

THE INTERNATIONAL MONETARY FUND AND  
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

ZAMBIA

**Preliminary Document on the Enhanced Initiative for  
Heavily Indebted Poor Countries**

Prepared by the Staffs of the IMF and IDA<sup>1</sup>

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## **FISCAL YEAR**

January 1 - December 31

## **CURRENCY EQUIVALENTS**

Currency unit: Zambian Kwacha (K)  
US\$1 = 3022 Kwacha (end-June 2000)

## **WEIGHT AND MEASURES**

Metric system

## **ABBREVIATIONS AND ACRONYMS**

AAC	Anglo-American Corporation
AfDB	African Development Bank
AfDF	African Development Fund
ASIP	Agricultural Sector Investment Program
BADEA	Arab Bank for Economic Development in Africa
BESSIP	Basic Education Sub-sector Investment Program
BoZ	Bank of Zambia
CAS	Country Assistance Strategy
CG	Consultative Group
COMESA	Common Market for Eastern and Southern Africa
DMFAS	Debt Management and Financial Analysis System
EC	European Commission
ERM	External Resources Mobilization
ESAC	Economic and Social Adjustment Credit
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FSC	Fiscal Sustainability Credit
GDP	Gross Domestic Product
GOZ	Government of Zambia
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
LCMS	Living Conditions Monitoring Survey
MOFED	Ministry of Finance and Economic Development
MOH	Ministry of Health
NPRF	National Poverty Reduction Framework
NRB	National Roads Board

NWASCO	National Water Supply and Sanitation Council
ODA	Official Development Aid
OECD	Organization for Economic Cooperation and Development
OGL	Open General Licence
OPEC	(Fund of the) Organization of Petroleum Exporting Countries
PER	Public Expenditure Review
PFP	Policy Framework Paper
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSRP	Public Service Reform Program
ROADSIP	Road Sector Investment Program
SADC	Southern African Development Community
USAID	United States Agency for International Development
ZANACO	Zambia National Commercial Bank
ZCCM	Zambia Consolidated Copper Mines Limited
ZNOC	Zambia National Oil Company Limited
ZESCO	Zambia Electricity Supply Company
ZPA	Zambia Privatization Agency
ZRA	Zambia Revenue Authority

## **I. INTRODUCTION**

1. This paper presents a preliminary assessment of Zambia's eligibility for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC). Based on an analysis of external debt data, the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA) have concluded that, even with the full use of all traditional debt relief mechanisms, Zambia would still face an unsustainable level of external debt over the medium term. Section II assesses Zambia's eligibility under the Initiative by presenting the country's record of reform, including macroeconomic performance, and structural and social reforms. Section III details the policy outlook over the medium term. Section IV presents the debt sustainability analysis (DSA) prepared by the authorities with the staff of the IMF and IDA<sup>2</sup>, and describes likely assistance under the Initiative and possible conditions for reaching a floating completion point. Section V concludes with the staffs' recommendations and issues for discussion by the Executive Directors.

## **II. ASSESSMENT OF ELIGIBILITY**

### **A. PRGF and IDA Status**

2. Zambia is currently an IDA-only and PRGF-eligible country. With an estimated per capita GNP of US\$320 in 1999, it is among the poorest countries in Sub-Saharan Africa (SSA). A national household survey conducted in 1998 estimated that more than 70 percent of Zambians were living in poverty, with levels of poverty particularly high in rural areas. High rates of HIV prevalence have led to a significant decline in life expectancy and have contributed to a decline in many other social indicators (Table 1). Even with a strong implementation of a development strategy aimed at economic growth and poverty reduction, Zambia will continue to need substantial international concessional assistance over the medium term, and will remain an PRGF-eligible and IDA-only country for the foreseeable future.

### **B. Adjustment Record**

3. Zambia has been implementing programs of economic and financial reform intermittently since the 1970s and has received support from the international donor

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<sup>2</sup> The DSA was prepared jointly with the authorities during a mission in May 2000. This document was prepared by a Fund team led by Mr. R. Sharer (AFR) and an IDA team jointly led by Mr. H. Dinh (Africa Macroeconomics 1) and Mr. J. Katz (HIPC Unit). The Fund team comprised Mr. S. Hossain, Ms. M. Williams-Smith, and Mr. J. Zeuner (all AFR), Mr. M. Kell (FAD), Mr. R. Powell and Mr. S. Choudhury (both PDR). The IDA team comprised Mr. D. Bruns, Mr. D. Go, Mr. L. Koryukin and Mr. M. Nyamazana (all Africa Macroeconomics 1) and Mr. G. Alfandari and Mr. F. Earwaker (both HIPC Unit).

community including the Fund and the World Bank. Between 1976 and 1986 there were five stand-by-arrangements and one extended arrangement supported by the Fund. Bank support included two program loans and a number of investment loans. During this period, some limited progress was made in structural reforms, most notably in liberalizing the exchange rate and pricing policies. However, the macroeconomic gains were reversed in 1986-87. By 1987, the economy was subject to rationing over a wide range of commodities and the budget deficit reached about 18 percent of GDP. During 1987-89, there was no Fund program, the Bank program was phased out, and IDA lending also declined substantially.

Table 1. Zambia: Development Indicators

	1990		1998	
	Zambia	Sub-Saharan avg.	Zambia	Sub-Saharan avg.
GNP per capita (US\$)	440	520	370	500
Life expectancy	51	51	44	52
Infant mortality	107	100	109	90
Urban population (in % of total)	40	28	38	32
Population w/ access to clean water (%)	50	n.a.	50	45
Child malnutrition (% children under 5)	39	n.a.	53	
Illiteracy (% pop. aged 15 and higher)	37	53	38	43
Primary net enrollment rate	68	n.a.	68	n.a.

Sources: Zambian data utilize SDA Priority Survey (1991) and LCMS (1998); Sub-Saharan Africa data utilize African Development Indicators (1998/99)

4. In late 1991 a new democratically elected government initiated a program of macroeconomic stabilization and structural reform which won the support of bilateral donors and multilateral institutions. In 1992, Zambia cleared its arrears with the World Bank, concluded a rescheduling agreement with the Paris Club, and agreed with the Fund on a three-year Rights Accumulation Program, which resulted in the clearance of arrears to the Fund in December 1995. At the end of the Rights Accumulation Program, the Executive Board of the IMF lifted Zambia's ineligibility to borrow and approved parallel SAF and ESAF arrangements in December 1995. A new 3-year PRGF arrangement was approved in March 1999 although, since the initial disbursements at the time of Fund Board approval, no further scheduled drawings have been made due to delays in program implementation. Zambia's track record under Fund supported programs is shown in Appendix III.

5. In recent years, the loss-making operations of ZCCM, the main parastatal in the copper sector, have had a serious negative impact on Zambia's macroeconomic performance. In the period prior to its privatization in March 2000, continuing poor performance of the ZCCM led to a decline in copper production from about 400,000 metric tons in 1992 to about 240,000 metric tons in 1999, which in turn largely contributed to a steep decline in exports from about US\$1 billion in 1992 to about US\$467 million in 1999. The fiscal burden of the ZCCM has also been high, costing about US\$200 million during 1999 (about 6 percent of

GDP), and the government had to assume about US\$770 million of ZCCM's debt obligations (about 19 percent of GDP).

6. In light of the above, Zambia's overall macroeconomic performance under Fund and Bank supported reform programs in 1990's has been relatively weak. While Zambia experienced negative economic growth during 1991-95, economic activity recovered significantly after the mid-1990's with real GDP expanding on average by 2.6 percent per annum during 1996-99 supported by good agricultural performance and strong growth in non-traditional exports. Several droughts, terms of trade shocks combined with poor macroeconomic management and the failure to address the problems of the state-owned mining company ZCCM contributed to this poor growth performance. Nevertheless, Zambia succeeded in bringing average inflation down from over 100 percent in 1991-92 to about 25 percent in 1998. However, with average inflation recorded at 27 percent in 1999, inflation still remains high, reflecting weaknesses in macroeconomic management, including inadequate and uneven fiscal adjustments. While the overall fiscal deficit on a cash basis improved from a deficit of about 7 percent of GDP in 1991 to a surplus of 0.6 percent in 1995, the fiscal balance deteriorated to a deficit of about 4 percent of GDP in 1999 mainly due to financial burden imposed by the parastatals including ZCCM. Zambia's external position did not register any improvement in 1990's and the external current account deficit (including grants) increased from an average of 1.8 percent of GDP during 1991-96 to about 6 percent during 1996-99 owing mainly to declining copper exports and negative terms of trade shocks.

