSD 2. Develop a National Strategy for citizen's economic empowerment	CEE is a national strategy to empower economically disadvantaged Zambia citizens.	**Target**	Parliament has passed the CEE Bill, awaiting gazetting. Board being established.	An appointed board to establish Citizen's Economic Empowerment Authority. Plan for Information and Communication campaign in place and being implemented	Government to establish Citizen's empowerment commission Government to establish Citizen's Economic Empowerment Fund.	Number of businesses owned by Zambian Citizens receiving assistance from the CEE fund / Value of assistance provided to Zambian Citizens by the CEE fund.	The indicator suggested in the NDP, this relates to is *Value of export earnings coming from non traditional exports in (a) Regional Market, (b) European Market, (c) North American market, (d) Other, (e) Total*	Ministry of Commerce, Trade and Industry	**Reason for Variance:** Some of the activities planned for 2006 have been undertaken in the first quarter of 2007, specifically the Citizens Economic Empowerment Communication Campaign. **Assessment:** The target for 2006 has been completely met at the time of the assessment. **Recommendations for the future:** Progress in 2007 continues, with the Commissioners sworn in on the 1st May at State House, the same date as the first board meeting. The Citizens Economic Empowerment Fund will be delayed until next year (2008) because the concentration of the commission is to work on the guidelines and procedures for disbursement of funds. The commissioners are currently working on a framework for establishing the Citizens Economic Empowerment Fund.
		Actual		Commissioners were appointed in September 2006 by His Excellency the President The Citizens Economic Empowerment Working Group has been put in place.					

Social Equity

Health

Health Sector Development Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator HE4 1. Percentage of Institutional Deliveries	Number of deliveries assisted by midwives, nurses, doctors, clinical officers or medically trained TBAs ÷ Number of expected deliveries.	**Target**	43%	45%	47%	50%	This is the same indicator as that suggested for the NDP. Difference is in the fact that the NDP has targets to 2010 – set at 55% (the target for 2011 is 60%)	Report from the revised HMIS	**Reason for Variance:** The major problem relates to inadequate Human Resources for Health (HRH) and midwives and other workers. **Assessment:** Not met. **Recommendations for the future:** The targets for 2007 and 2009 need to be reconsidered bearing in mind the difficulties in showing any improvement on the 2006 targets
		Actual		43%					
Indicator HE4 2. Percentage of fully immunised children under one year of age in 20 worst performing districts	Children under one year of age who are fully immunised ÷ Total children under one year of age	**Target**	63%	65%	70%	73%	This is the same indicator as that suggested for the NDP. Difference is in the fact that the NDP has targets to 2010 – set at 70% (the target for 2011 is 70%)	HMIS	**Reason for Variance:** Not Applicable **Assessment:** Fully Met. **Recommendations for the future:** Consideration to increasing the targets for 2007 to 2009 needs to be discussed within the SAG. This will be finalised before the October Review.
		Actual		67%					
Indicator HE4 3. Utilisation rate of PHC facilities	Total attendances at PHC facilities ÷ Total population in a year.	**Target**	0.48	0.5	0.55	0.60	This is the same indicator as that suggested for the NDP. Difference is in the fact that the NDP has targets to 2010 – set at 0.7 and for 2011 of 0.8	HMIS	**Reason for Variance:** The large increase was due to two specific policy interventions, the removal of user fees and the distribution of free ARVs. **Assessment:** Fully Met **Recommendations for the future:** Consideration to a revision of later year targets needs to be made, however it has to be understood that an equivalent jump in later years would not come without a similar major shift in policy
		Actual		0.6					

Assessment of Performance 2006

Health Sector Development Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator HE4 4. Percentage Ministry of Health releases to district level	Releases by MoH (domestic, non-donor) to district level ÷ Total budget allocation to the MoH	**Target**		57%	59%	60%	This is the same indicator as that suggested for the NDP. Difference is in the fact that the NDP has targets to 2010 – set at 64 % and to 2011 of 65%	MOH and revised HMIS	**Reason for Variance:** Not applicable **Assessment:** Fully met. **Recommendations for the future:** The Ministry of Health has carried out a detailed assessment of the indicator "releases to district level" taking various potential numerators. With a definition that includes all expenditure of direct benefits to the districts plus a proportion of all PEs and other RDCs (estimated at 61 per cent), a total of 62 per cent of funds can be said to be released to district level. The calculation of this indicator requires a greater deal of dialogue in future years, particularly in terms of the basis for the calculations and reaching an agreed methodology for the calculations
		Actual	55% (On new basis of calculation, this would be 53%)	62%					

Education

Education Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Comments** (Reasons for Variance)
Indicator EDU 1. Number of districts falling below the threshold of 80 percent Net Enrolment for Grades 1-7	Net Enrolment = Enrolment of the official age group in the assorted grades expressed as a percentage of the corresponding population. Figure is calculated for all districts and the number falling below the agreed cut off point (80 percent) is identified	**Target**	At time of approval of the PAF, 10 districts were identified as having an NER of less than 80%. Subsequent investigations reveal that this was actually nine.	8	6	4	The NDP indicator is the *Net Enrolment Rate* for the country for (a) grades 1-7, (b) grades 1-9, and (c) grades 1-12. This indicator is consistent with level (a) and takes account of another indicator selected for the NDP *District Education Profile*	EMIS	**Reason for Variance:** Not applicable **Assessment:** Met **Recommendations for the future:** The fact that this target has been achieved suggests that there is no rationale for adjusting the targets in the outer years at this stage.
		Actual		8					
Indicator EDU 2. Ratio of the completion rate of girls over boys at Grade 9.	Completion Rate = Students completing Grade 9 expressed as percentage of school-age population for Grade 9. This is to be calculated separately for boys and girls and a ratio of the two calculated	**Target**	National Completion rates for boys is 46.8% and for girls is 39.4% at grade 9	46:40	47:44	49:46	The NDP indicators captured under this are *Completion Rate* and the *Gender Parity Index* both of which have annual, disaggregated targets.	EMIS	**Reason for Variance:** It proved to be still difficult to reach out to the girl child in some remote districts, and to convince their parents about the importance of them to finish school. **Assessment:** Not met **Recommendations for the future:** While the overall completion rate as well as the one for boys was further improving, the same did not apply for girls. For the future, it is recommended that the *Gender Parity Index* for grades 1 to 9 be included instead. This had a baseline value in grades 1 – 9 of 0.95 in 2005, with 11 districts below .88. Targets for the number of districts below 0.88 in 2006 to be 9 districts, in 2007, 6 districts and 2008, 3 districts.
		Actual		47.1:39.2					

Education Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Comments** (Reasons for Variance)
Indicator EDU 3. Number of districts with a Pupil : Teacher ratio of over 100:1 in the lower basic grades (grades 1-4)	Pupil Teacher Ratio = Average number of students per teacher in the lower basic grades. Basic figure is calculated for all districts, with the number above the threshold of 80:1 being identified. Further refined to 100:1	**Target**	There are 12 districts with a Pupil : Teacher ratio of over 100:1, for grades 1-4 the current national average PTR is 80 : 1	8	4	2	The NDP indicators this relates to are the *District Education Profile* to be developed and the *Pupil : Teacher ratio* which sets targets at each level through the life of the NDP	EMIS	**Reason for Variance:** Not Applicable **Assessment:** Achieved – there are eight districts where the pupil teacher ratio is over 100:1 (Chiengi, Chilubi, Isoka, Kaputa, Luwingu, Mporokoso, Mungwi, Nchelenge,). The national average has also improved to 76.5 : 1 **Recommendations for the future:** The indicator and targets should remain as is for the remaining years.
		Actual		8					

HIV/Aids

HIV / Aids Indicators for Performance Assessment Framework (PAF)									
Indicators / Issue	**Definition / Calculations/ Required Action**		**2005 (Baseline Value)**	**2006**	**2007**	**2008**	**Relationship to NDP**	**Data Source** (Responsible Institutions or Departments)	**Assessment, including Comments** (Reasons for Variance)
Indicator HIV 1. Number of people tested for HIV and receiving results	Number of people tested for HIV and receiving results Receiving implies having gone through the full cycle of (a) going to centre (b) counselling (c) specimen taken (d) coming back to receive result The targets are cumulative targets.	**Target**	150,000	170,000	190,000	210,000	This is the same indicator as that suggested for the NDP. Difference is in the fact that the NDP has targets to 2010 and 2011 – set at 250,000	NAC / revised HMIS (National VCT unit)	**Reason for Variance:** This variance is high as a result of PMTCT roll-out were more females are tested for HIV. **Assessment:** Target met **Recommendations for the future:**
		Actual		217,897					
Indicator HIV 2. Number of eligible people accessing ARVs	Number of people with advanced HIV/Aids who receive anti retro viral drugs.	**Target**	50,000	70,000	90,000	110,000	This is the same indicator as that suggested for the NDP. Difference is in the fact that the NDP has targets to 2010 – set at 160,000 and to 2011, set at 200,000	NAC / revised HMIS	**Reason for Variance:** Not applicable **Assessment:** Target met **Recommendations for the future:** The targets for future years need to be reconsidered in line with the achievement for 2006.
		Actual		89,000					

Annex II: Commitments and Disbursements under PRBS MoU

EXTERNAL FINANCING REPORT
GENERAL BUDGET SUPPORT: 2007 (in US$ Mns)

DONOR	Total Projected	Actuals			Total	Projected			Total	Projected			Total	Projected			Total	Total Actual
		Jan	Feb	Mar	Q1	Apr	May	Jun	Q2	Jul	Aug	Sept	Q3	Oct	Nov	Dec	Q4	2007
Denmark	0.00				0				0				0				0	0
Norway	17.00			4.4	4.4				0				0				0	4.4
Netherlands	11.00				0				0				0				0	0
UK	48.00		23.361	7.6	30.961				0				0				0	30.961
Finland	7.00				0				0				0				0	
World Bank	10.00				0				0				0				0	0
Sweden	14.00				0		14.3		14.3				0				0	
EU -o/w	40.00				0				0				0				0	
General Budget Support	19.36				0				0				0				0	0
Sector BS Roads	15.12				0				0				0				0	0
Sector BS PEMFA	3.20				0				0				0				0	0
Sector BS Health	2.32				0				0				0				0	0
Germany	7.00				0				0				0				0	
France	0.00				0				0				0				0	0
Japan	0.00				0				0				0				0	0
Italy	0.00				0				0				0				0	0
Canada	0.00				0				0				0				0	0
USAID	0.00				0				0				0				0	0
AfDB	30.00				0				0				0				0	0
TOTAL	184.00				35.36				14.30				0.00				0.00	35.36
Exchange rate																		3,508.93
Kwacha Equivalent (Billions)																		124.079

Notes:

Annex III: Releases by Head 2006

		Total Budget 2006	Supplementary	Total Provision	Government Portion of Approved Budget Budget	Releases	Releases as % of Original Budget
1	Office of the President - State House	12,025,087,395	1,207,419,459	13,232,506,854	12,025,087,395	12,626,924,276	105.00
2	Office of the Vice President	13,593,373,315	14,033,525,458	27,626,898,773	13,593,373,315	29,812,647,288	219.32
3	National Assembly	122,478,724,449	777,700,644	123,256,425,093	122,478,724,449	120,092,312,211	98.05
5	Electoral Commission	279,210,747,319	0	279,210,747,319	231,399,667,319	235,040,704,538	101.57
6	Public Service Commission - Office of the President	1,404,068,732	0	1,404,068,732	1,404,068,732	1,477,295,640	105.22
7	*Office of the Auditor General*	16,951,758,074	169,098,752	17,120,856,826	13,920,958,074	12,597,524,342	90.49
8	Cabinet Office - Office of the President	56,181,224,403	9,000,000,000	65,181,224,403	56,181,224,403	64,373,414,579	114.58
9	Teaching Service Commission - Office of the President	1,270,226,332	0	1,270,226,332	1,270,226,332	1,153,681,706	90.82
10	Police and Prison Service Commission - Office of the Pres.	1,238,508,297	0	1,238,508,297	1,238,508,297	1,382,705,128	111.64
11	Zambia Police – Ministry of Home Affairs	224,882,486,463	13,254,638,832	238,137,125,295	224,882,486,463	269,277,705,571	119.74
12	Commission for Investigations - Office of the President	1,544,261,825	0	1,544,261,825	1,544,261,825	1,617,673,787	104.75
13	*Ministry of Energy and Water Development*	38,233,738,047	1,479,330,625	39,713,068,672	38,233,738,047	34,938,265,641	91.38
14	Ministry of Mines and Mineral Development	13,029,442,836	0	13,029,442,836	13,029,442,836	10,709,866,096	82.20
15	Ministry of Home Affairs	127,658,132,601	0	127,658,132,601	127,658,132,601	133,792,003,037	104.80
17	Ministry of Foreign Affairs	155,595,207,454	6,800,130,911	162,395,338,365	155,595,207,454	149,659,025,204	96.18
18	Judiciary	68,446,370,651	4,188,653,201	72,635,023,852	68,446,370,651	64,803,299,733	94.68
20	Loans and Investments - Local Government and Housing	260,350,304,766	0	260,350,304,766	9,121,954,966	6,905,504,968	75.70
21	Loans and Investments - Finance and National Planning	1,123,951,732,717	112,971,180,351	1,236,922,913,068	508,604,269,749	521,032,503,005	102.44
26	Ministry of Information and Broadcasting Service	24,372,314,802	5,600,000,000	29,972,314,802	24,372,314,802	26,427,540,502	108.43
27	Public Service Management Division	339,699,410,648	2,268,500,000	341,967,910,648	339,699,410,650	280,820,157,848	82.67
29	*Ministry of Local Government and Housing*	87,389,088,638	0	87,389,088,638	87,389,088,638	83,501,951,888	95.55
31	Ministry of Justice	37,314,521,528	35,877,984,169	73,192,505,697	37,164,521,528	73,381,601,821	197.45
33	Ministry of Commerce Trade and Industry	63,154,171,255	0	63,154,171,255	22,820,837,921	21,481,137,396	94.13
34	Human Rights Commission	5,823,073,153	0	5,823,073,153	5,823,073,153	5,428,890,978	93.23
37	*Ministry of Finance and National Planning*	882,136,024,066	436,936,341,000	1,319,072,365,066	717,350,598,466	723,300,088,148	100.83
44	Ministry of Labour and Social Security	13,072,464,909	0	13,072,464,909	13,072,464,909	12,490,999,703	95.55
45	Ministry of Community Development and Social Services	63,227,758,835	0	63,227,758,835	63,227,758,835	61,038,907,957	96.54
46	*Ministry of Health*	1,080,816,841,047	58,647,659,613	1,139,464,500,660	556,997,343,105	605,429,905,195	108.70
51	Ministry of Communication and Transport	44,404,705,587	7,793,000,000	52,197,705,587	44,404,705,587	35,916,617,911	80.88

