Statement by Eckhardt Biskup
Date of Meeting: October 7, 1999

Zambia CAS

1. We would like to thank VP Callisto Madavo, CD Phyllis Pomerantz and her country team for the briefings on Zambia, especially on the situation pertaining to the privatization of ZCCM. We would also like to thank the Zambian delegation to the Annual Meetings for a very useful briefing last Friday, October 1st.

We take note of the CAS "Updating Note" and the information contained therein that negotiations about a revised ZCCM asset package are currently ongoing. We appreciate Senior Management's offer to update and finalize the CAS after this Board discussion today, taking into account comments by Executive Directors following the new policy. It is on this basis that we are prepared to go along with the proposed CAS for Zambia.

2. We would like to invite the representative of the IMF to brief the Board on the latest status of the ESAF program (as of end September). Implementation of the ESAF program is of course of great importance, not only, but especially because of implications for HIPC eligibility. We recognize that HIPC eligibility and privatization of ZCCM are two crucial assumptions for the base case lending scenario.

For the time being we agree that Zambia is in the low case. It would be useful to clarify that in the final version of the CAS. The low case is also justified by a fairly large percentage of undisbursed amounts in the portfolio (Annex B8), some of which were committed in FYs 1994 and 1995.

3. We would like to ask the Bank to take a fresh look at the assumptions underlying the economic growth rates of Zambia for the near future. We believe they are on the optimistic side and we would welcome if this could be corrected.
4. We very much welcome the intensive participation that has led to this CAS, especially with Zambian civil society. The quality of the CAS seems to have greatly benefited from that process. We also welcome the intention to measure the impact of the CAS more effectively using social and poverty indicators.

We also welcome the use of the CDF matrix. This increases transparency, helps donor coordination and potentially helps sharpen our strategic focus. However, the CAS could be improved in terms of strategic selectivity. 9 out of 14 network areas (Annex B11, page 52) are identified as "high" priority, the remaining 5 areas are "moderate" priority, none are "low" priority. It seems that - despite the wide-ranging challenges Zambia faces - the country would be better served by a sharper strategic focus of all donors, including the Bank.

We would welcome if the Bank could assist the GOZ in preparing a Poverty Reduction Strategy Paper before a possible HIPC decision point. This PRSP should form the basis for all policies and interventions and should be focused on the overarching objective of poverty reduction.

5. Given the history of Zambia the objectives of the Government seem somewhat ambitious and they underline a need for much greater focus on implementation of reforms than has been the case in the past, especially in the social, agricultural, health and governance sectors.

6. We would like to add a general concern which we have already flagged in the past. The donor community at large will need to take a look at the lessons of the Zambia case in particular as it relates to the proposed privatization of ZCCM. While it was (and is) unavoidable to make external balance of payment support conditional upon the transfer of assets of the copper mines, it has put the donor community in a somewhat undesirable position once the government had accomplished all steps expected from it. Regardless of mistakes that have been made on the Zambian side in the past with regard to the negotiations, it seems that now donors and the government have to rely on actions to be taken by the private sector, the prospective buyers of ZCCM to be more precise. One could argue that the strategic implications of this situation seem less than optimal.

We do not have a solution to this question. With the benefit of hindsight one might think that an earlier and more pro-active involvement of institutions like IFC might have been beneficial to assist GOZ in negotiating what could be called the single most important part in its privatization program. On the other hand IFC's involvement would probably not have guaranteed success and it would be very unfair to imply that IFC is to blame. The lesson must be a much broader one and we would be interested in the view of Management and colleagues on the Board.