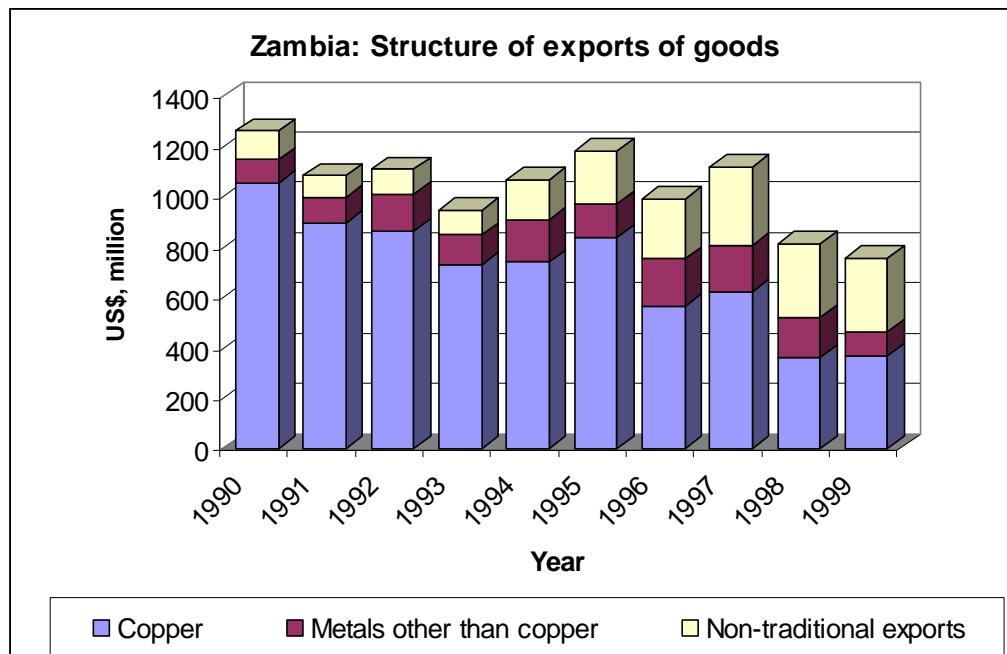
7. By contrast to the lapses in macroeconomic management, Zambia has made substantial progress with structural reforms in many sectors over the decade of the 1990s. Whereas in 1990, the economy was dominated by state-owned enterprises, government administered price structures and protective mechanisms, Zambia today has a much more open economy where prices are largely market determined and the greater part of previously state-owned enterprises have been restructured and divested to the private sector including the all-important copper company. Some of the principal achievements of structural reform over the past ten years are presented in Box 1 and, more fully, in Appendix 1. Progress along the path of adjustment and structural reform has not always been steady and macroeconomic management has sometimes faltered but there can be no question that, on the threshold of the 21<sup>st</sup> century, Zambia is much better positioned to move forward on an accelerated growth path than at any time in the previous quarter century.

8. As a result of the changes that have taken place the structure of the Zambian economy is now significantly different from a decade ago. This is evident from the composition of merchandise exports. Non-traditional exports have increased markedly in the recent past both in absolute and relative terms (see Chart 1). While copper exports are expected to recover now that ZCCM has been privatized, non-traditional exports are likely to continue expanding so that Zambia will be much less dependent upon a single commodity export and, therefore, less vulnerable to the vicissitudes of mineral prices.

### Box 1: Main Economic and Structural Reforms Since 1991

- Annual inflation was reduced from 170% in 1991/92 to about 25% in 1998/99;
- Tax collection rose following the establishment of an autonomous Zambia Revenue Authority. A value-added tax was introduced in July 1995;
- Exchange rates have been unified and market-determined;
- Quantitative restrictions on imports and all export bans were removed. Maximum tariff rate was reduced from 100% to 25%. Most raw materials are subject to zero tariffs. Most tariff exemptions were eliminated;
- New Investment Act was passed in 1993 to streamline investment approvals;
- Public Service Reform Program launched in 1991 and renewed in 1997. Since renewal, 22,000 public employees have been retrenched and 14 ministries restructured;
- Completed sale or liquidation of about 80% of public entities offered for sale. Transfer of ZCCM assets completed in March, 2000;
- Prices decontrolled and subsidies eliminated. In particular, agricultural prices and maize marketing were liberalized;
- Interest rates liberalized and financial sector reformed.

Chart 1:



9. There are many problems that still remain to be resolved before Zambia can realize its full growth potential, amongst them the need to lower inflation and to complete the transformation to a market-based economy. Yet some problems are not all of Zambia's making. Zambia has been hard hit by a collapse of copper prices since 1995 which, together with the ripple effects of the East Asia crisis on investor confidence, combined to plunge the economy into recession. Many industrial and commercial

enterprises are now operating at only a fraction of installed capacity. An exceptionally high burden of external debt is an added factor that has impaired macroeconomic management in the past in part because it has pushed to the forefront short-term cash flow issues relating to the next payment cycle which have preoccupied the government unduly and crowded out longer-term strategic planning. A resolution of the debt overhang and an exit from the rescheduling cycle would facilitate better economic management and would substantially improve prospects for growth and poverty reduction.

### **III. THE CURRENT ECONOMIC CONTEXT**

10. In order to improve the outlook for economic growth and social conditions, the government adopted, in 1999, a medium-term economic and structural reform program covering the period 1999-2001. The macroeconomic adjustment and reform program was supported by a new three-year PRGF arrangement, approved in March 1999. The program focused on strengthening macroeconomic policies, finalizing the privatization of ZCCM, accelerating the parastatal reform and privatization program for key public enterprises, and improving the financial sector. The main macroeconomic objectives of the program were to regain control over inflation mainly through continued fiscal adjustment and strengthening of the external position.

11. Continued delays in the privatization of ZCCM caused performance under the PRGF program to be unsatisfactory in 1999 and early 2000. As a result, no drawings were made from the Fund facility after the initial Board approval. Weak budget management controls and revenue shortfalls stemming from the failure of major parastatals to pay taxes in full have continued to undermine the public finances. Despite stagnant output in the mining sector, GDP increased by 2.4 percent in 1999 buoyed by stronger growth in agriculture. The 12 month inflation rate declined from 31 percent in end-1998 to 21 percent in end-1999.

12. Faced with a sizeable shortfall in revenue, mostly related to the delay in privatizing ZCCM, the authorities reduced capital expenditure below the programmed target in 1999. The net result was that the overall fiscal deficit declined slightly to 4.0 percent of GDP. Domestic fiscal operations (including payment of arrears) recorded a surplus of 0.4 percent of GDP. Broad money growth accelerated to about 29 percent in 1999 as against a targeted growth of 20 percent on account of rapid expansion of credit to the parastatal sector. While bank lending to the private sector increased by only about 30 percent, bank lending to parastatal sector increased by 107 percent reflecting borrowing associated with liquidity problems of ZCCM and the large importation of petroleum products by ZNOC.

13. The 1999 balance of payments was adversely affected by weak export performance and a shortfall in donor support, reflecting weak program implementation. With mineral exports at a historic low and sluggish nontraditional exports, the supply of foreign exchange in the market dropped considerably. Nevertheless, a sharp reduction in imports enabled the current account deficit (excluding grants) to improve from 17.8 percent of GDP in 1998 to 15.8 percent in 1999. Foreign borrowing by ZCCM and

ZNOC helped to relieve pressures on the foreign exchange market, and contributed to maintaining a relatively stable exchange rate through end-December. Gross official reserves increased by only US\$2 million to US\$46 million by end-December 1999, or about 2 weeks of imports. Debt service paid in 1999 after rescheduling was about 16 percent of exports of goods and services, similar to 1998.

#### IV. MEDIUM-TERM POLICY OUTLOOK

14. Zambia's medium-term strategy aims at achieving high and sustained growth and poverty reduction by maintaining macroeconomic stability and completing the unfinished agenda of structural and social reforms. The government's revised medium-term policies and targets are described in the interim Poverty Reduction Strategy Paper (IPRSP) for 2000-2002, circulated together with this document. The government's macroeconomic objectives in the three years are to achieve sustained economic growth of about 5 percent a year, reduce inflation to 7 percent by the end of 2002 and raise gross international reserves from the equivalent of two weeks imports at end-1999 to about two and a half months by end-2002. These medium term goals may be revised in the context of preparing a full PRSP which the authorities expect to complete by mid-2001.

##### A. Macroeconomic Policies

15. The growth projections in the IPRSP assume an increase in copper production of about 10 percent a year, agricultural output growth of some 7 percent a year, and an expansion in nontraditional exports of about 13 percent a year. The growth prospects over the medium term are underpinned by a projected rise in the investment/GDP ratio from 14.5 percent in 1998 to an ambitious 21 percent in 2002. The investment growth is expected to come mainly from the mining and manufacturing sectors, following the successful transfer of the main assets of ZCCM. While most of the higher investments will need to be financed by increased public savings and capital inflows, private domestic savings would increase by more than 2 percentage points of GDP during the period.

16. **Fiscal policy.** Medium-term fiscal policies will build upon the progress made since the early 1990s in reducing tax distortions and improving revenue performance. On the direct tax side, many discretionary exemptions have been eliminated, thus broadening the base and permitting lower tax rates. On the indirect tax side, import tariffs have been streamlined (see paragraph 21 below) and a complex and distortionary sales tax regime was replaced by a VAT in 1995. Tax administration was also enhanced by the establishment of an independent Zambia Revenue Authority in 1994. Looking ahead, the government will maintain the integrity of the tax system by refraining from granting new tax exemptions or other preferential tax breaks, and by ensuring that all parastatals pay their taxes fully and promptly.

17. However, progress has been slower on the expenditure side. The central government deficit has been reduced mainly through expenditure compression enforced by a cash budgeting system, but the procedures for allocating, controlling and monitoring expenditures have not been consistently applied, and there have been insufficient underlying expenditure policy reforms. As a result, large domestic spending arrears have accumulated, the allocation of resources between and within ministries has lacked

transparency, and there has been increasing resort to off-budget and quasi-fiscal measures. Fiscal problems also persist in the wider public sector, including local governments, state-owned enterprises, and pension and special funds.

18. To enhance fiscal management in the near term, the government intends to improve expenditure control through better training of government accountants; stricter enforcement of financial regulations; tighter control over extra-budgetary funds; and implementation of measures to improve predictability, accountability and transparency in budget preparation and execution. The Finance Act will be revised to allow for stronger sanctions and penalties; to enforce existing regulations and withhold cash releases to non-complying ministries; and to publish on a quarterly basis the projected and actual cash allocations to line ministries. The government will also begin work on the introduction of a computerized integrated financial management information system (IFMIS). Once the effectiveness of fiscal management is significantly improved, the Government's goal in the longer term is to move away from the current reliance on the cash rationing system towards a medium-term expenditure framework that improves budget preparation and execution, ensuring larger and more predictable budget allocations for spending directly related to poverty reduction, while maintaining a tight fiscal stance and prudent cash management.