Assessment of Performance 2006

		Total Budget 2006	Supplementary	Total Provision	Government Portion of Approved Budget Budget	Releases	Releases as % of Original Budget
64	*Ministry of Works and Supply*	124,458,621,211	0	124,458,621,211	124,458,621,211	105,726,447,139	84.95
65	Ministry of Science, Technology and Vocational Training	94,311,636,657	2,944,148,885	97,255,785,542	37,128,826,655	35,346,552,077	95.20
68	Ministry of Tourism, Environment and Natural Resources	140,304,623,510	8,965,300,000	149,269,923,510	52,523,866,383	40,750,995,862	77.59
76	Ministry of Sport, Youth and Child Development	28,708,522,479	1,449,040,697	30,157,563,176	28,708,522,479	26,907,599,472	93.73
77	Ministry of Defence	659,245,483,275	82,406,480,760	741,651,964,035	659,245,483,275	785,430,952,045	119.14
78	Zambia Security Intelligence Services - Office of the Pres.	147,860,442,831	17,117,706,743	164,978,149,574	147,860,442,832	172,353,418,498	116.56
80	*Ministry of Education*	1,555,842,416,463	10,000,000,000	1,565,842,416,463	1,277,075,924,083	1,280,136,376,041	100.24
85	Ministry of Lands	18,218,803,974	2,340,340,674	20,559,144,648	18,218,803,974	14,586,360,201	80.06
87	Anti Corruption Commission	23,377,273,975	3,516,335,000	26,893,608,975	17,280,493,639	14,252,470,598	82.48
89	*Ministry of Agriculture and Cooperatives*	611,120,709,755	100,445,361,007	711,566,070,762	400,180,642,356	448,850,985,798	112.16
90	Office of the President - Lusaka Province	18,792,939,317	4,993,585,465	23,786,524,782	18,792,939,317	13,482,836,545	71.74
91	Office of the President - Copperbelt Province	26,201,707,704	920,896,742	27,122,604,446	26,201,707,704	22,443,815,947	85.66
92	Office of the President - Central Province	16,545,362,688	5,245,852,904	21,791,215,592	16,545,362,688	14,848,963,096	89.75
93	Office of the President - Northern Province	22,959,684,634	3,398,098,380	26,357,783,014	22,959,684,634	18,970,077,616	82.62
94	Office of the President - Western Province	19,445,673,065	8,346,240,124	27,791,913,189	19,445,673,065	15,596,235,759	80.20
95	Office of the President - Eastern Province	23,328,894,329	3,099,643,293	26,428,537,622	23,328,894,329	21,668,384,931	92.88
96	Office of the President - Luapula Province	18,708,077,974	3,936,128,502	22,644,206,476	18,708,077,974	16,304,372,649	87.15
97	Office of the President - North Western Province	18,242,944,643	0	18,242,944,643	18,242,944,643	17,628,786,715	96.63
98	Office of the President - Southern Province	24,728,998,265	1,950,000,000	26,678,998,265	24,728,998,265	22,495,615,220	90.97
99	Constitutional and Statutory Expenditure	1,484,720,000,000	-329,837,706,743	1,154,882,293,257	1,438,520,000,000	242,228,735,097	16.84
	Total	10,236,578,586,893	642,242,615,448	10,878,821,202,341	7,903,105,740,008	6,930,520,837,403	87.69

Source: Budget Office, May 2007

Annex IV: Reported and Calculated Expenditure against Releases, by Head

2006

		Total Funding	Calculated Expenditure	Reported Expenditure	Calculated Expenditure as % of total funding	Reported Expenditure as % of Calculated Expenditure
1	Office of the President - State House	12,626,924,276	12,624,809,468	12,578,654,895	100.0	99.63
2	Office of the Vice President	29,812,647,288	29,654,320,251	28,430,000,722	99.5	95.87
3	National Assembly	120,196,161,697	120,172,183,737	119,129,483,123	100.0	99.13
5	Electoral Commission	235,040,704,538	234,996,184,009	234,210,821,421	100.0	99.67
6	Public Service Commission - Office of the President	1,477,295,640	1,458,153,286	1,420,558,041	98.7	97.42
7	*Office of the Auditor General*	16,427,737,093	16,198,950,222	15,830,133,382	98.6	97.72
8	Cabinet Office - Office of the President	64,373,414,579	64,365,871,506	61,949,395,884	100.0	96.25
9	Teaching Service Commission - Office of the President	1,153,681,706	1,153,275,650	1,008,792,569	100.0	87.47
10	Police and Prison Service Commission - Office of the President	1,382,705,128	1,376,388,223	1,343,408,222	99.5	97.60
11	Zambia Police - Ministry of Home Affairs	272,690,652,725	244,431,912,043	241,097,736,452	89.6	98.64
12	Commission for Investigations - Office of the President	1,617,673,787	1,617,673,780	1,544,261,826	100.0	95.46
13	*Ministry of Energy and Water Development*	34,938,265,641	34,914,889,488	34,281,730,958	99.9	98.19
14	Ministry of Mines and Mineral Development	11,872,463,000	11,861,845,561	12,133,793,944	99.9	102.29
15	Ministry of Home Affairs	113,800,075,743	112,873,569,288	106,424,283,928	99.2	94.29
17	Ministry of Foreign Affairs	160,203,705,209	149,657,650,597	160,202,330,602	93.4	107.05
18	Judiciary	68,366,652,061	64,561,231,356	63,499,481,648	94.4	98.36
20	Loans and Investments - Local Government and Housing	7,736,306,504	7,734,579,920	7,675,332,988	100.0	99.23
21	Loans and Investments - Finance and National Planning	536,242,652,520	533,681,202,631	531,089,071,850	99.5	99.51
26	Ministry of Information and Broadcasting Service	26,427,540,502	27,886,109,921	26,310,068,807	105.5	94.35
27	Public Service Management Division	280,820,157,848	280,732,879,566	280,259,779,065	100.0	99.83
29	*Ministry of Local Government and Housing*	83,791,591,596	82,657,386,005	82,848,248,698	98.6	100.23
31	Ministry of Justice	63,381,601,821	61,087,140,949	62,947,308,385	96.4	103.05
33	Ministry of Commerce Trade and Industry	21,751,239,243	21,731,269,005	20,941,838,131	99.9	96.37
34	Human Rights Commission	5,428,890,978	5,433,401,216	5,227,586,076	100.1	96.21
37	*Ministry of Finance and National Planning*	798,881,085,617	771,195,862,015	748,232,566,373	96.5	97.02
44	Ministry of Labour and Social Security	12,579,887,202	12,286,269,435	11,722,189,839	97.7	95.41
45	Ministry of Community Development and Social Services	61,038,907,957	61,038,850,665	59,828,626,902	100.0	98.02

46	*Ministry of Health*	769,275,118,627	671,461,510,669	674,809,808,790	87.3	100.50
51	Ministry of Communication and Transport	40,334,572,911	51,498,674,909	39,361,515,062	127.7	76.43
64	Ministry of Works and Supply	105,726,447,139	106,467,406,529	103,519,486,965	100.7	97.23
65	Ministry of Science, Technology and Vocational Training	38,290,700,962	37,831,577,819	36,476,564,917	98.8	96.42
68	Ministry of Tourism, Environment and Natural Resources	60,792,586,155	58,375,608,429	56,481,850,322	96.0	96.76
76	Ministry of Sport, Youth and Child Development	26,907,599,472	29,315,733,059	27,666,095,889	108.9	94.37
77	Ministry of Defence	792,355,281,062	757,194,686,440	690,139,929,921	95.6	91.14
78	Zambia Security Intelligence Services - Office of the President	172,353,418,498	161,468,776,153	161,377,226,297	93.7	99.94
80	*Ministry of Education*	1,476,063,106,170	1,477,905,259,328	1,362,480,823,460	100.1	92.19
85	Ministry of Lands	17,767,034,516	15,062,897,285	16,468,196,869	84.8	109.33
87	Anti Corruption Commission	19,730,672,026	21,804,095,232	22,576,512,659	110.5	103.54
89	*Ministry of Agriculture and Cooperatives*	465,119,869,377	467,742,856,126	457,582,739,078	100.6	97.83
90	Office of the President - Lusaka Province	19,399,411,881	17,874,924,154	17,201,164,300	92.1	96.23
91	Office of the President - Copperbelt Province	22,443,815,947	22,429,508,190	22,410,590,946	99.9	99.92
92	Office of the President - Central Province	14,848,963,096	17,422,676,453	16,921,488,972	117.3	97.12
93	Office of the President - Northern Province	23,114,651,528	12,856,615,871	19,484,979,313	55.6	151.56
94	Office of the President - Western Province	15,596,235,759	21,084,514,435	19,486,987,768	135.2	92.42
95	Office of the President - Eastern Province	21,668,384,931	22,085,514,516	21,319,113,546	101.9	96.53
96	Office of the President - Luapula Province	16,304,372,649	16,211,998,163	15,835,146,331	99.4	97.68
97	Office of the President - North Western Province	26,740,602,355	19,370,293,525	18,971,228,690	72.4	97.94
98	Office of the President - Southern Province	22,495,615,220	23,315,658,429	21,079,844,387	103.6	90.41
99	Constitutional and Statutory Expenditure	805,440,223,193	805,440,223,193	805,440,243,193	100.0	100.00
	Total	8,016,829,305,373	7,801,604,868,700	7,559,259,022,406	97.3	96.89

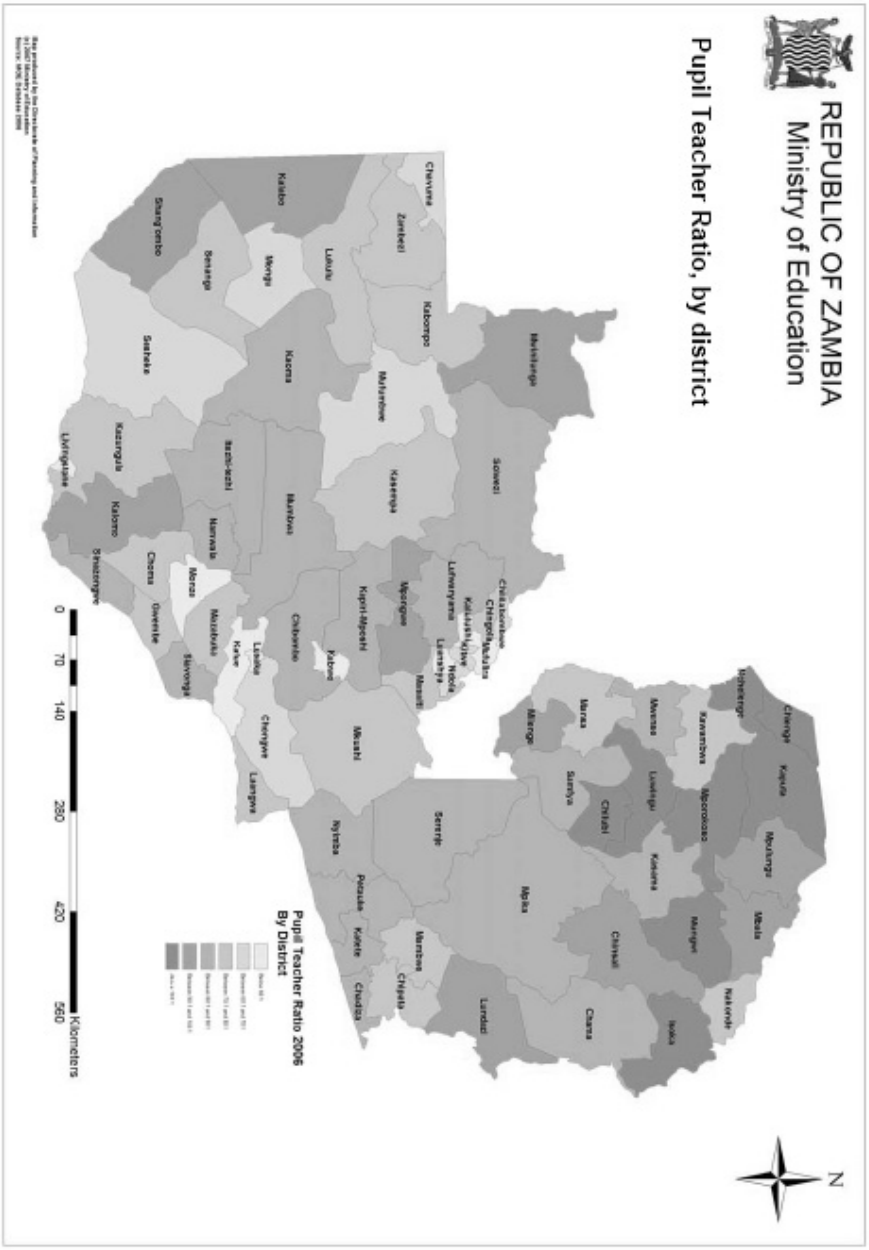
Source: Office of the Accountant General *Expenditure by Head as at 31st December, 2006* Report dated June 04, 2007

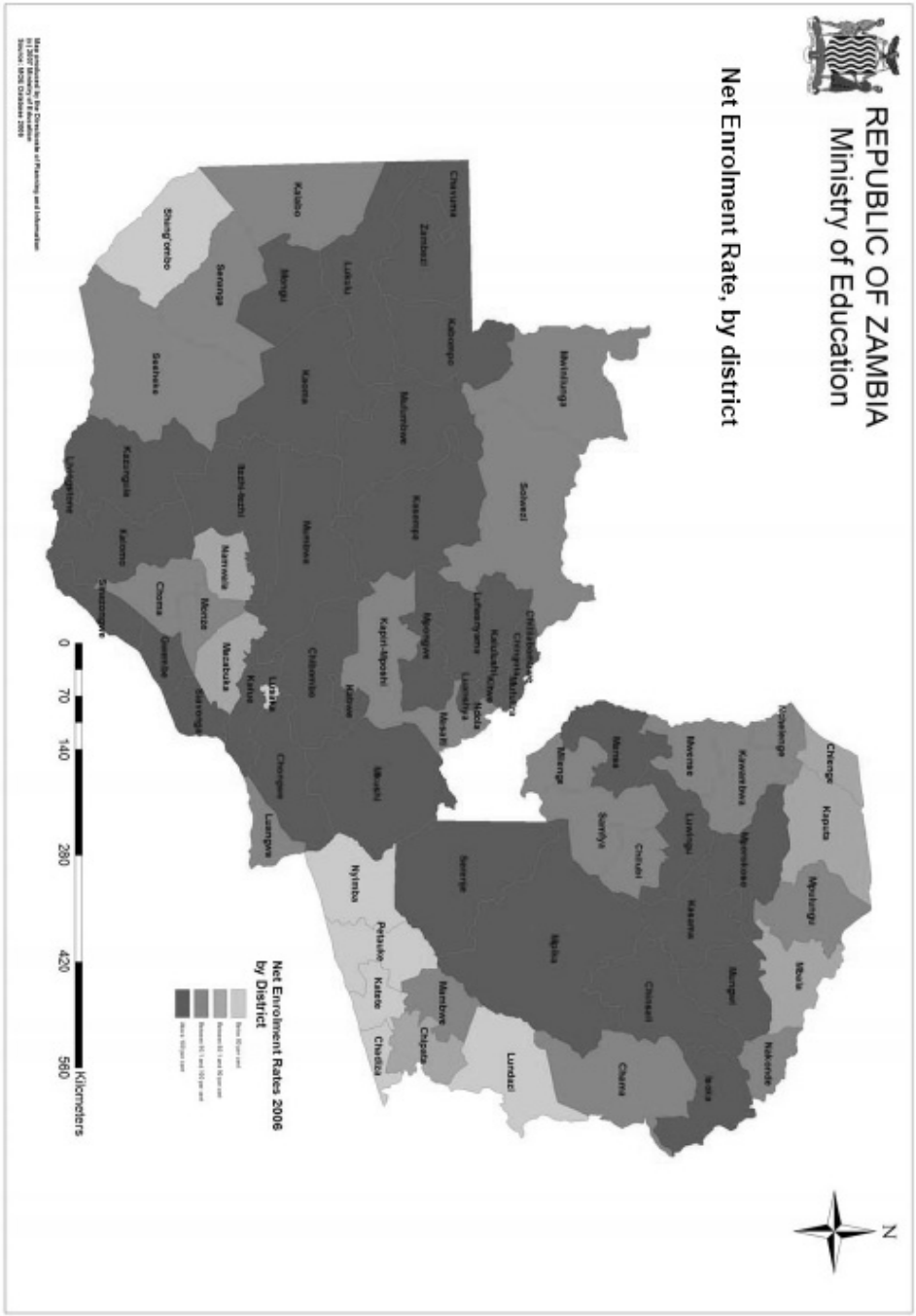
2005

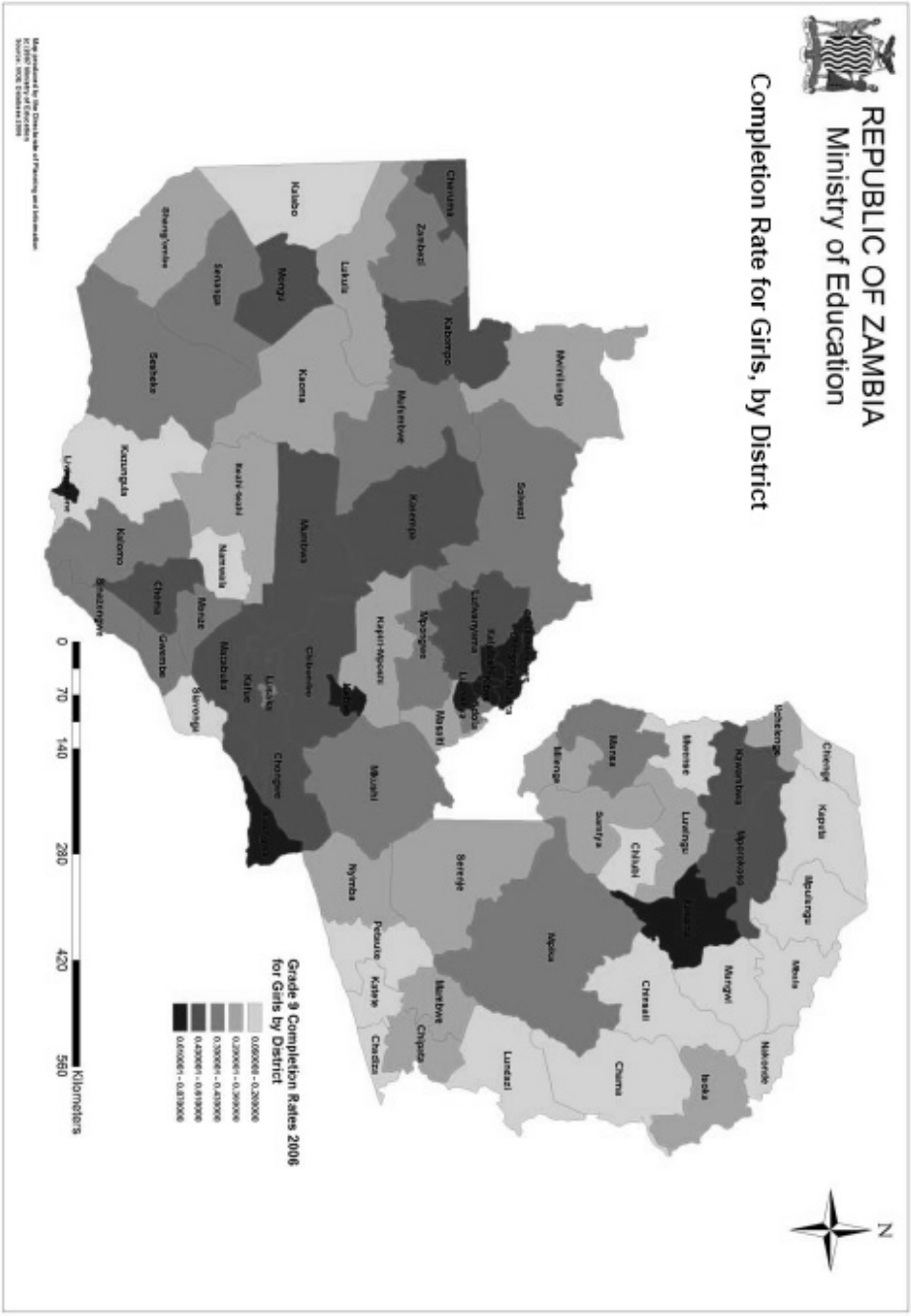
		Total Funding	Calculated Expenditure	Reported Expenditure	Calculated Expenditure as % of total funding	Reported Expenditure as % of Calculated Expenditure
1	Office of the President - State House	11,988,882,465	11,988,619,550	11,720,018,304	100.0	97.8
2	Office of the Vice President	70,756,487,134	70,755,802,184	68,578,325,949	100.0	96.9
3	National Assembly	79,218,283,717	79,114,434,232	79,227,311,617	99.9	100.1
5	Electoral Commission	152,160,610,113	152,160,609,840	58,309,713,882	100.0	38.3
6	Public Service Commission - Office of the President	1,741,140,364	1,534,857,658	1,538,721,422	88.2	100.3
7	Office of the Auditor General	18,729,853,664	15,690,976,179	15,781,474,883	83.8	100.6
8	Cabinet Office - Office of the President	82,525,843,591	80,967,324,872	74,319,137,674	98.1	91.8
9	Teaching Service Commission - Office of the President	1,417,222,987	1,146,853,462	1,087,117,538	80.9	94.8
10	Police and Prison Service Commission - Office of the President	1,134,480,377	1,074,941,982	1,034,900,381	94.8	96.3
11	Zambia Police - Ministry of Home Affairs	224,773,435,292	180,167,568,670	182,000,655,338	80.2	101.0
12	Commission for Investigations - Office of the President	1,486,431,616	1,486,431,616	1,515,893,620	100.0	102.0
13	Ministry of Energy and Water Development	34,037,634,924	32,547,658,410	31,878,698,474	95.6	97.9
14	Ministry of Mines and Mineral Development	16,408,709,018	12,834,176,349	12,297,572,617	78.2	95.8
15	Ministry of Home Affairs	120,769,602,328	107,308,055,741	97,128,487,917	88.9	90.5
17	Ministry of Foreign Affairs	166,911,989,191	166,910,840,132	159,131,798,748	100.0	95.3
18	Judiciary	64,655,445,809	61,943,857,927	61,612,901,164	95.8	99.5
20	Loans and Investments - Local Government and Housing	6,774,200,463	6,772,604,337	6,483,000,000	100.0	95.7
21	Loans and Investments - Finance and National Planning	349,218,091,467	348,940,649,225	349,361,230,515	99.9	100.1
26	Ministry of Information and Broadcasting Service	14,010,388,458	12,016,630,652	11,218,151,249	85.8	93.4
27	Public Service Management Division	213,129,555,904	212,496,371,536	212,076,049,281	99.7	99.8
29	Ministry of Local Government and Housing	79,466,800,248	78,346,279,543	77,037,044,645	98.6	98.3
31	Ministry of Justice	48,555,832,321	48,552,210,586	47,408,655,262	100.0	97.6
33	Ministry of Commerce Trade and Industry	25,834,314,333	25,536,646,927	24,372,337,056	98.8	95.4
34	Human Rights Commission	4,420,655,877	3,876,729,908	3,824,643,981	87.7	98.7
37	Ministry of Finance and National Planning	530,599,305,452	773,329,717,796	1,021,061,476,276	145.7	132.0
44	Ministry of Labour and Social Security	9,457,009,838	9,368,122,339	8,927,581,796	99.1	95.3
45	Ministry of Community Development and Social Services	66,859,074,416	66,857,212,216	64,741,841,671	100.0	96.8
46	Ministry of Health	452,541,760,828	444,504,775,008	444,546,861,758	98.2	100.0
51	Ministry of Communication and Transport	31,200,128,836	31,651,016,003	30,504,947,567	101.4	96.4
64	Ministry of Works and Supply	294,381,906,746	292,519,385,057	297,779,182,356	99.4	101.8
65	Ministry of Science, Technology and Vocational Training	30,633,472,067	27,688,378,909	27,951,350,324	90.4	100.9

68	Ministry of Tourism, Environmnet and Natural Resources	52,815,092,674	50,967,323,022	51,910,645,334	96.5	101.9
76	Ministry of Sport, Youth and Child Development	25,670,882,887	23,173,158,428	22,722,624,648	90.3	98.1
77	Ministry of Defence	711,364,977,995	626,796,252,189	625,790,993,933	88.1	99.8
78	Zambia Security Intelligence Services - Office of the President	148,000,179,100	141,870,420,004	141,063,129,013	95.9	99.4
80	Ministry of Education	1,016,061,121,718	864,540,263,215	867,370,464,048	85.1	100.3
85	Ministry of Lands	14,551,043,715	16,708,211,353	14,958,287,440	114.8	89.5
87	Anti Corruption Commission	23,855,748,900	16,098,078,475	16,820,621,108	67.5	104.5
89	Ministry of Agriculture and Cooperatives	340,405,523,484	335,139,322,854	332,494,688,645	98.5	99.2
90	Office of the President - Lusaka Province	18,696,907,498	14,724,007,763	13,820,214,076	78.8	93.9
91	Office of the President - Copperbelt Province	21,084,234,796	21,084,234,794	20,469,093,356	100.0	97.1
92	Office of the President - Central Province	16,819,807,294	15,250,317,935	15,393,782,825	90.7	100.9
93	Office of the President - Northern Province	16,371,261,142	12,681,050,927	12,147,982,165	77.5	95.8
94	Office of the President - Western Province	18,399,210,084	15,030,346,283	14,343,953,198	81.7	95.4
95	Office of the President - Eastern Province	17,288,272,091	17,287,922,091	17,326,506,569	100.0	100.2
96	Office of the President - Luapula Province	18,519,960,821	13,399,862,950	13,392,806,998	72.4	99.9
97	Office of the President - North Western Province	16,412,886,847	13,332,103,913	12,477,574,094	81.2	93.6
98	Office of the President - Southern Province	20,027,484,216	19,164,970,048	15,442,055,647	95.7	80.6
99	Constitutional and Statutory Expenditure	1,506,159,880,893	1,506,159,880,893	1,466,839,369,212	100.0	97.4
		7,208,303,025,999	7,083,497,465,983	7,159,241,875,574	98.3	101.1

Source: Office of the Accountant General *Expenditure by Head as at 31st December, 2006* Report dated June 22, 2006


Assessment of Performance 2006
Annex V: Education Indicators by District (in Maps)
REPUBLIC OF ZAMBIA
Ministry of Education
Pupil Teacher Ratio, by district
Pupil Teacher Ratio 2006
By District
Kilometers
0 70 140 280 420 560
43


Assessment of Performance 2006
REPUBLIC OF ZAMBIA
Ministry of Education
Net Enrolment Rate, by district
Chiengi
Kaputa
Mpulungu
Mporokoso
Kawambwa
Mwansabombwa
Mungwi
Nakonde
Mbala
Mwense
Luwingu
Kasama
Mansa
Chilubi
Chitabali
Chama
Milenge
Samfya
Mpika
Serenje
Lundazi
Nyimba
Petauke
Katete
Chipata
Chadiza
Mambwe
Lufwanyama
Kalulushi
Ndola
Luanshya
Masaiti
Mpongwe
Kapiri-Mposhi
Kitwe
Mkushi
Chibombo
Chingola
Mufulira
Kafue
Chongwe
Lusaka
Luangwa
Rufunsa
Mazabuka
Monze
Gwembe
Sinazongwe
Choma
Kazungula
Kalomo
Livingstone
Sesheke
Shang'ombo
Senanga
Mongu
Kalabo
Lukulu
Mongu
Sioma
Nalolo
Kaoma
Mwinilunga
Solwezi
Zambezi
Kabompo
Mufumbwe
Kasempa
Chavuma
Ikeleng'i
Mwinilunga
Solwezi
Zambezi
Kabompo
Mufumbwe
Kasempa
Lukulu
Mongu
Kaoma
Mongu
Kalabo
Senanga
Shang'ombo
Sesheke
Kazungula
Livingstone
Kalomo
Sinazongwe
Choma
Gwembe
Monze
Mazabuka
Namwala
Kafue
Lufwanyama
Kalulushi
Ndola
Luanshya
Masaiti
Mpongwe
Kapiri-Mposhi
Kitwe
Mkushi
Chibombo
Chingola
Mufulira
Chongwe
Lusaka
Luangwa
Rufunsa
Nyimba
Petauke
Katete
Chadiza
Chipata
Mambwe
Lundazi
Serenje
Milenge
Samfya
Mpika
Chama
Chitabali
Chilubi
Kasama
Luwingu
Mwense
Mansa
Mporokoso
Mwansabombwa
Kawambwa
Mungwi
Nakonde
Mbala
Chiengi
Kaputa
Mpulungu
N
Net Enrolment Rates 2006
by District
0 70 140 280 420 560
Kilometers


Assessment of Performance 2006
REPUBLIC OF ZAMBIA
Ministry of Education
Completion Rate for Girls, by District
Grade 9 Completion Rates 2006
for Girls by District
0.090000 - 0.290000
0.290001 - 0.390000
0.390001 - 0.430000
0.430001 - 0.610000
0.610001 - 0.870000
0
70
140
280
420
560
Kilometers
N
45

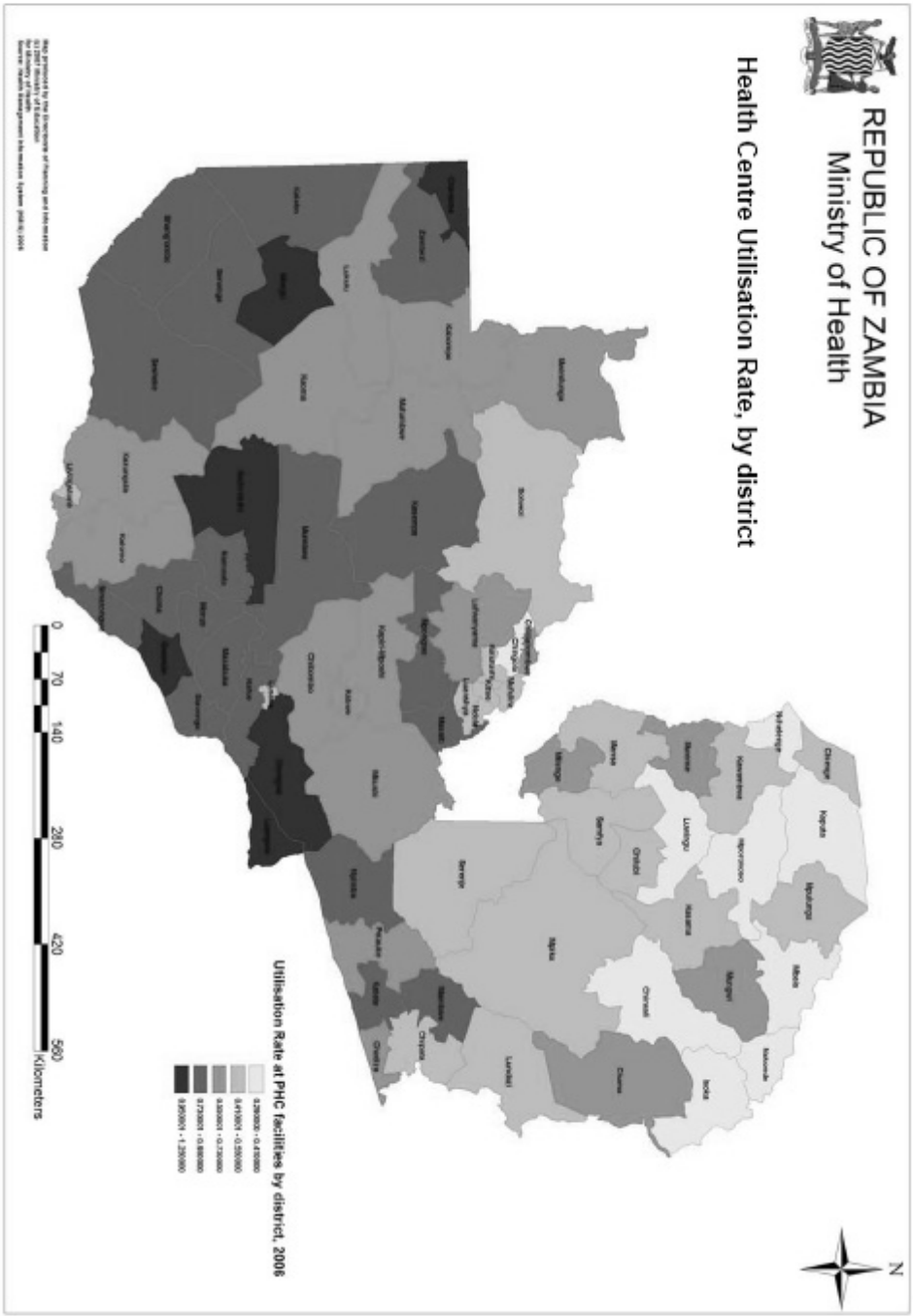
Annex VI: Education Indicators, by district