19. The fiscal policy targets for 2000-2002 are to reduce the overall deficit (including grants) while generating domestic budget surpluses (excluding exceptional lending to ZCCM in early 2000) of around 1 percent of GDP, which would create an appropriate context for private sector growth and for less dependence on external assistance in the medium term. Measures will be taken to protect priority spending in the social sectors and infrastructure investments in the context of tightly disciplined overall expenditures. Accordingly, expenditure on social services are targeted to increase from 4.5 percent of GDP in 2000 to 5.5 percent of GDP in 2002. Between 1999 and 2002, domestically financed public investment is projected to increase by about 0.4 percentage points of GDP to 2.0 percent of GDP, in line with the medium-term growth objectives.

20. **Financial sector management.** Because of longstanding portfolio problems in several state-owned financial institutions, the main priority in the financial sector will continue to strengthen prudential oversight of the banking system. The Bank of Zambia (BoZ) has improved commercial bank regulation and supervision and has gazetted regulations on large loan exposure, insider lending, and provisioning. By early-1998, one distressed bank was taken over by a larger bank, while four others were put under receivership. On November 1, 1997, the new national payments system went into effect through the transfer of the operation of the clearinghouse to commercial banks. In this regard, the BoZ refrains from providing unsecured credit facilities to commercial banks, and no direct lending or deposit taking takes place through public agencies or institutions that are not licensed by the BoZ. In view of past problems, the Development Bank of Zambia limits its activities to loan recovery. Additional measures to strengthen the banking system include: pressing banks to step up their loan recovery effort, enforce minimum liquidity and capital requirements and require changes in bank management where necessary. Off-site risk analysis will also be stepped up through training of staff and an improved commercial bank database. In this regard, the authorities have proposed

legislation to amend the Banking and Financial Services Act that will enhance the legal position and powers of the BoZ in licensing and liquidating banks.

21. **Monetary policy.** Effective action to reduce inflation will require improvements in monetary policy, including a broadening of instruments. In this context, the BoZ plans to intensify the use of open market operations and reduce reliance on cash and liquidity reserve requirements as instruments of credit control. An enhancement of confidence in the internal and external value of the kwacha will also help the BoZ develop a market for medium- and long-term government bonds, which will widen the available options for open market operations and reduce the sensitivity of the government budget to short-term fluctuations in interest rates.

22. **Trade and exchange rate policy.** Extensive reforms of the external trade regime began in 1992 and have continued through the decade. Most licensing and quantitative restrictions on imports and exports have been eliminated while the tariff structure has been compressed and simplified. The level and dispersion of customs duty rates, which ranged from 0 to 100 percent prior to 1991, by 1998 ranged between 0 to 25 percent with only three non-zero rates. Average import duties have been reduced to less than 15 percent, consistent with Zambia's commitments under the Cross-Border Initiative (CBI) and under SADC and COMESA. Zambia is committed to no longer grant discretionary exemptions from import duties. Over the medium term, the average import tariff will be reduced to about 10 percent. To this end, the maximum rate will be reduced to 20 percent in 2001. Complementing these changes, Government has decontrolled foreign exchange and allowed the exchange rate to be fully market determined.

23. Maintaining a market determined flexible exchange rate policy is critical in order diversify the export base, build an adequate level of foreign reserves and thereby reduce Zambia's vulnerability to fluctuations in copper prices. Economic growth will require growing imports, and part of the current account deficit will be financed by external assistance and part by foreign direct investment. The projected amounts of external financing on highly concessional terms (including debt relief) and private capital inflows, mainly from foreign direct investment in the mining sector, would allow accumulation of official reserves to the equivalent of 3 months of imports cover. Further liberalization of the trade and exchange regime will also be conducive to direct foreign investment.

## **B. Structural and Sector Policies**

24. Structural reforms over the last eight years—centered upon economic liberalization and redefining the role of the state in the economy—have provided a necessary, albeit not sufficient, foundation for sustainable growth and poverty reduction. Government actions, while impressive on some fronts, fell short on others. Delays in implementing the core reform agenda, such as divestment of ZCCM, have inhibited sustained growth and compromised the public finances. In addition, there remains a need for increased transparency and accountability in fiscal management, greater efforts to combat corruption and improve public sector performance, and better targeting of services to the poor. Further efforts are needed to increase production and productivity by developing a better educated workforce capable of learning new skills and producing globally competitive goods and services.

25. **Governance.** The government has prepared a comprehensive Governance Program to consolidate its approach to governance and human rights. It underscores the importance of capacity-building and institutional strengthening of governance related institutions such as the police, the judiciary, the Auditor General's Office, the National Tender Board, and the independent anti-corruption, human rights, and electoral commissions. In addition, the government will ensure that those commissions receive adequate budgetary provisions. Finally, efforts to strengthen local government have begun with recent creation of the office of District Secretary in all districts, and pilot efforts in a few urban areas are underway to inform development of a national policy on decentralization.

26. **Public sector reform.** To stem declines in the cost-effectiveness of the public service, the government adopted a public sector reform program (PSRP) in 1993 aimed at, *inter alia*, reducing nonmilitary public employment, decompressing public sector salaries, and improving performance management systems. A limited hiring freeze, instituted in August 1997, followed by a program of retrenchment and contracting out of some services, resulted in the size of the nonmilitary public service dropping from 137,000 in 1997 to 112,000 by end-1999. Within this significant downsizing, efforts have been made to maintain adequate service delivery by protecting front line service providers (e.g., nurses, teachers, police) from retrenchment.

27. Public sector reform will continue although it is recognized that comprehensive reform in Zambia - including retrenchments, improving incentives, performance management, and revamping a wide array of personnel-related systems—will take a number of years and must be linked to political and economic governance programs. An IDA supported Fiscal Sustainability Adjustment operation will help strengthen the pension institutions to facilitate a more efficient, equitable and affordable retrenchment of public sector employees. Those efforts will be complemented by a Public Service Capacity Building Program (PSCAP), aimed at implementing systems-wide reform, including improving payroll management controls, establishment controls, and performance management, as well as undertaking broad ministerial staffing reviews and restructuring.

28. **Parastatal reform and privatization.** The government's medium term strategy builds upon the program, begun in 1991, to privatize public enterprises which, at that time, accounted for some 80 percent of GDP and employed 140,000 workers. By 1998, some 80 percent of them had been divested. The sale of ZCCM in March, 2000 was a particularly important landmark because it substantially completed the privatization of Zambia's dominant copper mining industry. This development is expected to bring new management and investment into the mines and, more fundamentally, alter the relative roles and boundaries between the private and public sectors. The government now plans to extend its privatization program to include the privatization of key utilities. It aims to complete the divestiture of 50 commercial entities remaining in the original ZPA portfolio, and it will offer for sale a minority shareholding and management rights in the telecommunications company (ZAMTEL). The government will also add the electricity company (ZESCO) to ZPA's portfolio with a view to its early privatization. In the petroleum sector, the government is establishing a liberalized pricing and retail distribution system for petroleum products and will begin discussions with the Tanzanian

authorities on options for private sector participation in operating the TAZAMA petroleum pipeline. With regard to financial institutions, the government intends to privatize the state-owned institutions in accordance with the provisions of the Privatization Act, including the Zambia National Commercial Bank and Zambia State Insurance Company, and complete the privatization of the Zambia National Building Society and the National Savings and Credit Bank by end 2000.

29. **Transport.** In 2000 the Cabinet will adopt a transport policy framework document which developed from a consultative process begun in 1995. Policy will favor an increased role for the private sector in the provision of transport infrastructure and services, a critical (but more limited role) for the public sector in ensuring basic transport needs especially for roads and road transport in rural areas, and an enhanced role for the public sector in policy, regulation, safety and environmental matters.

30. The policy framework follows upon a series of reforms to improve road sector management that were introduced in the mid- and late-nineties. A Road Fund was established in 1993 with resources from road user charges. A National Roads Board was established in 1994 with a predominance of members from the private sector. Sector institutions were restructured with a view to contracting out road works to the private sector and cutting back force account to a minimum. At the same time, a ten year program (ROADSIP 1997-2007) was launched with strong domestic and external donor support to address the maintenance backlog and improve the quality of the road network. A second stage of reforms – to include institutional streamlining, further financing initiatives and a review of road sector legislation – will begin soon to consolidate progress. They will include specific programs to enhance access of the poor to transport, selected feeder road rehabilitation and upgrading, community road infrastructure provision (in collaboration with the Social Fund) and promotion of appropriate (non-motorized) means of transport in rural areas.

31. While road transport is dominant in Zambia, other modes are important. Past efforts to improve Zambia Railways within the parastatal framework have not been successful and, therefore, railway operations are soon to be concessioned. After the liquidation of the national air carrier in the early 1990s, the Government has sought to foster a competitive, liberalized air transport system under which a number of domestic companies are licensed to provide domestic and international services. The main airports are operated on a commercial basis by the National Airports Corporation Ltd. while Government retains responsibility for operation of smaller facilities and for air traffic control and safety.

32. **Water Supply and Sanitation.** Only 50 percent of the population in Zambia have access to safe water. While the overall picture has remained much the same over the past ten years, there would appear to have been some improvement in rural areas which has been offset by a deterioration of water supply in urban areas where poor maintenance and neglect brought many urban water supply and sewerage systems into serious disrepair.