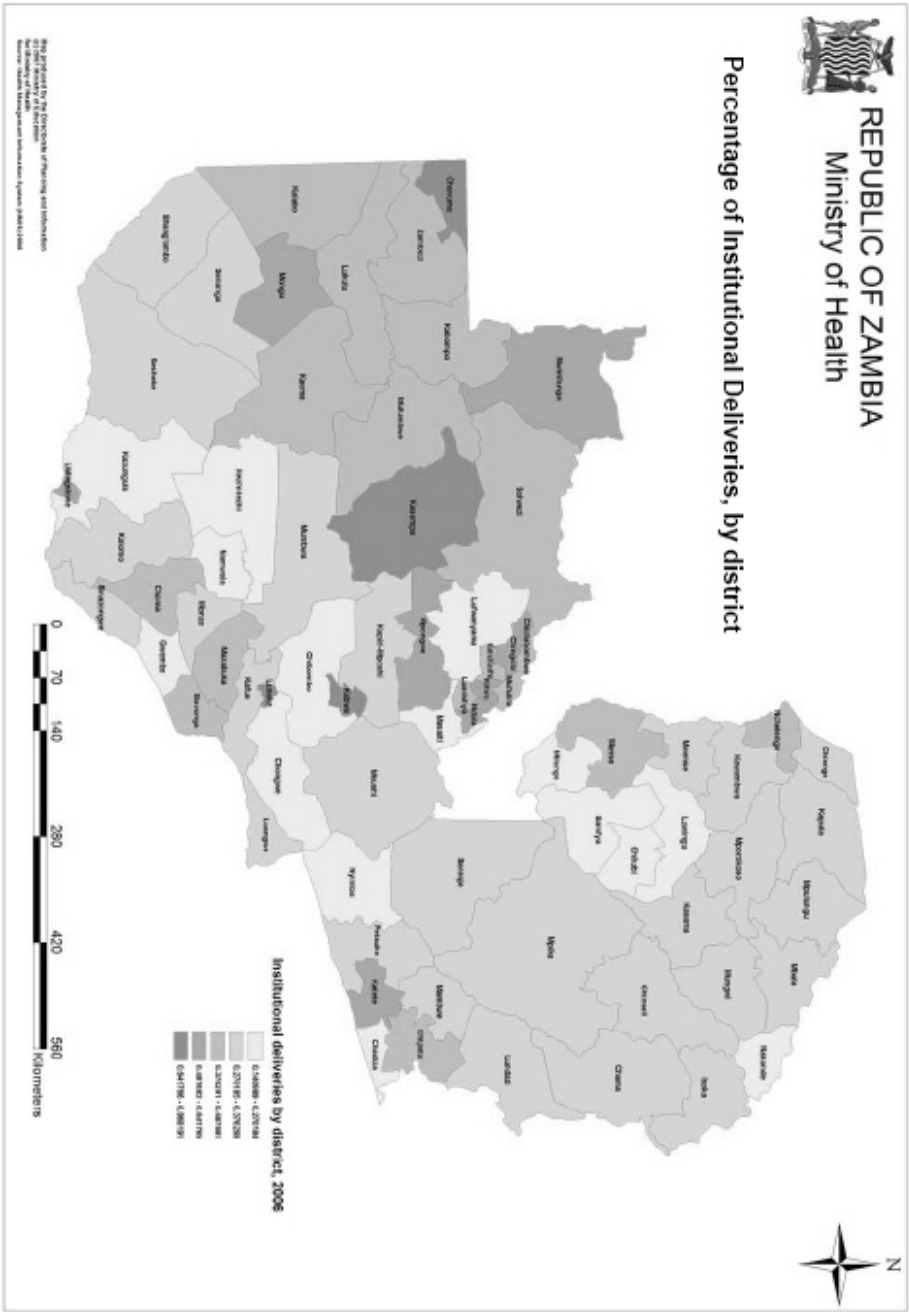
		NER Grades 1-7 Total	Pupil Teacher Ratio in Lower Basic (Grades 1-4)	Ratio of the Completion rate of Boys over Girls at Grade 9
57	Kaputa	87.8	127.6	3.83
30	Chadiza	61.1	81.5	1.35
29	Chama	94.3	83.2	3.03
51	Chavuma	118.1	67.3	1.31
14	Chibombo	106.0	87.7	1.00
38	Chienji	79.3	106.0	2.03
27	Chilalabomb.	111.7	63.2	1.13
58	Chilubi	91.4	123.5	2.24
19	Chingola	128.0	72.0	1.06
55	Chinsali	106.7	95.9	1.52
28	Chipata	89.6	75.5	1.06
4	Choma	96.3	78.5	1.16
45	Chongwe	107.5	69.1	1.22
10	Gwembe	114.9	77.5	1.48
56	Isoka	118.9	105.1	1.35
8	Ikeshi Ikeshi	122.4	86.3	1.87
48	Kabompo	105.9	70.4	1.44
12	Kabwe	104.7	48.3	1.05
46	Kafue	122.0	89.3	1.30
69	Kalabo	97.4	93.9	1.75
3	Kalomo	108.0	98.6	1.32
20	Kalulushi	140.5	61.0	1.29
67	Kaoma	103.1	87.5	1.29
13	Kapiri Mposhi	98.1	87.3	1.14
54	Kasama	103.3	83.5	1.08
49	Kasempa	109.8	71.0	1.22
31	Katete	62.3	86.9	1.11
37	Kawambwa	96.5	74.2	1.15
1	Kazungula	128.8	80.0	1.78
21	Kitwe	116.4	69.9	1.08
2	Livingstone	116.6	50.1	1.09
44	Luangwa	93.7	73.6	0.89
22	Luanshya	106.7	58.1	1.06
23	Lufwanyama	159.9	80.6	1.18
68	Lukulu	109.9	76.8	1.77
32	Lundazi	70.2	92.1	1.81
43	Lusaka	77.5	58.2	1.07
59	Luwingu	127.5	105.9	1.79
33	Mambwe	92.7	72.5	1.30
36	Mansa	103.4	78.4	1.40
24	Masaiti	90.6	75.3	1.43
5	Mazabuka	79.1	74.5	1.29
60	Mbala	89.8	98.0	1.42
39	Mbenge	97.1	91.8	1.12
15	Mbushi	104.3	71.3	1.41
66	Mongu	111.0	65.0	1.07
6	Monze	93.5	59.8	1.27
61	Mpika	128.7	80.9	1.02
25	Mpongwe	115.8	98.8	0.85
62	Mporokoso	119.9	100.4	1.48
63	Mpulungu	94.9	96.4	2.10
26	Mufulira	105.1	49.6	0.91

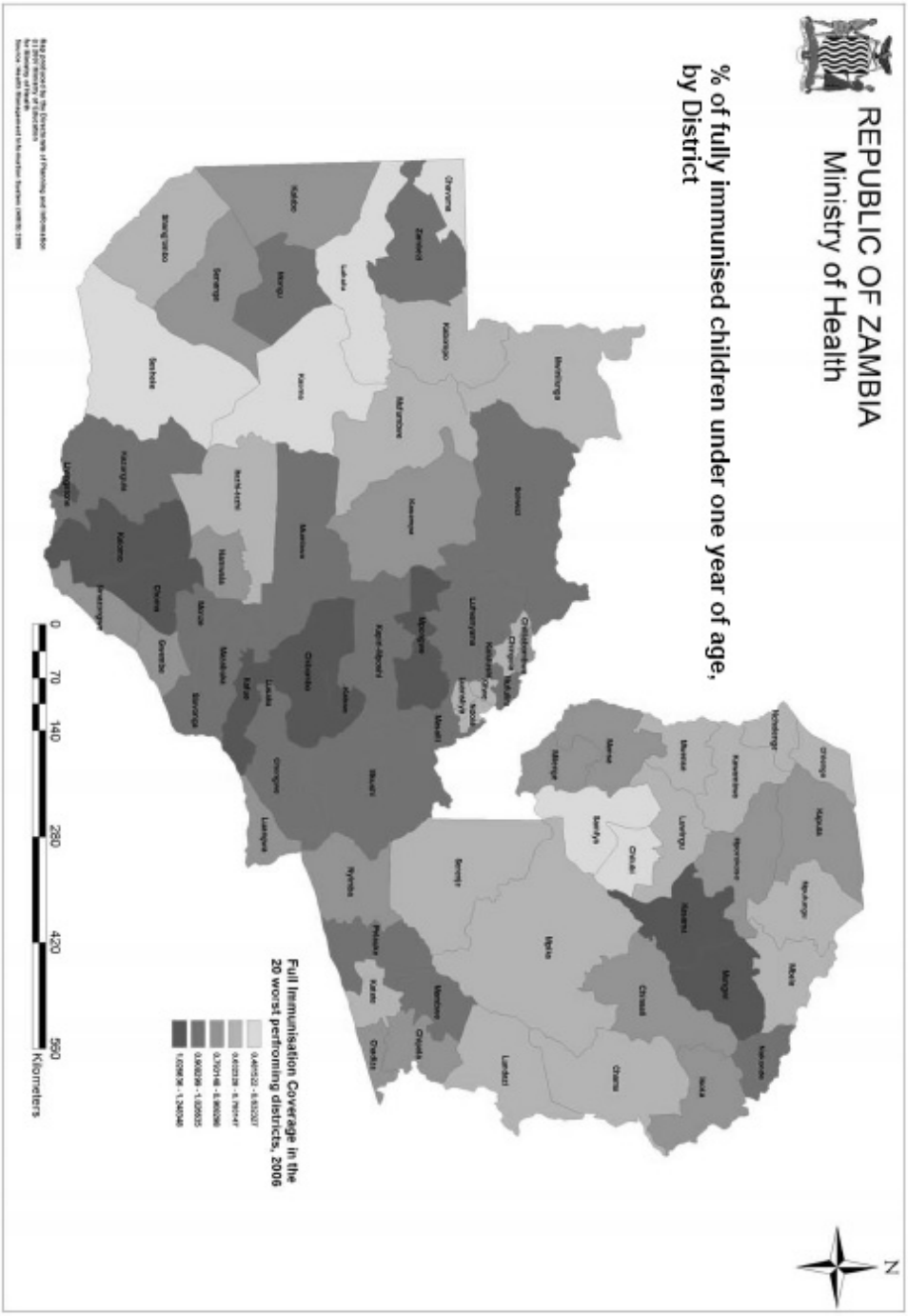
46

Assessment of Performance 2006

53	Mufumbwe	103.5	67.8	1.45
16	Mumbwa	118.9	80.3	1.13
54	Mungwi	101.1	107.0	1.79
40	Mwense	94.2	88.2	1.63
50	Mwinilunga	90.5	96.8	1.86
65	Nakonde	93.3	71.4	0.93
7	Namwala	85.1	85.8	1.47
41	Nchelenge	96.5	111.1	1.53
18	Ndola	96.7	66.8	1.18
34	Nyimba	77.7	82.4	1.37
35	Petauke	57.5	83.4	1.36
42	Samfya	94.4	88.4	1.35
70	Senanga	94.0	70.1	1.14
17	Serenje	101.2	82.3	1.31
71	Sesheke	96.1	67.1	1.22
72	Shangombo	77.2	91.9	1.18
9	Siavonga	102.5	88.5	1.81
11	Sinazongwe	108.1	89.5	1.23
47	Solwezi	97.6	84.2	1.22
52	Zambezi	110.0	73.8	1.57
	Total	97.3	76.5	1.20


Assessment of Performance 2006
Annex VII: Health Indicators by District (in Maps)
REPUBLIC OF ZAMBIA
Ministry of Health
Health Centre Utilisation Rate, by district
N
Utilisation Rate at PHC facilities by district, 2006
0 70 140 280 420 560
Kilometers
48


Assessment of Performance 2006
REPUBLIC OF ZAMBIA
Ministry of Health
Percentage of Institutional Deliveries, by district
Institutional deliveries by district, 2006
0 70 140 280 420 560
Kilometers
N


Assessment of Performance 2006
REPUBLIC OF ZAMBIA
Ministry of Health
% of fully immunised children under one year of age, by District
Full Immunisation Coverage in the 20 worst performing districts, 2006
0.491522 - 0.602307
0.602308 - 0.701147
0.701148 - 0.800386
0.800387 - 1.000035
1.039836 - 1.240340
0
70
140
280
420
560
Kilometers
N

Annex VIII: Health Indicators, by District

Institutional deliveries by district, 2006		
No.	District	Coverage
1	Kabwe Urban	87%
2	Kasempa	83%
3	Chavuma	75%
4	Lusaka Urban	73%
5	Livingstone	64%
6	Kibwe	64%
7	Mporokoso	62%
8	Kalabo	58%
9	Mongu	58%
10	Ndola	55%
11	Chingola	55%
12	Mwinilunga	53%
13	Kalabo	49%
14	Mufumbwe	45%
15	Kalulushi	46%
16	Nchelenge	45%
17	Mufurila	45%
18	Siavonga	44%
19	Mansa	44%
20	Kabompo	44%
21	Lukulu	43%
22	Solwezi	43%
23	Luanshya	43%
24	Chilabombwe	41%
25	Zambezi	41%
26	Chipata	40%
27	Choma	40%
28	Kaoma	39%
29	Mazabuka	39%
30	Mambwe	38%
31	Kasama	37%
32	Luangwa	36%
33	Mungwi	36%
34	Mbala	35%
35	Mwense	36%
36	Monze	35%
37	Chinsali	34%
38	Kalomo	34%
39	Mkushi	34%
40	Kawambwa	33%
41	Mpulungu	33%
42	Shangombo	33%
43	Kafue	32%
44	Isoka	32%
45	Chama	32%
46	Kapiri-mposhi	31%
47	Serenje	31%
48	Mporokoso	31%
49	Petauke	31%
50	Sesheke	31%
51	Senanga	30%
52	Sinazongwe	30%
53	Mumbwa	30%
54	Chienji	30%
55	Kaputa	30%
56	Mpika	30%
57	Lundazi	28%
58	Luwingu	27%
59	Chibombo	26%
60	Lufwanyama	25%
61	Itezhi-tezhi	25%
62	Nakonde	24%

Utilisation Rate at PHC facilities by district, 2006		
No.	District	Utilisation Rate
1	Chavuma	1.25
2	Luangwa	1.19
3	Itezhi-tezhi	1.11
4	Gwembe	1.11
5	Mongu	1.11
6	Chongwe	1.07
7	Kafue	0.95
8	Monze	0.90
9	Sesheke	0.90
10	Kalabo	0.89
11	Shangombo	0.89
12	Nyimba	0.88
13	Siavonga	0.86
14	Kalabo	0.85
15	Kasempa	0.84
16	Senanga	0.83
17	Namwala	0.83
18	Mporokwe	0.83
19	Zambezi	0.82
20	Mazabuka	0.80
21	Sinazongwe	0.80
22	Masaiti	0.79
23	Mumbwa	0.78
24	Choma	0.76
25	Mambwe	0.76
26	Chama	0.73
27	Kacungula	0.73
28	Kabompo	0.72
29	Petauke	0.70
30	Milenge	0.69
31	Mkushi	0.68
32	Kaoma	0.68
33	Mufurila	0.67
34	Mungwi	0.65
35	Kabwe Urban	0.65
36	Chadiza	0.63
37	Lufwanyama	0.61
38	Chilabombwe	0.61
39	Lukulu	0.60
40	Mwinilunga	0.59
41	Kapiri-mposhi	0.59
42	Kalomo	0.58
43	Mwense	0.57
44	Chibombo	0.56
45	Luanshya	0.55
46	Lundazi	0.54
47	Kawambwa	0.52
48	Lusaka Urban	0.50
49	Mansa	0.49
50	Mpika	0.48
51	Chienji	0.48
52	Chipata	0.48
53	Kalulushi	0.47
54	Ndola	0.46
55	Livingstone	0.45
56	Serenje	0.45
57	Mufumbwe	0.45
58	Mpulungu	0.45
59	Kibwe	0.45
60	Kasama	0.44
61	Samfya	0.43
62	Solwezi	0.43

Full Immunisation Cov. in the 20 worst performing districts, 2006		
No.	District	Coverage
1	Samfya	48%
2	Kaoma	49%
3	Chavuma	57%
4	Sesheke	58%
5	Chinsali	58%
6	Lukulu	63%
7	Mbala	65%
8	Luanshya	68%
9	Luwingu	69%
10	Kalabo	69%
11	Kibwe	70%
12	Ndola	70%
13	Mufurila	70%
14	Chama	70%
15	Chienji	71%
16	Chingola	72%
17	Kabompo	73%
18	Mpika	74%
19	Mwense	75%
20	Mwinilunga	75%
21	Kawambwa	75%
22	Itezhi-tezhi	76%
23	Shangombo	76%
24	Serenje	76%
25	Lundazi	79%
26	Nchelenge	79%
27	Mpulungu	79%
28	Milenge	82%
29	Senanga	83%
30	Chilabombwe	84%
31	Namwala	84%
32	Sinazongwe	84%
33	Isoka	85%
34	Chinsali	85%
35	Kalabo	85%
36	Chipata	85%
37	Nyimba	86%
38	Mansa	87%
39	Kaputa	87%
40	Mporokoso	88%
41	Kasempa	89%
42	Luangwa	89%
43	Gwembe	89%
44	Chadiza	91%
45	Chongwe	92%
46	Mufumbwe	92%
47	Mkushi	93%
48	Mazabuka	94%
49	Masaiti	94%
50	Siavonga	95%
51	Mongu	95%
52	Petauke	95%
53	Monze	96%
54	Lusaka Urban	96%
55	Kalulushi	97%
56	Lufwanyama	98%
57	Solwezi	98%
58	Zambezi	100%
59	Nakonde	100%
60	Mambwe	101%
61	Mumbwa	102%
62	Kapiri-mposhi	102%

Assessment of Performance 2006

63	Samfya	24%
64	Mwaati	24%
65	Gwembe	23%
66	Chongwe	22%
67	Chilubi	20%
68	Kazungula	20%
69	Ndola	19%
70	Chadiza	19%
71	Nanweala	18%
72	Mkanse	14%
	Zambia	43%

63	Chilubi	0.43
64	Chingola	0.41
65	Isoka	0.40
66	Mbala	0.38
67	Ndola	0.37
68	Kapiri	0.37
69	Mporokoso	0.35
70	Chinsali	0.34
71	Luwingu	0.33
72	Nakonde	0.29
	Zambia	0.61

63	Kazungula	100%
64	Chibombo	105%
65	Choma	105%
66	Mungwi	110%
67	Kabwe Urban	110%
68	Kalomo	112%
69	Kasama	113%
70	Livingstone	115%
71	Mpongwe	121%
72	Kafue	125%
	Zambia	87%

52

Annex IX: Variance Calculation for Expenditure 2006

	GRZ Budget	Reported Expenditures	Absolute Value (Variance)
Office of the President - State House	12,025,087,395	12,578,654,895	553,567,500
Office of the Vice President	13,593,373,315	28,430,000,722	14,836,627,407
National Assembly	122,478,724,449	119,129,483,123	3,349,241,326
Electoral Commission	231,399,667,319	234,210,821,421	2,811,154,102
Public Service Commission - Office of the President	1,404,068,732	1,420,558,041	16,489,309
Office of the Auditor General	13,920,958,074	15,830,133,382	1,909,175,308
Cabinet Office - Office of the President	56,181,224,403	61,949,395,884	5,768,171,481
Teaching Service Commission - Office of the President	1,270,226,332	1,008,792,569	261,433,763
Police and Prison Service Commission - Office of the President	1,238,508,297	1,343,408,222	104,899,925
Zambia Police - Ministry of Home Affairs	224,882,486,463	241,097,736,452	16,215,249,989
Commission for Investigations - Office of the President	1,544,261,825	1,544,261,826	1
Ministry of Energy and Water Development	38,233,798,047	34,281,790,958	3,952,007,089
Ministry of Mines and Mineral Development	13,029,442,836	12,133,793,944	895,648,892
Ministry of Home Affairs	127,658,132,601	106,424,283,928	21,233,848,673
Ministry of Foreign Affairs	155,595,207,454	160,202,330,602	4,607,123,148
Judiciary	68,446,370,651	63,499,481,648	4,946,889,003
Loans and Investments - Local Government and Housing	9,121,964,966	7,675,332,988	1,446,631,978
Loans and Investments - Finance and National Planning	508,604,269,749	531,089,071,850	22,484,802,101
Ministry of Information and Broadcasting Service	24,372,524,802	26,310,058,807	1,937,754,005
Public Service Management Division	339,699,410,650	280,259,779,065	59,439,631,585
Ministry of Local Government and Housing	87,389,088,638	82,848,248,698	4,540,839,940
Ministry of Justice	37,164,521,528	62,947,308,385	25,782,786,857
Ministry of Commerce Trade and Industry	22,820,837,921	20,941,838,131	1,878,999,790
Human Rights Commission	5,823,073,153	5,227,586,076	595,487,077
Ministry of Finance and National Planning	717,350,598,466	748,232,566,373	30,881,967,907
Ministry of Labour and Social Security	13,072,464,909	11,722,189,839	1,350,275,070
Ministry of Community Development and Social Services	63,227,758,835	59,828,626,902	3,399,131,933
Ministry of Health	556,997,343,105	674,809,808,790	117,812,465,685
Ministry of Communication and Transport	44,404,705,587	39,361,515,062	5,043,190,525
Ministry of Works and Supply	124,458,621,211	103,519,486,965	20,939,134,246
Ministry of Science, Technology and Vocational Training	37,128,826,655	36,476,564,917	652,261,738
Ministry of Tourism, Environmnet and Natural Resources	52,523,866,383	56,481,850,322	3,957,983,939
Ministry of Sport, Youth and Child Development	28,708,522,479	27,666,095,889	1,042,426,590
Ministry of Defence	659,245,483,275	690,139,929,921	30,894,446,646
Zambia Security Intelligence Services - Office of the President	147,860,442,832	161,377,226,297	13,516,783,465
Ministry of Education	1,277,075,924,083	1,362,480,823,460	85,404,899,377
Ministry of Lands	18,218,803,974	16,468,196,869	1,750,607,105
Anti Corruption Commission	17,280,493,639	22,576,512,659	5,296,019,020
Ministry of Agriculture and Cooperatives	400,180,642,356	457,582,739,078	57,402,096,722
Office of the President - Lusaka Province	18,792,939,317	17,201,164,300	1,591,775,017
Office of the President - Copperbelt Province	26,201,707,704	22,410,590,946	3,791,116,758
Office of the President - Central Province	16,545,362,688	16,921,488,972	376,126,284
Office of the President - Northern Province	22,959,684,634	19,484,979,313	3,474,705,321
Office of the President - Western Province	19,445,673,055	19,486,987,758	41,314,703
Office of the President - Eastern Province	23,328,894,329	21,319,113,546	2,009,780,783
Office of the President - Luapula Province	18,708,077,974	15,835,146,331	2,872,931,643
Office of the President - North Western Province	18,242,944,643	18,971,228,690	728,284,047
Office of the President - Southern Province	24,728,988,255	21,079,844,387	3,649,153,878
Constitutional and Statutory Expenditure	1,438,520,000,000	805,440,243,193	633,079,756,807
	7,903,105,740,008	7,559,259,022,406	1,230,527,095,458
Variance Total			15.6

Source: Office of the Accountant General *Expenditure by Head as at 31st December, 2006* Report dated 4th June, 2007

53

Annex X: Indicator by Indicator Assessment of the PAF

Indicator	Status	Score
PSH1 Restructuring Provincial and District Administration	Ful	1.0
PSH2 Service Delivery Charters Institutionalised in the Public Service	--	--
PSH3 Adoption of Public Service Pay Policy	--	--
PSH4 Payroll management and establishment control	Part	0.5
PFM 1 % HPSAs whose quarterly budget releases are between 95% and 105% of the budget allocation identified in the quarterly allocation plan	No	0.0
PFM 2 % of heads whose calculated expenditure is between 95% and 105% of the total funding	Part	0.5
PFM 3 Domestic Arrears at end Period	No	0.0
PFM 4 Audit Reports submitted to Legislature and acted upon	Ful	1.0
PFM 5 % Expenditure Variance between original budget and total expenditure	--	--
MAC 1 Government Domestic Borrowing as % of GDP	No	0.0
MAC 2 Central Government Wage Bill	Ful	1.0
MAC 3 Domestic Revenue as a % of GDP	Ful	1.0
FSD 1 Facilitation of the creation of a private sector Credit Reference Bureau	Ful	1.0
FSD 2 Development of a comprehensive rural finance policy and strategy.	--	--
PPF 1 % GDP allocated by Government to pension arrears at Public Service Pension Fund	Part	0.5
PPF 2 % of pension arrears (in the Public Service Pension Fund) accumulated annually	No	0.0
AGR 1 Allocation to Investment Programmes within the budget of Ministry of Agriculture	Ful	1.0
AGR 2 Number of hectares on selected sites provided with agricultural infrastructure	Ful	1.0
AGR 3 Adoption of Agricultural Marketing Act	Ful	1.0
INF 1 Three road agencies established (NFRA, RDA, RTSA)	Part	0.5
INF 2 Kilometres of road upgraded	No	0.0
INF 3 Kilometres of road rehabilitated	Ful	1.0
INF 4 Kilometres of unpaved roads maintained	Ful	1.0
PSD 1 Average length of time taken to establish a business	Ful	1.0
PSD 2 Develop a National Strategy for citizen's economic empowerment	Ful	1.0
HEA 1 Percentage of Institutional Deliveries	No	0.0
HEA 2 % of fully immunised children under one year of age in 20 worst performing districts	Ful	1.0
HEA 3 Utilisation rate of PHC facilities	Ful	1.0
HEA 4 Percentage Ministry of Health releases to district level	Ful	1.0
EDU 1 No of districts falling below the threshold of 80 percent Net Enrolment for Grades 1-7	Ful	1.0
EDU 2 Ratio of the completion rate of girls over boys at Grade 9.	No	0.0
EDU 3 Number of districts with a Pupil : Teacher ratio of over 100:1 in the lower basic grades	Ful	1.0
HIV 1 Number of people tested for HIV and receiving results	Ful	1.0
HIV 2 Number of eligible people accessing ARVs	Ful	1.0
Total Score	30	21
		70.0%

ANNEX 3: RESULTS FRAMEWORK AND ALIGNMENT WITH THE STRATEGIC PRIORITIES OF THE CASs AND FNDP

Reform program supported by EMGC II and alignment with the strategic priorities of the CAS and FNDP					
Reform areas	**Priorities**	**Expected DPO Outcomes**	**CAS outcome indicators to which the DPO will contribute**		**Link to FNDP**
			CAS 2004-2007	**CAS 2008-2011**	
Objective: to maintain and deepen Zambia's macroeconomic framework conducive to robust growth					
Fiscal policy		Improved management of public resources and credibility of Gov't vis-à-vis domestic suppliers	Improved management of public resources as measured by reduced arrears of Government (including parastatals) from an estimated 2% of GDP in 2003 to, negligible percent in 2007	**1.1. Macroeconomic framework and expenditure management maintain stability and support the growth and diversification of the economy.**	**Macro economic management that supports pro-poor economic growth and a fiscal policy that maintains macroeconomic stability**
Pensions	Reducing arrears to Zambia's public service pension fund (PSPF) and general contractors	Pensions are paid on a timely basis by Zambia's Public Pension Fund (PSPF)			
Financial Sector	Improving Zambia's credit culture	Creditworthiness information of borrowers is made available to Commercial Banks	Improving the functioning of the financial systems such that it can play its role as intermediary between providers and consumers of financial resources	**2.3 Improved business environment, especially for micro-, small- and medium-size enterprises (MSMEs).** • Proportion of adult population with access to affordable financial services (according to	**Access to affordable finance**

Reform program supported by EMGC II and alignment with the strategic priorities of the CAS and FNDP					
Reform areas	**Priorities**	**Expected DPO Outcomes**	**CAS outcome indicators to which the DPO will contribute**		**Link to FNDP**
			CAS 2004-2007	**CAS 2008-2011**	
				FinScope definition) increases from 37.7% in 2007 to 45% by 2011.	
Objective: to strengthen the credibility and institutional capacity of the public sector					
Public expenditure management	Improving budget execution & financial accountability	Ability to execute in year programs has improved and disconnect between plans and budget execution has been reduced	Government executes an open/transparent, timely and realistic budgeting process with lower levels of financial waste	**1.1. Macroeconomic framework and expenditure management maintain stability and support the growth and diversification of the economy.** • Budget presentation includes reporting on donor funding and revenues and expenditures of quasi-fiscal institutions (Bank of Zambia, the Public Service Pension Fund and state owned enterprises (SOEs), especially ZESCO).	**Public sector and fiscal policies that improve budget execution**
Civil service	Expanding the coverage to additional spending agencies of the PMEC system	Improved quality of data maintained in PMEC	Environment in place for improved performance by the civil service	**2.1 Strengthened public financial management, procurement and oversight capacity.** CAS milestone: • IFMIS fully implemented and integrated with PMEC in at least 5 key ministries &	**Ensure that personal emoluments and establishments for the Public Sector are effectively managed and maintained at approved levels.**

Reform program supported by EMGC II and alignment with the strategic priorities of the CAS and FNDP					
Reform areas	**Priorities**	**Expected DPO Outcomes**	**CAS outcome indicators to which the DPO will contribute**		**Link to FNDP**
			CAS 2004-2007	**CAS 2008-2011**	
				piloted in at least 2 provinces (North Western, Eastern) by 2010.	
Objective: To enhance Zambia's growth opportunities while improving its poverty impact					
Private Sector Development	Assisting GRZ to reduce bureaucratic procedures that negatively affect the investment and business practices of the private sector	A simplified institutional framework with a well-defined strategic approach is in place to reduce bureaucratic procedures for businesses	Administrative barriers for exports, investment and production are reduced	**2.3 Improved business environment, especially for micro-, small- and medium-size enterprises (MSMEs).**	**Wealth creation and enhancement of efficient public service delivery system**
Agriculture	Roles of each actor in the agricultural sector are well defined	Clarification of and consensus reached on the roles and mandates of each actor, public and private, in the agricultural marketing sectors.	Poverty levels in rural areas indicate a need to orient growth towards sectors that would benefit the rural areas and agricultural potential is not fully exploited (CAS Obstacle)	**2.4 Improved agricultural productivity and marketing schemes.** • Value of agricultural exports for target value chains (cotton lint) from USD43.4 mill in 2006 to USD 65 mill by 2011. *and CAS outcome 1.1:*	**Agricultural Marketing, Trade & Agribusiness Development:** Promotion of a competitive, efficient and transparent public and private sector driven marketing system for agricultural commodities and inputs.
Road Infrastructure	Road agencies are appropriately staffed, and	Road agencies have the minimum capacity to operate their statutory tasks	Financial management and sustainability of infrastructure services is improved with an increase in private investment for service provision	**3.1 Improved transport infrastructure.** • % of rural population with access to an (re-instated) all weather river crossing in target provinces (Luapula, Northern, Copperbelt provinces) from	**Public Infrastructure Management**: Effectively manage public infrastructure to ensure accountability, serviceability and prolonged life span. Road infrastructure development

Reform program supported by EMGC II and alignment with the strategic priorities of the CAS and FNDP					
Reform areas	**Priorities**	**Expected DPO Outcomes**	**CAS outcome indicators to which the DPO will contribute**		**Link to FNDP**
			CAS 2004-2007	**CAS 2008-2011**	
				40% in 2007 to 80% in 2010. • Indicator on improved links between producers and agricultural markets in targeted project areas to be defined.	