33. The rehabilitation of water supply systems in major urban centers with support from IDA has kept the situation in check. At the same time, the government has made significant progress in articulating a sector policy framework. However, the institutions

and management practices for effective policy implementation are not yet firmly in place. Three problem areas are discernable. First, the government's decision to decentralize water supply and sanitation services has led the Ministry of Local Government and Housing to withdraw from direct involvement while local authorities are not yet properly staffed equipped and funded to handle their newly acquired responsibilities effectively. Second, at the core of the funding issue is a reluctance to embrace the principles of cost recovery following a long tradition where cost recovery was not emphasized. A third problem is that Zambia still aspires to the high standards of service that were adopted in the boom years 1965-74 for the small urban elite that was in the forefront of the formal business sector. There is a need to reconceptualize the planning and provision of water supply, sanitation and other urban services at sustainable levels that can be applied to the population as a whole.

34. The government is aware of these problems and is committed to placing the sector on a sound commercial basis. An important step in that direction was the establishment in October 1999 of a National Water Supply and Sanitation Council with powers to regulate and issue operating licenses to domestic water providers. This should facilitate the establishment of a wide range of private sector options including commercial utilities providing urban water services on a full cost recovery basis.

35. **Power.** The salient feature of the power sector in Zambia is that only 15 percent of the population has access to service. That compares unfavorably with neighboring Zimbabwe where 30-35 percent of the population is served and even more unfavorably with South Africa where 50-60 percent of the population is supplied with power. There can be no doubt that lack of access to electric power is a major constraint to economic development in Zambia.

36. Lack of access to power is not caused by insufficient generating capacity. Zambia has abundant hydroelectric resources and its installed capacity far exceeds domestic consumption, thereby adding to a region-wide oversupply. Low access to service is, therefore, the result of a widely dispersed population coupled with an incomplete and poorly maintained transmission and distribution system. In order to upgrade and extend the system it will first be necessary to shore up the financial position of ZESCO the state-owned power company which, for many years has lacked sufficient funds for even minimal maintenance. The recently approved Fiscal Sustainability Credit includes measures aimed to improve the financial viability of ZESCO.

37. The long-standing financial distress of ZESCO reflects in many ways the general financial weakness of other public sector and parastatal institutions many of which simply do not pay ZESCO for their power. The arrears of the former state owned copper company, ZCCM, was of particular importance in that respect because it consumed 50-60 percent of ZESCO's power output. The privatization of ZCCM in March 2000 has greatly improved prospects that ZESCO will be paid for this power in the future. Once the financial position of ZESCO begins to improve, it will be able to address more effectively the developmental needs of the sector especially with regard to the maintenance and extension of the transmission and distribution network. The privatization of ZESCO will be critical to the long-term efficiency of the sector. A study of the modalities of privatization will begin soon with financing from USAID.

38. **Agriculture and Rural Development.** Prior to 1993, agriculture was heavily subsidized in Zambia, with maize-related subsidies alone accounting for more than 16 percent of the national budget. Since then, the agriculture sector has been largely liberalized. Input supply and crop marketing have been privatized, prices are now market determined, and restrictions on domestic and international trade have been removed. Almost all agricultural public enterprises have been privatized, and the private sector has increased its participation in the marketing and distribution of agricultural inputs notwithstanding continued government intervention through the Food Reserve Agency. Despite recurring drought and volatility in the international prices of its primary export commodities, the share of agriculture in total GDP has been increasing relative to mining and to the wholesale and retail sectors. Agricultural exports in real terms have increased each year since 1994.

39. The Government's agricultural sector program is being modified to address the remaining constraints to agricultural growth and rural development. In light of the persistent problems that smallholders face, Government is introducing additional measures to assist them, including participatory extension programs, a targeted voucher program to increase access to inputs, farmer to farmer seed multiplication of improved varieties, and research geared toward technology that is appropriate for small producers. Small-scale investments in infrastructure and income generating activities will be expanded to improve prospects for agricultural production and marketing. However, for these initiatives to be fully effective in raising production, the Government should withdraw from the importation and distribution of fertilizer which can be handled more efficiently by the private sector.

40. **Environmental Management.** Zambia's ongoing Environmental Support Program focuses on institutional development, capacity building, public information, research, and community pilot projects in environmental management. Mining-related pollution and access to safe water are also serious environmental problems, and a revision of Zambia's environmental laws and regulations related to mining is underway. In addition, Zambia's Water Resource Action Plan (WRAP) aims to ensure sustainable water resource development over the long term. Because natural resource management is of particular importance over the long-term, a special effort has been made to develop environmental indicators that will be monitored annually.

41. **Knowledge and Innovation.** Given Zambia's need to diversify and compete on world markets in areas other than basic commodity exports, capacity-building and knowledge generation is central to Zambia's growth prospects. This and the changing structure of Zambia's formal employment sector following retrenchments in the mining and public service sectors have lent increased importance to vocational and technical training. In the past, the public training system has been under-funded, over-regulated, and not responsive to employers or market demand. Recognizing these problems, Government's plans for the training sector are radical: a new training authority has been established, the Government is privatizing its own training institutions under the supervision of autonomous management boards, and there is commitment to establishing a level playing field for private providers. In cooperation with donors, the private sector, NGOs and other stakeholders, Government is currently developing a training sub-sector investment program.

### C. Social Policies

42. **Poverty and Social Services.** The majority of Zambians are poor, although data suggest a slight decrease in extreme poverty since the economic and structural reform program began (Table 2). Zambia is one of the most urbanized countries in Southern Africa and a depressed manufacturing sector, combined with public sector and mining layoffs, has exacerbated poverty in urban areas. Most of the urban poor live in squatter settlements with few public services, and they derive their income from informal trading. Rural poverty is more prevalent and deeper and is closely associated with geographic isolation. Less than a quarter of the rural population have access to safe water, and a fifth live more than 20 km from public transport. Female-headed households are more likely to be among the poor, with poverty exacerbated by traditional laws that obstruct women's equitable access to economic resources, particularly land and inheritances. Another emerging social problem is the recent increase in refugees fleeing war in Angola and the Congo. Zambia currently has over 150,000 refugees within its northern and western borders and has appealed to the international community for humanitarian assistance.

Table 2: Poverty Trends (%)

	1991	1993	1996	1998
National Incidence	69.7	73.8	69.2	72.9
Incidence of extreme poverty	62.2	60.6	53.2	57.9
Rural Poor (% rural pop.)	88.0	92.2	82.2	83.1
Urban Poor	48.6	44.9	46.0	56.0
Income Distribution (Gini Coefficients)	0.59	0.51	0.50	0.53

Source: Central Statistics Office - Zambia and World Bank estimates

- Zambia's poverty line is based on the cost of acquiring a minimal food and non-food basket of items. In 1998, households with monthly adult equivalent expenditure less than US\$25 in kwacha equivalent (which corresponds to a minimal food and non-food basket) were considered poor. Households with monthly adult equivalent expenditure less than US\$18 in kwacha equivalent (which corresponds to a minimal food basket only) were considered extremely poor.

43. Government efforts to reduce poverty have focused on improving basic health care, nutrition and education through sector investment programs supported by a group of development partners, and maintaining or increasing public expenditures directed to social sectors.

44. In addition to traditional education and health sector interventions that strive to reduce poverty, Zambia will pursue other supplementary approaches and activities targeted to the poor. One of the most successful in recent years has been the *Social Recovery Fund Program* which provides basic social infrastructure, such as additional classrooms, health clinics, and bore holes to supply clean water, to poor communities based on the communities' own determination of their needs as well as their willingness and ability to contribute to costs. Following upon those initiatives, IDA has recently extended support for a Social Investment Fund.

Table 3: Social Expenditures as a Share of Total Government Expenditures 1/  
(percent of total)

	1996	1997	1998	1999
Education and training	18.0	18.3	17.4	18.5
Health	13.0	12.9	13.1	13.7
Social security and welfare	1.3	1.6	1.1	1.2
Water and sanitation	3.1	1.6	2.4	2.0
Total social expenditures	35.8	34.3	34.2	36.4

Source: MoF data prepared for Bank PSREP Credit.

1/ Social expenditures exclude foreign financing; Total expenditures and net lending exclude interest payments on foreign debt and foreign-financed capital expenditures.

45. In 1998 the government elaborated a National Poverty Reduction Framework after extensive consultations with civil society. Building upon that framework the government has now prepared an interim *Poverty Reduction Strategy Paper (PRSP)* which identifies the dimensions of poverty in Zambia, articulates the government's commitment to tackle the problem, and outlines the strategies and programs already in place to reduce poverty. The poverty strategy and action plan will be further elucidated in a full PRSP that will be developed over the coming year in a broad based consultative process that is clearly outlined in the interim document. That process will draw upon Zambia's relatively rich source of poverty and household data compiled through four national household surveys conducted in the 1990s. A Poverty and Public Expenditure Review has also been initiated with IDA collaboration and will serve as an underpinning to the PRSP by analyzing the level and nature of expenditures and public services that reach the poor. As an interim target, the government plans to allocate at least 36 percent of domestically financed discretionary expenditure to the social sectors in 2000-2002.

46. **Health and Nutrition.** The health status of Zambians has deteriorated in recent years. High rates of HIV prevalence have been a major contributing factor. About 20 percent of nation's adult population are HIV infected with 29 percent in urban and 14 percent in rural areas. HIV/AIDS related morbidity and mortality have become more prominent which had significant impact on life expectancy. Nearly 13 percent of children under 14 years are orphans – the highest percentage in the world—and child-headed households are growing in number, especially in urban areas. Malaria is the major health issue accounting for more than 30 percent of hospital admissions and 10 percent of hospital deaths. TB incidence rates have increased from 1 per 1000 population in 1986 to 5 per 1000 in 1999, which also is closely associated with the AIDS epidemic.