ANNEX 4: FUND RELATIONS NOTE

Press Release No. 07/124
FOR IMMEDIATE RELEASE
June 8, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth and Sixth Reviews Under Zambia's PRGF Arrangement and Approves US$33.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed the fifth as well as the sixth and final review of Zambia's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the reviews enables the release of a further amount equivalent to SDR 22 million (about US$33.4 million).

The Executive Board also approved the request for waivers for the nonobservance of performance criteria in view of the corrective actions taken. These include the end-June 2006 and end-December 2006 quantitative performance criteria on net domestic financing of the central government; the end-June 2006 quantitative performance criterion on gross international reserves of the Bank of Zambia; and the end-September 2006 and end-March 2007 structural performance criteria on the initiation of the piloting of the Integrated Financial Management and Information System (IFMIS).

The PRGF arrangement was approved on June 16, 2004 (see Press Release No. 04/117) in the amount equivalent to SDR 220.1 million (about US$333.6 million). On May 25, 2007 a request to extend the original three-year arrangement to September 30, 2007 was approved by the Board on a lapse-of-time basis.

Following the Executive Board discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

"The Zambian authorities are to be commended for pursuing sound macroeconomic policies that have sustained robust economic growth and achieved a marked reduction in inflation. High copper prices and extensive debt relief have helped to strengthen Zambia's external position and allow a build up of international reserves.

"Going forward, the challenge for the authorities is to consolidate macroeconomic stability and implement structural reforms to raise productivity and diversify the economy. Continued prudent fiscal policy is needed to restrain the growth of government domestic debt, while monetary policy will need to remain firm in the months ahead to keep inflation on a

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2

downward path. Better coordination between fiscal and monetary policy will help improve liquidity management.

"It will be important to press ahead with tax reform to broaden the tax base while making the tax system simpler, more efficient, and equitable. Higher levels of tax revenue will be required over the medium term to accommodate spending on infrastructure, agriculture and the social sectors as envisaged in the Fifth National Development Plan.

"The public expenditure management and accountability reforms being implemented are essential for the successful implementation of the government's poverty-reducing programs and the effective use of public resources more generally. Budget execution and reporting, which are key elements of the reform, will be greatly enhanced by the planned establishment of a treasury single account and implementation of the integrated financial management and information system. Strengthened debt management will help ensure that new borrowing does not undermine debt sustainability.

"To foster diversification of the economy and boost economic growth and employment, it will be important to implement vigorously the economic reform agenda set out in the Fifth National Development Plan, particularly the measures to stimulate the private sector development," Mr. Kato said.

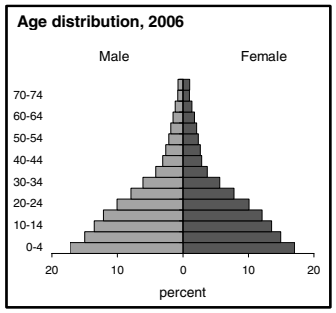
The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

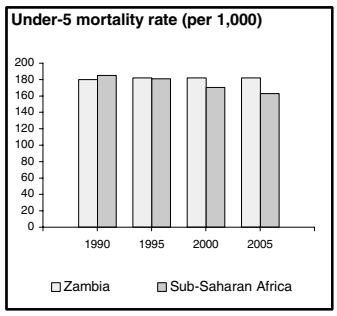
ANNEX 5: COUNTRY AT A GLANCE

Zambia at a glance

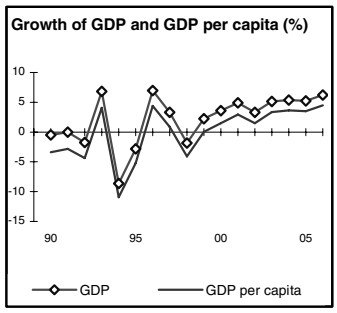
10/5/07

Key Development Indicators	Zambia	Sub-Saharan Africa	Low income
(2006)			
Population, mid-year (millions)	11.9	770	2,403
Surface area (thousand sq. km)	753	24,265	29,215
Population growth (%)	1.7	2.3	1.8
Urban population (% of total population)	*35*	36	30
GNI (Atlas method, US$ billions)	8.1	648	1,562
GNI per capita (Atlas method, US$)	690	842	650
GNI per capita (PPP, international $)	1,000	2,032	2,698
GDP growth (%)	6.2	5.6	8.0
GDP per capita growth (%)	4.5	3.2	6.1
(most recent estimate, 2000–2006)			
Poverty headcount ratio at $1 a day (PPP, %)	53	41	..
Poverty headcount ratio at $2 a day (PPP, %)	87	72	..
Life expectancy at birth (years)	38	47	59
Infant mortality (per 1,000 live births)	102	96	75
Child malnutrition (% of children under 5)	23	29	..
Adult literacy, male (% of ages 15 and older)	..	69	72
Adult literacy, female (% of ages 15 and older)	..	50	50
Gross primary enrollment, male (% of age group)	114	98	108
Gross primary enrollment, female (% of age group)	108	86	96
Access to an improved water source (% of population)	58	56	75
Access to improved sanitation facilities (% of population)	..	37	38





Net Aid Flows	1980	1990	2000	2006 [a]
(US$ millions)				
Net ODA and official aid	317	475	795	945
Top 3 donors (in 2005):				
United Kingdom	43	43	111	166
Japan	13	40	32	132
United States	41	12	46	124
Aid (% of GNI)	8.8	15.8	25.7	13.3
Aid per capita (US$)	52	57	74	81
Long-Term Economic Trends				
Consumer prices (annual % change)	..	117.5	26.0	8.2
GDP implicit deflator (annual % change)	11.8	106.4	30.0	12.2
Exchange rate (annual average, local per US$)	0.8	34.5	3,110.8	3,601.0
Terms of trade index (2000 = 100)	..	147	100	222



	1980	1990	2000	2006	1980–90	1990–2000	2000–06
					(average annual growth %)		
Population, mid-year (millions)	6.1	8.4	10.7	11.9	3.2	2.4	1.7
GDP (US$ millions)	3,884	3,288	3,238	10,740	1.0	0.5	5.0
		(% of GDP)					
Agriculture	14.0	18.2	19.9	20.4	3.6	4.2	2.1
Industry	39.1	45.3	22.5	30.7	1.0	-4.2	9.2
Manufacturing	16.9	31.9	10.2	10.4	4.1	0.8	5.4
Services	39.7	24.8	46.7	42.3	-0.2	2.5	5.9
Household final consumption expenditure	55.2	64.4	87.4	59.0	3.6	6.7	0.0
General gov't final consumption expenditure	25.5	19.0	9.5	10.2	-3.4	-8.1	24.5
Gross capital formation	23.3	17.3	17.4	24.0	-4.3	5.3	6.4
Exports of goods and services	41.4	35.9	27.1	38.2	-3.3	6.7	22.0
Imports of goods and services	45.4	36.6	41.5	29.6	-2.0	15.5	15.6
Gross savings	7.3	6.9	-1.2	34.0			

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available.
a. Aid data are for 2005.

Development Economics, Development Data Group (DECDG).

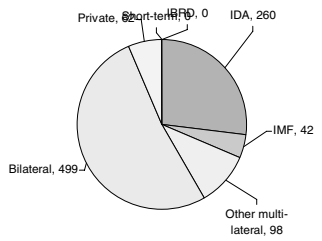
Zambia

Balance of Payments and Trade	**2000**	**2006**
(US$ millions)		
Total merchandise exports (fob)	757	3,819
Total merchandise imports (cif)	978	2,636
Net trade in goods and services	-446	931
Current account balance	-588	108
as a % of GDP	-18.2	1.0
Workers' remittances and compensation of employees (receipts)	..	..
Reserves, including gold	114	595

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	19.4	17.2
Tax revenue	17.3	16.5
Current expenditure	16.9	19.2
Overall surplus/deficit	-11.6	-6.9
Highest marginal tax rate (%)		
Individual	30	*30*
Corporate	35	*35*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	5,722	961
Total debt service	185	66
Debt relief (HIPC, MDRI)	3,096	1,522
Total debt (% of GDP)	176.7	8.9
Total debt service (% of exports)	21.1	1.6
Foreign direct investment (net inflows)	122	*380*
Portfolio equity (net inflows)	-1	92

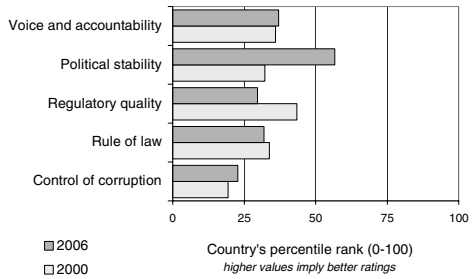
Composition of total external debt, 2006



US$ millions

Private Sector Development	**2000**	**2006**
Time required to start a business (days)	–	35
Cost to start a business (% of GNI per capita)	–	29.9
Time required to register property (days)	–	70
Ranked as a major constraint to business (% of managers surveyed who agreed)		
Access to/cost of financing	*84.5*	..
Tax rates	*57.5*	..
Stock market capitalization (% of GDP)	7.3	*13.6*
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2006



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	**2000**	**2005**
Paved roads (% of total)	*22.0*	..
Fixed line and mobile phone subscribers (per 1,000 people)	..	..
High technology exports (% of manufactured exports)	0.6	1.1

Environment		
Agricultural land (% of land area)	47	*47*
Forest area (% of land area)	..	..
Nationally protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	..	6,873
Freshwater withdrawal (% of internal resources)	*2.2*	..
CO2 emissions per capita (mt)	0.17	*0.19*
GDP per unit of energy use (2000 PPP $ per kg of oil equivalent)	1.3	*1.5*
Energy use per capita (kg of oil equivalent)	586	*605*

World Bank Group portfolio	**2000**	**2006**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	25	0
Disbursements	0	0
Principal repayments	8	0
Interest payments	14	6
IDA		
Total debt outstanding and disbursed	1,823	260
Disbursements	210	59
Total debt service	17	9
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	22	6
of which IFC own account	22	6
Disbursements for IFC own account	16	0
Portfolio sales, prepayments and repayments for IFC own account	1	2
MIGA		
Gross exposure	31	0
New guarantees	30	0

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. 10/5/07
.. indicates data are not available. – indicates observation is not applicable.

Development Economics, Development Data Group (DECDG).

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

ZAMBIA

Joint IMF/World Bank Debt Sustainability Analysis 2007 under the Debt Sustainability Framework for Low Income Countries[1]

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Sharmini Coorey and G. Russell Kincaid (IMF)
and Sudhir Shetty and Brian Pinto (IDA)

November 20, 2007

External and public debt dynamics are assessed using the Low Income Country Debt Sustainability Analysis (LIC DSA) framework.[2] *Fund and Bank staffs have concluded that Zambia's* ***risk of external debt distress is low. Total public debt is sustainable under all scenarios****. Zambia's debt sustainability outlook has strengthened substantially since 2005, mainly because of higher copper export receipts and debt relief received under the HIPC and MDRI Initiatives. The baseline scenario shows that Zambia's public debt will improve further over the medium term as long as economic policies remain appropriate. Debt ratios are expected to continue to be manageable, well below the risk thresholds, through 2027.*

I. Underlying Macroeconomic Assumptions

1. **The medium-term framework assumes that the Zambian economy will continue to perform well.** The baseline scenario assumes that real GDP growth remains strong, reflecting large-scale investments in mining and other sectors. The current account deficit is expected to widen over the long run as copper prices fall. Fiscal policies are assumed to remain targeted on limiting domestic borrowing to about one percent of GDP annually. The key assumptions are summarized below. The assumptions for this LIC DSA are broadly in line with those underlying the 2005 LIC DSA, except for GDP growth. The more positive copper sector developments in 2006 and 2007 have been incorporated. While stronger

[1] Prepared by the IMF and World Bank staffs.

[2] The previous LIC DSA (EBS/05/199, Appendix VI) showed that Zambia was at a low risk of debt distress. At that time, Zambia had reached HIPC completion but relief under the MDRI has not yet been delivered.

growth is assumed in the medium term, a more conservative approach is taken over the long term.

2. **The baseline scenario is based on the following assumptions:**

- **Economic growth:** Real GDP would continue to grow at 6–6½ percent a year through 2012, supported primarily by developments in the copper and construction sectors. Over time, however, the Zambian economy is expected to diversify as noncopper sectors expand in response to an improved business environment and infrastructure. In the long run Zambia's growth is expected to stabilize at 4½ percent.

- **Inflation:** Inflation should decline to about 5 percent, if monetary and fiscal policies continue to be prudent.

- **External sector:** Copper export volumes would grow at an average annual rate of about 10 percent through 2012 and then 4½ percent through 2027. While copper will remain Zambia's most important export, its share in total exports is expected to fall from 78 percent in 2006 to 67 percent by 2012 and then to about 63 percent by 2027.[3] Imports are assumed to grow in line with GDP in the long run. Annual foreign direct investment would peak at 7 percent of GDP in 2007 and decline to an average of 2½ percent for 2008–12 and to 1½ percent of GDP over the long run.

- **Government revenue and expenditure**: Government revenues would rise gradually from 18.4 percent of GDP in 2007 to 20 percent by 2027, mainly from improvements in tax administration; no change in the tax system is assumed. Expenditures stay constant at about 25 percent of GDP.

- **Financing:** Discussions with the authorities and main donors indicate that there are no plans currently to scale up foreign financing (grants and loans), except for one donor. The baseline scenario therefore assumes that annual external support will remain at about 6 percent of GDP during 2007-12, and then decline to 4½ percent of GDP during 2013-17 and to 3 percent of GDP by 2027.[4] The baseline assumes support from emerging creditors, albeit at low levels. Annual external borrowing would remain at about 1 percent of GDP through 2012 and then decline to about ¾ percent through 2017 and ½ percent for the rest of the period. Domestic financing

[3] The nominal growth of exports in U.S. dollar terms is negative for 2009–11 because the price of copper is assumed to decline at an average annual rate of 20 percent over the next three years and at lower rates through 2013, in line with WEO projections. It is assumed that the price of copper will stabilize after 2013.

[4] In the baseline scenario a sizeable portion of grants are allocated to finance investment projects and classified as capital grants.

would fall to 1 percent of GDP by 2009 and remain there over the long term. These funds would be used mainly to finance infrastructure projects.