47. The government has been spending about 13 percent of its total budget on health. Even though the expenditures in nominal terms have increased, the expenditures in real terms have been decreasing. Increasing demand for health care and decreasing resources available for health care in the 1980s sparked the inception of health sector reform in Zambia in 1991. A sector investment program, aimed at "providing Zambians with equity of access to cost-effective quality care as close to the family as possible" has been in effect since 1995. In the early to mid 1990s, Zambia was at the leading edge of the health

sector reform movement with an innovative approach to consolidate donors for primary health care, known as “basket funds”.

48. However, the reform has yet to produce intended results. Mismatches exist between what policy promised and what actually delivered. Limited access to health care facilities, understaffing, shortages of drugs and medical supplies, and procurement and management-related implementation difficulties have limited positive changes in health service delivery and have exacerbated the decline in health status. The poor suffer more from the deteriorating access to health care.

Table 4: Zambia: Main Health and Nutrition Indicators

Indicator	1991	1998 1/
Life expectancy at birth, total (years)	51	44
Mortality rate, under-5 (per 1,000 live births)	191	197
Mortality rate, infant (per 1,000 live births)	107	109
HIV infection rate (% of adults)		20
Access to safe water (% of population)	50	50
Immunization rate (measles/DPT)	77	87
Nutrition (% under 5 moderate/severe underweight)	22	24
Nutrition (% under 5 chronically undernourished)	39	53

Source: 1991 SDA Priority Survey; 1998 Living Conditions Monitoring Survey; 1992 and 1996 Zambia Demographic and Health Surveys.

1/ Or most recent year available.

49. The focus of the government's health policy is on providing essential, cost-effective health care, building an institutional capacity to manage health services at the district level, and improving health system logistics. A major budget priority is to raise the allocations to district health boards, which provide basic health care. The goal is to increase the provision of basic public health services. Finance for the expansion of service delivery will come from efficiency gains, from the reallocation of resources from lower-priority ministry and hospital expenditures and from increasing the share of health spending in the total budget. Complementing these efforts are measures to improve Zambian's access to clean water and sanitation. Urgent efforts are underway to strengthen urban water management, rehabilitate water and sewage facilities, and increase water fees and collection to enable water companies to operate on a commercial basis. The Government's objective is for 100 percent of the urban population and 50 percent of the rural population to have clean water by 2004.

50. **Education.** Zambia's enrollment rates have not recovered from declines in the 1980s. In 1998, the primary net enrollment ratio was 68 percent, down from 85 percent in the early 1980s. Furthermore, the rate of enrollment in rural areas was only 61 percent compared with 80 percent in urban areas. No significant differences existed in the access of boys and girls to schooling. Explanations for falling enrollment include the impact of HIV/AIDS which reduces household's ability to afford education and forces children to stay out of school to care for sick household members or to replace lost household income. Moreover, the decline in the quality and expectations of opportunities for formal sector employment has eroded parents' perception of the importance of education. A

Basic Education Sub Sector Investment Program (BESSIP) has been initiated to increase enrolment and improve learning achievement -- a necessary prerequisite for higher productivity and economic growth and a reduction in poverty.

Table 5: Zambia: Main Education Indicators

Indicator	1991	1998
Illiteracy rate, adult total (% of people 15+)	37	38
Illiteracy rate, adult male (% of males 15+)	29	29
Illiteracy rate, adult female (% of females 15+)	44	44
School enrollment, primary (% net)	68	68
School enrollment, primary, female (% net)	68	67
School enrollment, primary, male (% net)	68	68
School enrollment, secondary (% net)	20	23
School enrollment, secondary (% female)	20	22
School enrollment, secondary (% male)	21	25

Source: 1991 SDA Priority Survey; 1998 Living Conditions Monitoring Survey

51. The government has recently commenced implementation of BESSIP which includes the construction and rehabilitation of schools (26 percent are substandard); the provision of instructional materials aimed at achieving a pupil-book ratio of two to one in core subjects; improvement of the health and nutrition of schoolchildren; the creation of bursaries for impoverished students; and capacity building for local educators and officials so that district education boards can be established in all districts. Under BESSIP, the government plans to increase the number of trained teachers and reduce the number of untrained teachers, with a view to phasing the latter out over time. The strategy relies primarily on reducing the high rate of attrition from the teaching force by raising trained teacher's salaries above the poverty line, and by improving teaching conditions, especially in rural areas. Additionally, the outflow of teachers from college is being increased by reducing resident training time from two years to one, with the second year spent at an outreach school. It is hoped that these measures will begin to compensate for the significant loss of teachers through HIV/AIDS. To improve the geographical distribution of teachers, employment of excess teachers (above school staffing norms) in urban areas has been discontinued. The government also aims at gradually increasing the Ministry of Education's share of discretionary expenditures (excluding foreign aid). Within the education budget, the share allocated to lower and middle basic education (grades 1-7) will be increased from 47 percent in 1997 to 60 percent by 2001, while the share allocated to university education, currently 18 percent, will be reduced by discontinuing the practice of making welfare payments to all university students, regardless of need.

52. **HIPC debt relief and poverty reduction.** In the medium-term it is anticipated that HIPC debt relief would have a significant impact upon the availability of foreign exchange and fiscal resources in Zambia which may be applied to social sector programs focused on poverty reduction. Priorities for expenditures in health, education and other areas related to poverty reduction would be articulated in the full PRSP, building upon existing programs such as BESSIP which are already in place. It is now necessary to identify procedures for channeling resources freed by debt relief to the poor and for

monitoring the process. Drawing upon the material assembled in the interim PRSP and existing sector programs, a number of areas can be identified where progress may be expected prior to Zambia reaching a completion point. At the present juncture, it would be premature to set firm quantitative objectives. Nevertheless, the general areas outlined in Box 3 may be drawn upon selectively to articulate more clearly specified goals to be determined at the time of the decision point.

## V. DEBT SUSTAINABILITY ANALYSIS

53. This debt sustainability analysis (DSA) is based on actual loan-by-loan data collected for multilateral lenders as of end-1999. Data for bilateral and commercial creditors was projected for end-1999 on the basis of actual loan-by-loan data at end-1998<sup>3</sup>. Preparatory work was begun with the government on a tripartite basis during IMF/World Bank missions in August and December 1999 and work was finalized at the time of a further joint mission in May 2000. The estimates and present value calculations will be finalized after full reconciliation with all Zambia's external creditors. Projections for end-1999 simulate the hypothetical impact of a stock-of-debt operation from Paris Club creditors on Naples terms as of end-1999, and comparable treatment from all other bilateral and commercial creditors. This assumption allows for estimates of HIPC assistance to be made on the basis of the full use of traditional debt relief mechanisms and a decision point in mid to late 2000 or early 2001 (see paragraph 62). The present value of debt to exports ratios reported are based on three year backward looking averages of exports of goods and services, and the present value of debt to revenue ratios are based on central government revenues excluding grants. Discounting is based on currency specific CIRRs for the six month period ending December 1999.

54. **Zambia's External Debt Structure.** Throughout the decade of the nineties Zambia has had to face a heavy burden of debt service characterized by considerable volatility of payments from year to year (see Table 6 below).

Table 6. Zambia: Debt Service (Interest and Principal) Paid 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Debt service paid, US\$ million 1/	290	655	354	326	409	1,584	319	217	147	136
Debt service paid as % of exports of GNFS	21.6	56.0	29.6	31.2	34.8	120.4	28.7	17.6	16.0	16.2
Debt service paid as % of GDP	7.7	19.4	10.7	10.0	12.2	45.7	9.7	5.6	4.6	4.3
Debt service paid as % of Government revenue	38.2	103.7	58.3	63.2	60.9	230.2	47.1	27.9	24.4	24.5

Sources: Ministry of Finance and Fund and IDA staff estimates.

1/ The hump in debt service in 1991 and 1995 is due to repayment of arrears to international multilateral institutions.

<sup>3</sup> Paris Club data for end-1998 do not include the flow rescheduling agreement which became effective as of April 1999.

55. Before any assumed restructuring, debt outstanding at end-1999 was US\$6.3 billion in nominal terms, or US\$5.1 billion in present value terms. (Table 12). The NPV of external debt at end-1999 before any restructuring was equivalent to about 500 percent of exports of goods and non-factor services, and about 900 percent of central government revenues.

56. About 43 percent of the present value of the debt stock before rescheduling is owed to multilateral creditors - the largest multilateral creditors are the IMF (19 percent of total debt), World Bank Group (16 percent) and the African Development Bank Group (5 percent). Bilateral creditors accounted for 58 percent of the present value of the debt before restructuring, with the major creditors being Japan (18 percent of total debt), Germany (9 percent), and the United Kingdom (9 percent). Commercial debt accounted for less than 1 percent; Zambia has previously benefited from a buy back of about \$200m of its commercial debt under the IDA debt reduction facility in 1994.

57. **Paris Club history.** Zambia has benefited from seven debt rescheduling agreements with the Paris Club since 1983, when the cut-off date of January 1 1983 was agreed. The first 3 agreements were non-concessional, while more recently there have been agreements on Toronto terms (1990), London terms (1992) and two flow agreements on Naples terms (1997 and 1999). The most recent agreement on Naples terms with Paris Club creditors in April 1999, provided for the forgiveness or rescheduling of about US\$1 billion of arrears and new maturities falling due during a consolidation period of 1 April 1999 to 31 March 2002. After that rescheduling, debt service actually paid in 1999 (about US\$136 million) was equivalent to about 16.2 percent of exports of goods and services. Debt service due to be paid after the flow rescheduling in 2000 is about US\$169 million, or about 16.3 percent of projected exports of goods and services.

58. **IMF arrears and Rights Accumulation Program (RAP).** In December 1995 the IMF approved a 3-year ESAF arrangement and a one year SAF arrangement as the culmination of a four year effort to clear Zambia's arrears to the IMF, and following the completion of a rights accumulation program that had been approved in July 1992. Zambia cleared its arrears of SDR 830 million with the help of bridging loans, including through the encashment of rights and financing provided under SAF and ESAF arrangements. Repurchases associated with the 1995 SAF/ESAF arrangements are falling due during the five years 2001-2005. During those years principal repayments to the IMF average about SDR 168 million (over US\$230 million) per year.

59. **Main DSA assumptions.** For the purposes of the DSA - and hence the assessment of possible assistance under the enhanced HIPC Initiative - it is assumed that the full stock of eligible Paris Club debt is rescheduled on Naples terms as of end-1999. Comparable treatment is also applied to the debts of all non-Paris Club and commercial creditors. No restructuring is assumed for multilateral creditors. The key macroeconomic assumptions for the baseline scenario are detailed in Box 2 and Table 9. The scenario assumes real GDP growth of 4 percent in 2000 before picking up to 5 percent over the medium term, predicated on the assumption that the recent ZCCM privatization allows for strengthened management and better performance of the mining sector.

### **Box 2. Zambia: Baseline Assumptions for the Debt Sustainability Analysis (DSA)**

The following are macro-economic assumptions used for the 20-year baseline DSA projection. (Table 9). The projections are based on the IPRSP through 2002.

#### **Growth:**

- Real GDP growth is estimated to be about 4 percent in 2000. It is assumed that privatization of the copper industry, which took place in March 2000, will allow for strengthened management stimulate direct foreign investment in the sector and lead to a recovery of output. On that basis, and assuming a continuation of structural reforms that will enhance output in other sectors, real GDP is expected to grow by 5 percent in the medium-term.

#### **Fiscal:**

- Government revenues (excluding grants) are projected to increase gradually from 17.6 percent of GDP in 1999 to reach 19 percent of GDP by 2007 and remain at that level thereafter.

#### **Exports and Imports:**

- Starting from a low base, copper prices are expected to recover. This would result in a 13 percent improvement in the terms of trade in 2000 and an average 1.5 percent in each of the following two years. After that, the base line scenario assumes no further changes in the terms of trade.
- Export volumes, led by a recovery in the copper sector after many years of decline, are projected to increase by an average of 12.5 percent in the period 2000-2002 and to continue growing at 5.5 percent in the baseline scenario.
- Import volumes are projected to increase at an average rate of 13.5 percent in the period 2000-2002, driven, in part, by high investment requirements linked to the recovery of copper. From 2003, import volumes are projected to increase at a steady rate of slightly more than 5 percent.

#### **Capital Account:**

- Direct foreign investment, much of it linked to the copper sector, is to increase by 15 percent a year in the period 2000-2002 and subsequently at 1.5 percent a year.
- Gross official reserves are targeted to increase progressively to about 3.5 months of import coverage in the medium term.

#### **External Public and Publicly-Guaranteed Debt:**

- It is assumed that all official bilateral creditors will have granted a Naples term stock-of-debt operation (equivalent to a 67 percent reduction) on eligible pre-cut off date debt in 1999.
- Identified new borrowing, including balance of payments support, is expected to be sustained at around the 1999 level of US\$284 million in the years through 2002 and to level-off at US\$170 million a year in the longer run. New borrowing will continue to be on highly concessional terms. The share of debt contracted on IDA terms (40 years maturity, 10 years grace and 0.75 percent interest) is assumed to constitute about 50 percent of new borrowing. It is also assumed that the remaining external borrowing would be loans contracted on somewhat less concessional terms.
- Official grants (including for balance of payments purposes) are projected at US\$300 million in 2000 and will remain roughly constant in real terms after that.
- Any remaining gapfill (as indicated in Table 9) would be financed on IDA terms.

60. **Results.** Assuming full use of traditional debt relief mechanisms, the net present value of debt (NPV) is estimated to fall to about US\$4.0 billion at end-1999, or equivalent to 398 percent of 3-year exports and 714 percent of central government revenues excluding grants. The NPV/exports ratio is projected to fall below 200 percent in 2008 (Table 13) and below 150 percent by 2014. Given no further flow rescheduling, the debt service ratio is projected to increase from about 20 percent in 2000<sup>4</sup>, to a peak of 36 percent in 2001 when large repayments to the IMF start to fall due. Projected debt service ratios would remain over 20 percent of exports of goods and services through 2005, before falling to 11 percent in 2006 (see Table 14).

61. **Sensitivity Analysis.** The concentration of Zambia's exports in the copper sector poses special risks for the economy. Exports of copper and copper products still account for some 60 percent of merchandise exports notwithstanding an impressive expansion of non-traditional exports in recent years (see Chart 1). The recent privatization of ZCCM is expected to result in a recovery of copper production, but the pace of that recovery is uncertain. The staff have explored the sensitivity of the debt sustainability analysis to a slower than anticipated growth in copper production resulting in a growth of total export volumes which is one percentage point below that of the baseline scenario each year after 2000. Furthermore, copper prices have demonstrated notable volatility in the past and projections of a sustained increase in prices from the average of the past decade may prove overly optimistic. Therefore, staff have also explored the robustness of the debt sustainability analysis to copper prices, specifically lower prices which may result in terms of trade less favorable than those assumed in the baseline scenario by a factor of 3.3 percentage points each year over the period 2001-2005 and a gradual recovery thereafter towards the trend of the baseline.

## **VI. DECISION AND COMPLETION POINTS, ASSISTANCE, AND AUTHORITIES' VIEWS**

### **A. Decision and Completion points**

62. Zambia's eligibility for HIPC Initiative assistance has been assessed on the basis of the application of full traditional debt relief mechanisms, involving a 67 percent PV reduction in eligible pre cut-off date debt at end-1999, and comparable treatment from other bilateral and commercial creditors. The analysis presented in the previous two sections indicates that Zambia has an unsustainable level of debt and thus may qualify for assistance under the enhanced HIPC initiative since it is a PRGF-eligible and IDA-only country. Although the track record of performance by Zambia under ESAF, PRGF and IDA supported programs since 1992 has sometimes faltered, this has been due in part to external shocks; and there have been many successful structural reforms particularly in the field of public enterprises. In this context the privatization of the copper company ZCCM represents a decisive break with past policies and greatly improves economic

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<sup>4</sup> The actual debt service ratio in 2000 is projected at 16 percent in the PRGF program which reflects the current flow agreement with the Paris Club, in contrast to the stock of debt agreement assumed at end-1999 in the DSA which would indicate a debt service ratio of 20 percent in 2000.

prospects and outlook of the country. Paris Club rescheduling arrangements in place since 1997 indicate continuing bilateral creditor support for Zambia's adjustment efforts. Given these important developments, an early HIPC decision point is desirable and would help to reinforce the current reform momentum. The Boards of the Bank and the Fund may consider that:

- Based on the broad macroeconomic and structural progress of the past together with programs already in place, Zambia has met the requirements for proceeding to an early decision point. This would still require agreement with the authorities on the selected structural reforms and actions required for the completion point (see Box 3), and that macroeconomic performance under the program supported by the PRGF arrangement remains satisfactory. Under this option, a decision point could be possible in October/November 2000.

If the Boards consider that a further period of consistent performance should be sought, an alternative would be as follows:

- The decision point could be reached at the time of the completion of the next review which would be based on performance through end-December 2000, and on understandings on the budget for 2001 and a medium-term expenditure framework; it would be feasible to complete this work only in early 2001. Under this option, a decision point would only be possible in April/May of 2001.<sup>5</sup>

63. If Zambia is deemed eligible for HIPC assistance, Fund and IDA staff would recommend that the completion point be determined on the basis of a satisfactory implementation of a Poverty Reduction Strategy over the period of at least one year as outlined in a full PRSP and maintenance of a stable macroeconomic environment. The staff may also recommend taking into account compliance with selected structural reforms and actions, particularly with respect to basic health and education services which would be spelled out in detail in the decision point document. Possible areas that may be considered in identifying such reforms and actions are indicated in Box 3.

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<sup>5</sup> If the decision point were to be in early 2001, the staff propose that assistance be provided on the basis of end-1999 data to avoid the delay of assembling fully reconciled data for end-2000. Preliminary estimates indicate that HIPC Initiative assistance might increase by about US\$60 million if end-2000 data are used rather than end-1999 data with a shift to interest and exchange rates as of end-June 2000. This estimate is sensitive to assumed interest and exchange rates for the second half of 2000 as well as the outcome for exports in 2000. It may be noted that debt service payments to the Fund from July to December 2000 amount to SDR 2.1 million, which falls due in December of 2000. Thus, the magnitude of interim assistance from the Fund available for 2000 would be very small. The magnitude of Fund interim assistance in 2001 would not be affected so long as the decision point is reached prior to June.