- **Contingent liabilities:** Public Service Pension Fund's liabilities would grow by ½ percent of GDP per year.

II. External Debt Sustainability Analysis

Background

3. **As a result of the HIPC and MDRI Initiatives, Zambia's stock of external debt has declined substantially.**[5] The external debt-to-GDP ratio declined from about 85 percent at the end of 2005 to about 9 percent at the end of 2006. Several creditors have already delivered their share of debt relief.[6]

- **Multilateral Creditors**: All multilateral creditors have provided HIPC relief. The AfDF, IDA, and the Fund have fully delivered their share of MDRI relief.

- **Paris Club Creditors**: Brazil, a creditor invited to participate in the Paris Club meeting in which relief beyond HIPC was agreed, has not yet delivered the relief expected, but is seeking approval from its Senate to do so. Only one full member of the Paris Club (Russia) has not granted beyond HIPC relief to Zambia, but discussions have started.[7]

- **Non-Paris Club Creditors**: Of the nine non-Paris Club creditors, China and India have provided relief on claims held by their governments but not on those held by public enterprises—Zambia plans to contact them. Two creditors, Bulgaria and Iraq, have not yet provided HIPC relief, but the authorities have contacted them. Three non-Paris Club creditors (Kuwait, Romania, and Yugoslavia) sold their claims on Zambia to private creditors and have been fully repaid. Debt to the other two non-Paris Club creditors was fully repaid without any HIPC relief.

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[5] Zambia reached the completion point under the Enhanced HIPC Initiative in April 2005. MDRI relief was delivered in January 2006.

[6] Arrears to private creditors, which accumulated because of limitations on the availability of foreign exchange prior to 1985, have been excluded, since verification of outstanding claims to private individuals is not completed.

[7] Russia is working with the World Bank to develop a debt-for-development swap. This analysis assumes that Russia has already delivered debt relief beyond HIPC.

4

Zambia: Public External Debt

	(In percent of GDP)		(In percent of exports of goods and services)	
	2005	2006	2005	2006
Gross external debt	86.0	8.8	251.9	23.3
Medium- and long-term debt	86.0	8.8	251.9	23.3
Multilateral	49.1	5.5	251.9	23.3
IMF	8.1	0.4	143.8	14.6
Other	41.0	5.1	23.8	1.0
Bilateral official	35.9	2.7	120.0	13.6
Paris Club	32.8	1.9	105.1	7.3
Other	3.0	0.9	96.2	5.0
Suppliers and other	1.0	0.6	3.0	1.5

Sources: Bank of Zambia; and staff estimates.

Results of the External DSA

4. **External debt burden indicators have improved substantially and are expected to remain well below the risk thresholds over the projection period in the baseline scenario** (Table 1). Zambia's external debt ratios remain well below the risk thresholds.[8] The stock of debt is expected to increase to about 12 percent of GDP through 2011 and then decline to single digits by 2017. The NPV of debt-to-GDP is expected to climb from about 6 percent in 2007 to about 7 percent by 2011 and then decline to about 4 percent—below the 40 percent threshold. As copper prices decline and production slows, the NPV of debt-to-exports is projected to increase from 14 percent in 2007 to about 23 percent in 2012 and stay there through 2027, well below the 150 percent threshold. The debt service-to-exports ratio is expected to increase from 1 percent in 2007 to 2 percent by 2012 and to 2.2 percent by 2027.

5. **The standard sensitivity analysis points to a much reduced risk of debt distress (Table 2).** Zambia's external debt position has become more resilient to exogenous shocks. In the alternative scenarios, the ratio that deteriorates most is the NPV of debt-to-exports. This occurs when key variables are assumed to grow at their historical averages (1997–2006), which reflect the poor performance of the Zambian economy from 1997 through 2002. The external current account deficit would remain at 10.7 percent of GDP from 2008 to 2027—significantly higher than the deficit assumed in the baseline scenario (3 percent by 2020). As a result, the NPV of debt-to-exports rises to 45 percent by 2017 and to 106 percent by 2027. All bound tests result in higher but stable ratios well below the thresholds. Thus, even under difficult circumstances, Zambia's risk of debt distress is low. The scenario based

[8] The World Bank's 2006 Country Policy and Institutions Assessment (CPIA) based on the three-year average ranks Zambia as a medium performer. Thus, the external debt burden thresholds for Zambia are (i) NPV of debt-to-GDP, 40 percent; (ii) NPV of debt-to-exports, 150 percent; (iii) NPV of debt-to-revenue, 250 percent; and (iv) debt service to exports, 20 percent, and to revenue, 30 percent.

on historical averages points to the need to diversify Zambia's exports away from copper as a means to make it even more resilient to external shocks.

6. **Plans for substantial investment in power generation have been under discussion for a long time (Table 1).** Therefore, the 2005 LIC DSA included an alternative scenario of nonconcessional foreign borrowing (US$1 billion for 2008–11).[9] The update assumes construction of three new hydropower plants (Itezhi Tezhi, Kariba North, and Lower Kafue Gorge) during 2009–15, the financing of which requires US$1.2 billion. However, slightly more than 40 percent is expected to be financed with foreign direct investment, reducing the nonconcessional borrowing required to about US$690 million.[10] The non-concessional borrowing will not significantly change the external debt outlook. During the construction period, imports are expected to increase, but as projects are completed exports of electricity will come on stream. The NPV of debt-to-export ratio will peak at 37 percent in 2012 (23 percent in the baseline scenario) but will converge to the baseline scenario by 2027. The assumed borrowing on nonconcessional terms does not pose any threat to the external debt sustainability; debt indicators even under the bound test are below the thresholds.

III. Public Debt Sustainability Assessment

Background

7. **The size and composition of Zambia's public debt have significantly changed.** At end 2005, total public debt was about 105 percent of GDP, 18 percent of which was domestic debt. After extensive debt relief from foreign creditors, Zambia's public debt decreased to 27 percent of GDP and domestic debt's share increased to about 70 percent.

Zambia: Structure of Public Sector Debt

	2005	2006
Public debt	100.0	100.0
External debt	81.8	32.2
Domestic debt	18.2	67.8

Sources: Bank of Zambia; and staff estimates.

8. As of end 2006, the domestic debt had two main components (i) government securities (15.9 percent of GDP), which are denominated in local currency only; and (ii) domestic arrears (2.6 percent of GDP). Most securities are marketable (13 percent of GDP), however, there is no significant secondary market. Foreign investment in government securities began in early 2005, after Zambia reached its HIPC completion point. The estimated stock of government securities in the hands of foreigners has increased from about US$150 million at end-2005 to about US$200 million by end-September 2007 (about 13 percent of the total domestic debt), of which close to 70 percent is short-term debt. This

[9] This scenario assumed an 8 percent interest rate, 5-year grace period, and 17-year maturity.

[10] This scenario assumes a 6 percent interest rate, 5-year grace period, and 15-year maturity.

indicates that the rollover risk is low and the possible pressure on reserves of a change in sentiment of foreign investors is moderate.

Results of the Public DSA

9. **In the baseline scenario, Zambia's public debt is expected to decline over the projection period (Table 3).** The NPV of domestic debt would decline from 18.6 percent of GDP in 2006 to 10.4 percent by 2027. As a result of this and the decline in external debt, the NPV of public sector debt-to-GDP would drop from about 27 percent to 16 percent by 2027. Thus, Zambia's public debt is considered manageable, as long as the authorities implement a cautious debt policy.

10. **The standard sensitivity analysis shows that Zambia's public debt is also more resilient to shocks.** The alternative scenarios and bound tests show that the outlook for public debt sustainability is benign, except in the case of permanently lower GDP. In this scenario the NPV of debt-to-revenue rises from about 97 percent to about 139 percent. In the bound tests, the NPV of debt-to-revenue ratio climbs to about 194 percent by 2027, which underscores the importance of sound macroeconomic policies to achieve higher GDP growth.

IV. Conclusions

11. **Application of the LIC-DSA framework indicates that Zambia's debt sustainability outlook has strengthened substantially.** Fund and Bank staffs consider that Zambia is at low risk of external debt distress. The external debt indicators remain well below the thresholds in the alternative scenarios and the bound stress tests. The risks to public debt are also low.

Table 1. Zambia: External Debt Sustainability Framework, Baseline Scenario, 2005-17 [1]

(In percent of GDP, unless otherwise indicated)

	Actual		Historical Average 6/	Standard Deviation 6/	Projections									
	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2012-17 Average
External debt (nominal) [2]	86.9	8.9			9.9	10.1	10.7	11.4	11.7	11.5		9.6	5.4	
o/w public and publicly guaranteed (PPG)	86.9	8.8			9.9	10.1	10.7	11.4	11.7	11.4		9.6	5.4	
Change in external debt	-40.7	-17.1			1.1	0.2	0.6	0.7	0.3	-0.2		-0.4	-0.4	
Identified net debt-creating flows	-26.5	-12.9			-5.5	-5.1	2.4	-1.1	3.5	1.1		1.3	2.1	
Non-interest current account deficit	9.4	-4.0	8.1	4.8	7.4	6.9	5.7	4.6	3.6	3.1		3.4	4.7	3.9
Deficit in balance of goods and services	2.3	-4.3			-5.1	-4.1	-4.7	3.2	3.1	3.2		4.2	3.9	
Exports	33.7	37.1			40.7	40.0	38.1	35.9	35.6	36.4		38.8	37.4	
Imports	36.2	33.5			35.6	35.9	33.4	39.1	38.6	39.6		38.3	39.4	
Net income transfers (negative = inflow)	-3.6	-2.4	-4.4	1.2	-3.9	-3.9	-3.8	-3.5	-3.7	-3.4		-3.1	-3.8	-3.4
o/w official	-3.9	-2.1			-3.6	-3.7	-3.4	-3.4	-3.6	-3.3		-3.5	-3.2	
Other current account flows (negative = net inflow)	10.3	10.2			10.4	11.9	13	7.1	8.2	3.9		4.4	2.2	
Net FDI (negative = inflow)	-5.4	-4.3	-6.5	1.9	-7.4	-6.8	-6.8	-6.1	-6.1	-6.1		-4.7	-4.8	-5.4
Endogenous debt dynamics [3]	-38.4	-12.4			-4.5	-4.5	-4.5	-4.5	-4.5	-4.5		-4.5	-4.5	
Contribution from nominal interest rate	1.1	1.1			1.1	1.1	1.1	1.1	1.1	1.1		1.1	1.1	
Contribution from real GDP growth	-3.9	-1.1			-4.5	-4.6	-4.6	-4.6	-4.7	-4.6		-4.5	-4.5	
Contribution from price and exchange rate changes	-37.6	-12.4			...	...	...	...	...	...		...	...	
Residual (3-4) [4]	-3.4	-4.4			1.4	4.3	-4.1	-4.4	-4.7	-4.1		-4.9	-4.4	
o/w exceptional financing	4.6	5.1			5.1	5.1	5.1	5.1	5.1	5.1		5.1	5.1	
NPV of external debt [5]	...	4.9			5.1	5.7	6.1	6.6	7.3	6.9		6.4	3.9	
In percent of exports	...	11.1			12.7	14.1	17.9	20.1	22.2	20.1		22.7	21.1	
NPV of PPG external debt	...	4.8			5.4	5.7	6.1	6.6	7.3	6.9		6.4	3.9	
In percent of exports	...	11.1			12.7	14.2	17.8	20.1	22.2	20.8		22.7	21.1	
In percent of government revenues	...	14.4			16.5	18.4	19.1	19.4	18.8	19.4		14.1	11.8	
Debt service-to-exports ratio (in percent)	17.1	14.4			1.1	1.1	1.1	1.1	1.1	1.1		1.1	1.1	
PPG debt service-to-exports ratio (in percent)	17.1	14.4			1.1	1.1	1.1	1.1	1.1	1.1		1.1	1.1	
PPG debt service-to-revenues ratio (in percent)	18.3	13.4			1.8	2.1	1.9	1.8	1.4	1.1		1.4	1.8	
Total gross financing need (billions of U.S. dollars)	268.9	194.7			-12.1	-16.1	23.4	14.4	14.7	12.1		17.1	11.1	
Non-interest current account deficit that stabilizes debt ratio	19.1	7.1			1.1	1.7	1.1	1.1	1.1	1.1		1.1	1.1	
Key macroeconomic assumptions														
Real GDP growth (in percent)	5.2	6.2	3.7	2.1	6.2	6.1	6.2	6.1	6.1	6.1	-6.2	5.9	6.2	6.1
GDP deflator in US dollar terms (change in percent)	17.6	11.1	9.9	16.6	-2.7	-3.1	-3.4	-4.2	-1.5	1.6	-1.9	3.6	4.1	3.9
Effective interest rate (percent) [6]	3.6	3.7	2.3	...	3.7	3.2	3.5	3.9	3.2	3.1	3.9	3.7	3.6	3.9
Growth of exports of GNFS (US dollar terms, in percent)	19.6	16.4	17.3	28.1	12.6	3.7	-2.1	-7.3	-4.7	4.3	-4.8	4.3	3.8	4.8
Growth of imports of GNFS (US dollar terms, in percent)	13.3	12.4	9.3	13.9	11.5	8.6	1.3	4.8	3.3	5.1	7.9	5.5	4.9	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	34.6	37.8	39.8	41.1	43.1	43.2	36.9	31.8	28.2	36.9
Aid flows (in billions of US dollars) [7]	1,075	771			756	706	758	737	688	648		886	1,106	
o/w Grants	6.4	5.3			5.3	5.4	5.4	5.6	5.5	5.5		5.7	5.2	
o/w Concessional loans	156.4	115.7			107.5	115.4	130.1	138.2	143.9	151.9		155.6	184.5	
Grant equivalent financing (in percent of GDP) [8]	...	...			5.1	5.4	5.4	5.5	5.5	5.5		5.2	5.1	5.2
Grant-equivalent financing (in percent of external financing) 6/	...	...			34.6	38.1	35.1	35.4	35.6	35.4		32.1	29.6	34.3
Memorandum items:														
Nominal GDP (billions of US dollars)	7,271	10,193			11,264	11,884	12,531	13,408	14,956	15,969		21,245	49,409	
[NPV-DPV]/[GDP-DPV] (in percent)					-5.2	5.1	-5.6	5.6	5.6	5.1	-5.4	5.4	5.1	5.1

Source: Staff simulations.

[1] Includes both public and private sector external debt.

[2] Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in US dollar terms.

[3] Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets and valuation adjustments. It also includes grants allocated to finance investment projects, which are classified as capital inflows in the balance of payments. For projections also includes stabilizing from price and exchange rate changes.

[4] Assumes that NPV of private sector debt is expressed in its face value.

[5] Current-year interest payments divided by previous period debt stock.

[6] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

[7] Defined as grants, concessional loans, and debt relief.

[8] Grant-equivalent financing includes grants provided directly to the government and through zero borrowing (difference between the face value and the NPV of new debt).