**Box 3: Possible Reforms and Indicators for Reaching a Floating Completion Point**

**I. Poverty Reduction**

- The adoption of a PRSP to be prepared through a participatory process, and presentation of an annual report of progress thereunder.
- Improvement of the poverty data base and monitoring capacity.
- Progress in implementing an education reform program as indicated by:
  - Increase the share of education in the discretionary budget.
  - Increase the annual growth rate of enrolment in primary schools.
  - Establishing education boards at the district level to foster decentralization.
  - Restructure the pay and benefits of teachers to encourage location in rural areas.
  - Output indicators for a program of rehabilitation of substandard school structures.
  - Increase the book to pupil ratio in primary schools.
  - Reform the basic school curriculum to improve literacy, numeracy and communication skills.
- Adoption and implementation of a strategic framework for AIDS/HIV.
- Implementation and scaling-up of an action plan for malaria.
- Progress in health sector reform as indicated by:
  - Adoption of comprehensive guidelines and procedures for the procurement of drugs.
  - Increase the share of health expenditures in the budget.
  - Progress in rehabilitating substandard rural and urban health centers.
- Rehabilitation of deteriorated urban water supply systems.

**II. Macroeconomic**

Maintenance of a stable macroeconomic environment as evidenced by continuous satisfactory performance under a program supported by a PRGF arrangement

**III. Structural**

Implementation of an Integrated Financial Management Information System (IFMIS).

Privatization of the power company, ZESCO, and of the Zambian National Commercial Bank.

**IV. Other**

Satisfactory financing assurances from Zambia's external creditors.

Concurrence of the Boards of the Bank and the Fund with the joint staffs' assessment that the PRSP provides a sound basis for Bank and Fund concessional assistance.

## B. Assistance and Burden-sharing under the HIPC Initiative

64. HIPC assistance for Zambia has been estimated with respect to the external criterion. On the basis of preliminary calculations, a target of 150 percent for the PV debt/exports ratio would imply assistance of US\$2.5 billion in end-1999 present value terms. Under proportional burden-sharing, total assistance to be provided by multilaterals would be about US\$1.3 billion, and US\$1.1 billion for the bilateral creditors. The common reduction factor for all creditors would be 62.3 percent of their exposure in PV terms at the decision point. Assistance from the IMF would be equivalent to US\$600 million in end-1999 present value terms, and assistance from IDA would be US\$485 million corresponding to the exposure of both IDA and the IBRD. In view of the need for immediate debt relief, the staffs will recommend in the final HIPC document the provision of interim debt relief.

65. **Assumed modalities of assistance.** For purposes of illustrating debt sustainability after assistance under the enhanced HIPC Initiative, staff have made the following assumptions:

- IDA will provide assistance by reducing Zambia's debt service by 83 percent each year from the decision point for a period of 20 years.
- The IMF will provide all HIPC assistance over a period of 5 years, with interim assistance of 20 percent annually for up to 3 years.
- Other multilateral creditors will provide interim assistance by reducing Zambia's debt service by a factor of between 65 percent and 78 percent each year, starting in January 2001. Multilateral lenders will provide debt service relief in the same manner after the completion point, until full delivery of assistance.
- Paris Club creditors will grant a flow rescheduling under Cologne terms with a 36-month consolidation period starting in January 2001. This supersedes the flow rescheduling under Naples Terms already given by Paris Club for debt service due until end March 2002. The debt sustainability analysis assumes a stock-of-debt operation under Cologne terms by all bilateral creditors in early 2004.

66. **Impact of the Enhanced-HIPC assistance.** Zambia's external debt will be reduced substantially with the delivery of assistance under the enhanced HIPC Initiative to 150 percent of exports in NPV terms but would rise above that level through 2002 before declining thereafter. Zambia's stock of debt would reach nearly 170 percent of exports in the 2000-01 period and remain at well over 250 percent of government revenues until 2005<sup>6</sup>. From 2006 onward, debt indicators are projected to improve significantly, with decreasing debt-to-revenue and debt-to-GDP ratios. In cash flow terms, debt service peaks after enhanced HIPC assistance at 18 percent of exports in 2001. This compares to a scheduled debt service ratio before HIPC Initiative assistance of

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<sup>6</sup> With HIPC assistance assumed delivered unconditionally at the base year (end-1999).

35 percent that reflects in large part the repayments due to the Fund after the RAP and clearance of arrears in 1995. Under the current assumption of delivery of interim relief by all multilateral creditors in January 2001, the projected debt service payments amount to US\$221 million on average during 2001-2003. This is 46 percent higher than actual payments during 1997-1999 (Table 6). It is only by 2005 that debt service due after enhanced HIPC Initiative assistance falls back to the levels actually paid in 1999. This rise in actual debt service payments is a source of concern and various options to address the problem will need to be considered, including the possibility of greater front-loading of debt relief by all creditors. It should be noted that during 2001-mid 2003, net flows from the IMF to Zambia are expected to be positive as Zambia would benefit from the delivery of the IMF's share of debt relief in 5 years—shorter than in any other HIPC case so far—and from new disbursements under the current PRGF; additional access beyond the current Fund arrangement would need to be considered in the context of a possible successor arrangement.

67. **Downside scenario.** If copper prices and export volumes were lower than in the baseline scenario, debt-to-export ratios after HIPC assistance would not fall to 150 percent before 2012. The NPV debt-to-exports ratio would peak at nearly 190 percent in 2006 before declining. Debt stocks would remain high for a longer period than in the baseline scenario but, nevertheless, the enhanced HIPC assistance would still enable Zambia to reach longer term sustainability even under less favorable macroeconomic assumptions. The cash impact of a significant increase in debt service due in 2001-2005 as described above for the baseline scenario is similar under the less favorable scenario. Even with additional borrowing and lower exports, debt service ratios would remain at or below 10 percent after 2005.

### C. The authorities' views

68. During a May 2000 mission, Fund and IDA staff discussed the results of the DSA with the authorities who stressed that the present level of external debt in Zambia was beyond the fiscal and external resources of the country. They also indicated that a constant preoccupation with upcoming debt payments and the need to negotiate successive rescheduling, imposes a considerable administrative burden upon the government over and above the unsustainable financial burden.

69. Notwithstanding an exceptionally heavy debt burden the authorities drew the attention of the mission to Zambia's major achievements in structural adjustment over the past decade and reaffirmed their commitment to further reform. They drew attention to the successful conclusion of discussions with the IMF for a PRGF-supported program and with IDA for a Fiscal Sustainability Credit as evidence of that commitment.

70. The authorities said that debt relief under the HIPC initiative was urgently required to free foreign exchange and fiscal resources that are presently destined to service the external debt. Once freed, these resources could be redirected to finance high priority expenditures in such areas as health, education, water supply and other infrastructure that have a direct bearing upon growth and poverty reduction. The authorities made special mention of basic health services and basic education services in

that context and the need to extend those services in areas that are under-served at the present time.

71. The authorities were particularly concerned at the prospect that debt service payments are projected to "hump" in 2001 and that an already onerous burden of debt service may become intolerable next year if debt relief were not forthcoming soon. They underscored the importance of putting HIPC debt relief on a "fast track" to avert that prospect.

## VII. ISSUES FOR DISCUSSION

72. This paper has presented a preliminary assessment of Zambia's eligibility for assistance under the HIPC Initiative, and seeks endorsement of the assessment. Executive Director's views are sought on the following:

73. **Eligibility.** Do Directors consider Zambia to be eligible for assistance under the HIPC Initiative?

74. The **decision point.** What is the view of the Directors concerning the most appropriate timing of a decision point (paragraph 62)?

75. **Interim Assistance.** Do Directors agree with the staffs' recommendations for providing interim assistance between the decision point and the completion point?

76. **Floating Completion point.** Do Directors consider that the areas indicated in Box 3 are appropriate for the identification of key measures that would trigger the completion point under the HIPC Initiative?

77. **Consultations with Creditors.** Do Directors agree that staffs may start consultations with creditors for providing assistance to Zambia on the basis of the enhanced HIPC framework?