8

Table 2. Zambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	6	6	6	7	7	7	6	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 [1]	6	9	10	10	9	8	13	18
A2. New public sector loans on less favorable terms in 2008-27 [2]	6	6	7	7	8	8	8	6
A3. Non-concessional borrowing for power generation plants	6	6	7	9	10	11	9	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	6	6	7	7	8	8	7	4
B2. Export value growth at historical average minus one standard deviation in 2008-09 [3]	6	10	13	16	17	16	12	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	6	6	7	7	8	8	7	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 [4]	6	6	5	5	6	6	6	4
B5. Combination of B1-B4 using one-half standard deviation shocks	6	5	5	5	5	5	4	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	6	8	9	10	10	10	9	6
NPV of debt-to-exports ratio								
Baseline	14	14	17	20	22	23	23	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 [1]	14	22	27	39	38	36	48	106
A2. New public sector loans on less favorable terms in 2007-26 [2]	14	15	18	22	23	27	29	35
A3. Non-concessional borrowing for power generation plants	14	14	19	27	33	37	32	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	14	14	17	20	22	23	23	22
B2. Export value growth at historical average minus one standard deviation in 2008-09 [3]	14	30	34	42	46	47	55	39
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	14	14	17	20	22	23	23	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 [4]	14	15	14	17	19	19	20	21
B5. Combination of B1-B4 using one-half standard deviation shocks	14	15	6	8	9	10	13	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	14	14	17	20	22	23	23	22
Debt service-to-exports ratio								
Baseline	1	1	1	1	1	2	2	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 [1]	1	1	1	1	1	2	3	8
A2. New public sector loans on less favorable terms in 2008-27 [2]	1	1	1	1	2	2	2	3
A3. Non-concessional borrowing for power generation plants	1	1	1	1	2	3	3	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	1	1	1	1	1	2	1	2
B2. Export value growth at historical average minus one standard deviation in 2008-09 [3]	1	1	2	3	3	3	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	1	1	1	1	1	2	1	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 [4]	1	1	1	1	1	2	1	2
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	1	1	1	1	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	1	1	1	1	1	2	1	2
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) [6]	30	30	30	30	30	30	30	30

Source: Staff projections and simulations.

[1]Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

[2]Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

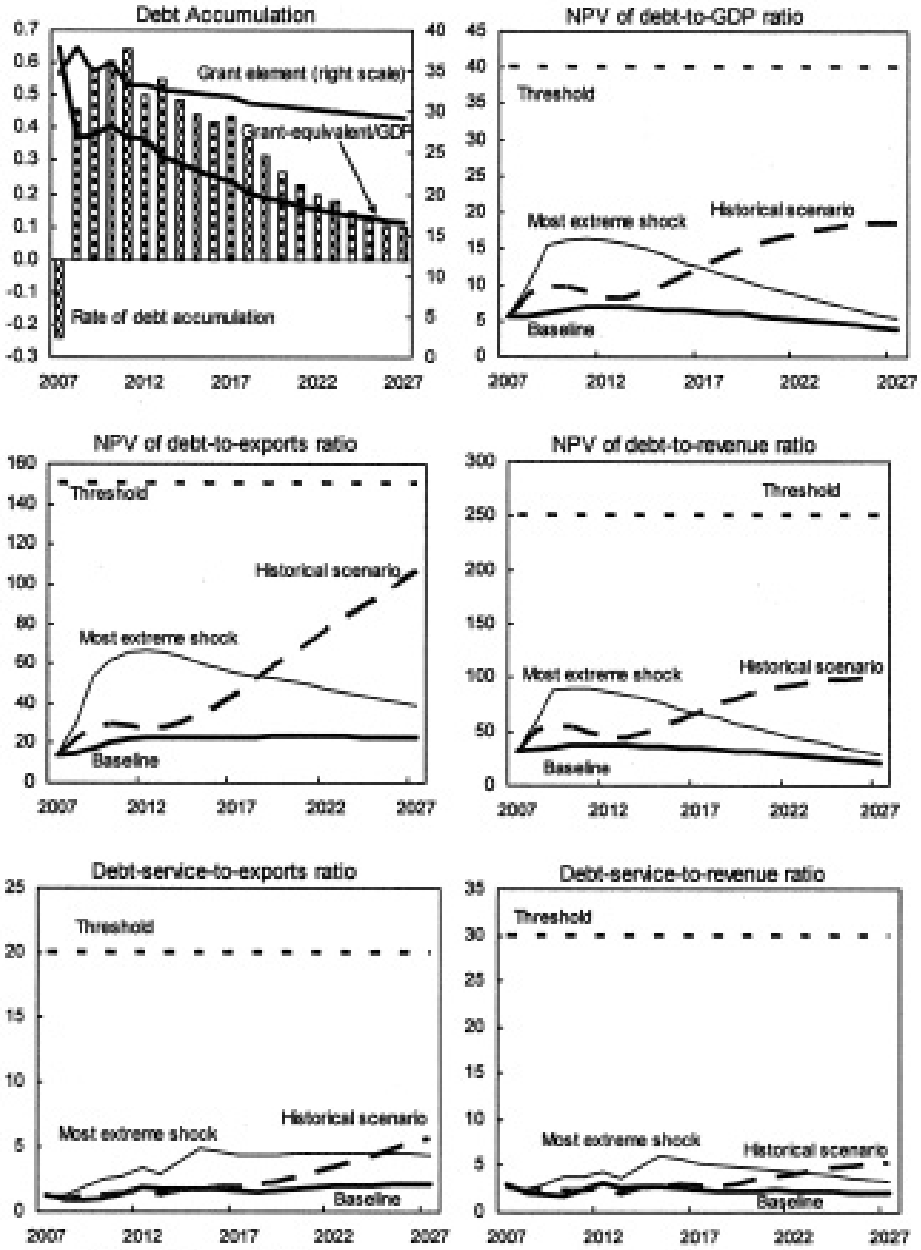
[3]Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly as offsetting adjustment in import levels).

[4]Includes official and private transfers and FDI.

[5]Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

[6]Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1. Zambia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007-2027



Source: Staff projections and simulations.

Table 3.Zambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-27

(In percent of GDP, unless otherwise indicated)

	Actual		Historical Average[2]	Standard Deviation[2]	Estimate	Projections								
	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027
Public sector debt[1]	105.2	27.4			26.5	25.3	24.9	23.1	23.8	23.1		21.6	13.1
o/w foreign-currency denominated	86.0	8.8			9.9	10.1	10.7	11.4	11.7	11.5		5.6	3.4
Change in public sector debt	-41.4	-77.8			-0.7	-1.1	-0.4	0.6	0.8	-0.5		-0.5	-0.5
Identified debt-creating flows	-15.4	4.8			-1.4	0.1	0.6	0.8	0.6	0.1		0.6	1.9
Primary deficit	0.1	0.9	1.8	1.6	-0.2	0.5	0.4	0.5	0.9	0.9	0.5	0.7	0.9
Revenue and grants	23.0	21.3			21.2	21.0	21.8	22.0	23.2	23.0		21.8	22.1
of which: grants	5.7	4.2			4.0	3.8	4.8	5.0	4.3	3.8		1.1	2.1
Primary (noninterest) expenditure	23.1	22.4			21.0	21.5	22.2	22.5	24.2	23.9		22.5	23.2
Automatic debt dynamics	-14.2	3.1			-2.6	-1.0	-0.5	-0.1	-0.8	-1.1		-0.7	-0.4
Contribution from interest rate/growth differential	-11.6	-7.9			-1.7	-1.2	-0.8	-0.9	-1.1	-1.1		-0.6	-0.3
of which: contribution from average real interest rate	-4.0	-2.6			-0.1	0.3	0.7	0.7	0.4	0.4		0.5	0.4
of which: contribution from real GDP growth	-7.6	-5.2			-1.6	-1.6	-1.6	-1.5	-1.5	-1.4		-1.1	-0.7
Contribution from real exchange rate depreciation	-42.6	10.9			-0.9	0.3	0.6	0.6	0.3	-0.2		–	–
Other identified debt-creating flows	-1.2	0.0			0.5	0.5	0.5	0.5	0.5	0.5		0.5	0.5
Privatization receipts (negative)	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities (pensions)	0.0	0.0			0.5	0.5	0.5	0.5	0.5	0.5		0.5	0.5
Debt relief (HIPC and other)	-1.5	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	12.0	-81.8			1.6	-1.4	-1.0	-0.2	-0.6	-0.6		-1.2	-1.3
NPV of public sector debt	40.8	23.9			22.3	21.1	20.4	20.4	21.0	20.5		18.4	14.4
o/w foreign-currency denominated	21.6	7.6			3.8	3.9	4.4	4.8	7.1	7.0		4.3	4.0
o/w external	21.6	7.6			3.8	3.9	4.4	4.8	7.1	7.0		4.3	4.0
Gross financing need[3]	32.5	35.1			3.8	4.6	4.1	3.9	4.2	4.3		5.6	5.1
NPV of public sector debt-to-revenue and grants ratio (in percent)	177.1	110.7			96.1	91.8	90.5	91.3	90.3	89.3		81.6	64.7
NPV of public sector debt-to-revenue ratio (in percent)	236.2	150.0			122.1	117.3	114.6	114.4	109.9	106.9		94.7	73.3
o/w external[1]	120.2	42.6			21.4	21.8	21.3	20.6	37.3	34.1		21.1	20.0
Debt service-to-revenue and grants ratio (in percent)[4]	11.3	17.3			9.2	7.0	6.8	6.1	6.8	7.0		6.9	4.3
Debt service-to-revenue ratio (in percent)[4]	107.7	170.6			11.7	8.9	8.6	7.9	7.3	8.4		8.0	7.9
Primary deficit that stabilizes the debt-to-GDP ratio	42.5	78.7			0.3	1.9	0.8	0.0	0.5	1.6		1.6	1.6
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.4	5.2	3.1	3.4	6.2	6.5	6.5	6.5	6.6	6.9	6.3	5.9	4.5
Average real interest rate on domestic currency debt (in percent)	-8.7	-2.6	-13.4	10.3	2.1	2.5	3.2	3.8	3.4	3.6	3.4	3.5	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-26.1	13.7	-4.4	19.2	-11.3	–	–	–	–	–	–	–	–
Inflation rate (GDP deflator, in percent)	18.7	13.8	21.0	4.7	10.8	5.5	5.2	5.3	5.8	6.6	4.9	6.2	6.7
Growth of real primary spending (deflated by GDP deflator, in percent)	4.7	3.1	2.3	6.9	9.2	8.8	5.3	7.5	8.9	6.1	7.3	6.8	6.5

Sources: Country authorities; and Fund staff estimates and projections.

[1] Central government.

[2] Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

[3] Revenues excluding grants.

[4] Debt service is defined as the sum of interest and amortization of medium and long-term debt.

[5] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability and excluding one-off impact of MDRI relief on grants in 2006.

11

Table 4. Zambia: Sensitivity Analysis for Key Indicators of Public Debt 2007-27

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	22	21	21	21	21	21	18	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	23	24	26	27	28	30	29
A2. Primary balance is unchanged from 2006	22	21	22	22	22	22	21	17
A3. Permanently lower GDP growth [1]	22	21	21	22	23	22	24	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	22	23	26	28	30	32	37	44
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	22	24	26	26	26	25	22	16
B3. Combination of B1-B2 using one half standard deviation shocks	22	24	26	26	28	25	20	12
B4. One-time 30 percent real depreciation in 2008	22	34	23	24	23	21	20	15
B5. 10 percent of GDP increase in other debt-creating flows in 2008	22	30	30	30	30	30	28	20
NPV of Debt-to-Revenue Ratio [2]								
Baseline	97	92	99	91	90	89	82	68
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	97	98	100	111	114	118	128	125
A2. Primary balance is unchanged from 2006	97	93	94	97	96	95	81	73
A3. Permanently lower GDP growth [1]	97	93	93	96	97	97	104	139
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	97	100	112	121	128	135	161	194
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	97	102	113	114	112	110	97	71
B3. Combination of B1-B2 using one half standard deviation shocks	97	102	112	111	108	105	87	54
B4. One-time 30 percent real depreciation in 2008	97	100	102	100	101	98	88	67
B5. 10 percent of GDP increase in other debt-creating flows in 2008	97	132	131	132	131	129	116	88
Debt Service-to-Revenue Ratio [2]								
Baseline	9	7	7	6	6	7	7	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	8	9	8	9	10	11	13
A2. Primary balance is unchanged from 2006	9	8	8	7	7	8	8	8
A3. Permanently lower GDP growth [1]	9	8	8	7	7	8	10	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	9	9	9	11	11	13	15	22
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	9	8	11	12	9	9	8	8
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	10	11	8	8	7	5
B4. One-time 30 percent real depreciation in 2008	9	8	8	7	7	8	7	6
B5. 10 percent of GDP increase in other debt-creating flows in 2008	9	8	21	12	9	10	9	10

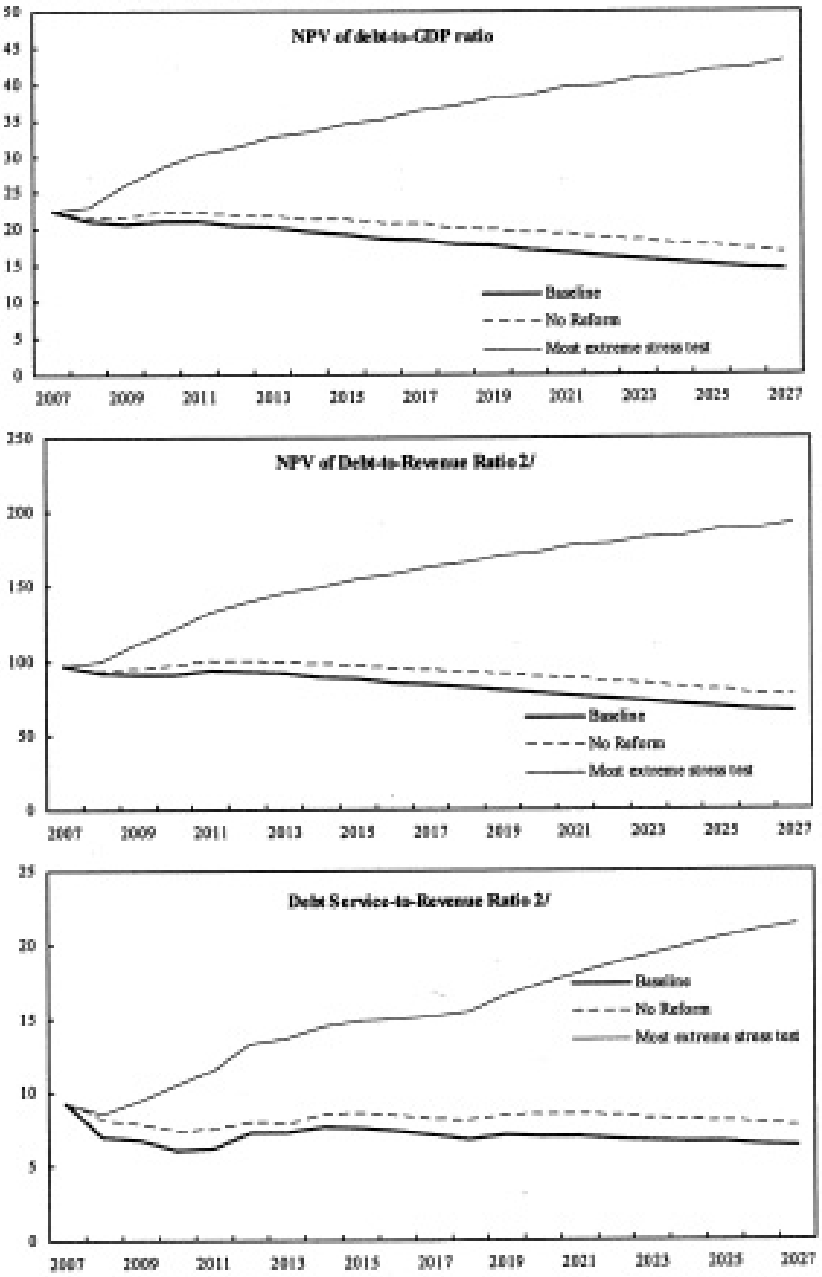
Sources: Country authorities, and Fund staff estimates and projections.

[1] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

[2] Revenues are defined inclusive of grants.

12

Figure 2. Zambia: Indicators of Public Debt under Alternative Scenarios, 2007–27[1]



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2017.
2/ Revenue including grants.

MAP SECTION

OCTOBER 2004

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