Table 7. Zambia: Selected Economic and Financial Indicators, 1998-2002

	1998 Act.	1999 Est.	2000 Prog.	2001 Proj.	2002 Proj.
(Annual percentage change, unless otherwise indicated)					
National income and prices					
Real GDP	-1.9	2.4	4.0	5.0	5.0
GDP deflator	19.6	21.7	25.9	10.5	9.2
Consumer prices (annual average)	24.5	26.8	22.3	10.8	8.3
Consumer prices (end of period)	30.6	20.6	19.0	10.0	7.0
Nominal GDP (in billions of kwacha)	6,033	7,522	9,853	11,431	13,108
Copper production (in thousands of metric tons)	256	240	280	310	340
External sector					
U.S. dollar value of exports of goods and services	-26.5	-7.5	24.1	20.7	14.1
<i>Of which: copper</i>	-35.5	-10.2	31.0	24.9	14.7
U.S. dollar value of imports of goods and services	-8.1	-10.3	15.8	15.7	12.4
Export volume	-8.8	-3.9	10.4	16.7	10.3
Import volume	-1.6	-12.1	16.7	12.3	11.3
Copper export volume	-41.3	1.8	27.5	24.0	16.1
Copper exports (in thousands of metric tons)	256	240	280	310	340
Copper export prices (average, US\$ per metric ton)	1,427	1,385	1,692	1,896	2,006
Nominal effective exchange rate	-24.1	-21.5	...	...	...
Real effective exchange rate	-8.7	-2.3	...	...	...
Average official exchange rate (kwacha per U.S. dollar)	1,862	2,388	...	...	...
Terms of trade	-13.7	-5.7	13.3	0.4	2.5
Money and credit					
Net foreign assets	-100.2	-7.2	8.2	29.3	40.6
Net domestic assets	65.8	14.4	4.2	-9.3	-10.6
Net domestic credit	95.4	33.0	9.8	-6.6	-7.7
Net claims on government	375.0	19.4	5.1	8.4	-3.4
Claims on nongovernment	20.6	47.4	13.9	-18.5	-12.2
Broad money	22.6	29.2	25.2	15.5	12.4
Velocity 1/	6.5	6.2	6.2	5.9	6.0
Official bank rate (in percent; end of period)	43.6	46.2	...	...	...
Treasury bill rate (in percent; end of period)	34.3	36.2	...	...	...
Central government budget					
Revenue (excluding grants)	10.6	14.7	39.7	9.7	16.6
Grants	52.8	51.0	31.5	-28.4	9.9
Expenditure and net lending	33.4	18.4	51.5	13.6	9.6
Current expenditure	15.6	5.5	33.0	24.6	10.3
Capital expenditure	74.7	15.8	33.8	21.4	12.9
(In percent of GDP)					
Investment and savings					
Gross national savings 2/	4.5	8.1	14.3	16.1	17.0
Gross domestic investment	14.9	14.4	16.5	19.3	20.7
<i>Of which: public investment</i>	11.1	10.5	10.7	11.2	11.1
Central government budget					
Revenue and grants	24.5	25.5	26.7	22.7	22.8
Grants	6.4	7.9	8.0	...	...
Expenditures (excluding interest) 3/	24.8	24.7	28.2	26.5	26.1
Interest due 4/	3.3	2.8	3.7	4.7	3.8
Overall balance, cash basis	-4.3	-4.0	-5.6	-9.0	-7.5
Overall balance, cash basis, excluding grants	-10.8	-11.9	-13.6	-13.9	-12.2
External sector					
Current account balance 5/	-17.8	-15.8	-13.5	-13.1	-12.4
(In percent of exports of goods and services)					
External debt					
External debt service 6/ 7/	16.0	16.2	16.3	31.2	38.1
External program assistance	0.0	0.2	0.3	...	...
(In millions of U.S. dollars, unless otherwise indicated)					
Current account balance 5/	-576	-498	-460	-458	-468
Overall balance of payments	-453	-348	-407	-255	-201
Gross official reserves (end of period)	44	46	146	267	380
In months of imports of goods and services	0.4	0.5	1.3	2.1	2.6
In percent of broad money	9.2	8.5	28.1	42.8	57.3

Sources: Zambian authorities; and staff estimates and projections.

1/ GDP/average broad money.

2/ Gross national disposable income minus consumption.

3/ Including contingency reserve (1999-2001).

4/ After debt relief.

5/ Excluding grants

6/ External debt pertains to public and publicly guaranteed debt.

7/ Reflecting 1999 Paris Club agreement with consolidation period ending March 2002. Includes scheduled payments to IMF.

Table 8. Zambia: Balance of Payments, 1998-2002  
(In millions of U.S. dollars, unless otherwise indicated)

	1998 Act.	1999 Est.	2000 Prog.	2001 Proj.	2002 Proj.
Current account balance	-576	-498	-460	-458	-468
Trade balance	-155	-116	-71	-35	-20
Exports, f.o.b.	816	755	937	1,131	1291
Metal sector	520	467	612	764	876
Nonmetal	296	288	325	367	415
Imports, f.o.b.	-971	-871	-1,008	-1,166	-1,311
Metal sector	-221	-121	-170	-213	-223
Nonmetal	-750	-750	-838	-954	-1088
Services (net)	-179	-211	-226	-279	-316
Receipts	103	87	99	110	122
Payments	-282	-298	-325	-388	-438
Income (net)	-215	-156	-144	-124	-110
Of which: interest payments	-219	-166	-162	-155	-145
Current Transfers (net)	-27	-16	-18	-20	-23
Capital Account 5/	203	153	178	182	185
Project grants (capital)	203	153	178	182	185
Financial Account	118	169	58	121	183
Official loan disbursement (net)	-45	4	-68	-60	-46
Project loans	91	166	158	165	172
Amortization (-)	-136	-162	-226	-224	-217
Change in net foreign assets of commercial banks	-35	2	-25	-20	-22
Private foreign direct investment	198	163	150	200	250
Errors and omissions, short term capital	-198	-172	-183	-100	-100
Overall balance	-453	-348	-407	-255	-201
Financing	453	348	407	-97	-257
Change in net international reserves					
of Bank of Zambia (- incr) 7/	246	-35	-80	-229	-221
Gross official reserves of BoZ	194	-2	-100	-120	-113
BoZ liabilities	52	-33	20	-108	-108
IMF (net)	0	14	27	-93	-96
Debt rescheduling 2/	122	443	229	225	60
Net change in arrears (+ incr)	85	-251	-10	0	0
BOP support grants	0	61	121	0	0
BOP support loans 1/	0	117	121	0	0
Multilateral	0	117	121	0	0
Bilateral	0	0	0	0	0
Financing gap (+)	0	0	0	353	458
Memorandum items:					
Current account balance (percent of GDP)	-17.8	-15.8	-13.5	-13.1	-12.4
Export volume (percentage change)	-8.8	-3.9	10.4	16.7	10.3
Import volume (percentage change)	-1.6	-12.1	16.7	12.3	11.3
Terms of trade (percentage change)	-13.7	-5.7	13.3	0.4	2.5
Copper volume (MT.'000)	256	240	280	310	340
Copper price (US\$/lb)	0.72	0.70	0.82	0.86	0.91
Gross official Reserves 3/	44	46	146	267	380
(In months of imports)	0.4	0.5	1.3	2.1	2.6
Debt service (\$USm) 6/	147.3	136.4	168.6	387.1	538.3
(in percent of exports)	16.0	16.2	16.3	31.2	38.1

Sources: Bank of Zambia; and staff estimates.

1/ Projections for program grants and loans reflect existing commitments and preliminary indications for 2000

2/ Reflects the 1999 Paris Club rescheduling agreement, and comparable treatment from non Paris Club bilateral creditors as well as the May 1997 restructuring of Camdex's (a foreign debt-trading company) claim on the Bank of Zambia.

3/ Gross reserves include balances in the special Bank of International Settlements account established in accordance with the 1999 Paris Club accords.

4/ Includes balance of payments support grants

5/ Includes project grants

6/ Reflecting 1999 Paris Club agreement with consolidation period ending March 2002. Includes scheduled payments to IMF

7/ Reflects freeing of \$30 million of central bank assets held as collateral at end-1999

Table 9: Zambia: Macroeconomic Assumptions 1999-2019 1/  
 DSA - Baseline Scenario  
 (In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-2009	2010-2019
	est.													Average
<b>Economic growth</b>														
Real GDP (percentage change)	2.4%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.9%	5.0%
Real GDP per capita (percentage change)	0.2%	2.0%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.8%	2.9%
GDP Deflator (in percent)	21.7%	25.9%	10.5%	9.2%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	5.3%	1.0%
GDP in Kwachas bn.	7522	9853	11431	13108	13902	14744	15636	16583	17587	18652	19781	20979	15128	27722
GDP in US\$ mn.	3150	3389	3445	3652	4059	4305	4565	4842	5135	5446	5775	6125	4461	8094
<b>Government Revenues</b>														
Government Revenues (excluding grants) in Kwachas bn.	1324	1849	2028	2366	2530	2713	2908	3118	3342	3544	3758	3986	2816	5267
Government Revenues (excluding grants) in US\$ mn.	554	646	631	691	739	792	849	910	976	1035	1097	1164	837	1538
Government Revenues (percent of GDP)	17.6%	18.8%	17.7%	18.0%	18.2%	18.4%	18.6%	18.8%	19.0%	19.0%	19.0%	19.0%	18.6%	19.0%
<b>Prices</b>														
Terms of Trade (percentage change) (- deterioration)	-5.7%	13.3%	0.4%	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	0.0%
<b>Balance of Payments</b>														
<b>I. Current account, excluding official transfers</b>	-498.4	-412.3	-414.6	-432.2	-441.8	-456.5	-473.9	-491.4	-511.4	-532.1	-554.0	-577.0	-472.0	-694.8
(in percent of GDP)	-15.8%	-12.2%	-12.0%	-11.8%	-10.9%	-10.6%	-10.4%	-10.1%	-10.0%	-9.8%	-9.6%	-9.4%	-10.6%	-8.6%
1. Exports of goods and services 2/	841.7	1035.6	1240.8	1412.9	1505.5	1604.2	1709.4	1821.4	1940.8	2068.1	2203.6	2348.1	1654.2	3176.8
2. Imports of goods and services 2/	-1168.5	-1332.9	-1554.4	-1748.6	-1858.8	-1975.9	-2100.5	-2232.8	-2373.6	-2523.2	-2682.2	-2851.2	-2038.3	-3811.9
3. Net Factor Income (excluding interest payments)	10.1	17.2	31.0	34.5	40.6	43.0	45.7	48.4	51.3	54.5	57.8	61.3	42.4	80.9
4. Interest Payments 3/	-165.7	-114.2	-111.8	-108.4	-104.8	-102.0	-101.1	-99.4	-99.2	-98.8	-98.6	-98.4	-103.8	-92.1
5. Net Current Transfers	-16.0	-18.0	-20.2	-22.6	-24.4	-25.8	-27.4	-29.1	-30.8	-32.7	-34.7	-36.8	-26.6	-48.6
Official Transfers (Grants and other)	152.7	178.0	181.6	185.2	187.0	188.9	190.8	192.7	194.6	196.6	198.6	200.5	189.4	209.8
<b>II. Current account, including official transfers 4/</b>	-345.7	-234.3	-233.1	-247.0	-254.8	-267.6	-283.1	-298.7	-316.8	-335.5	-355.5	-376.5	-282.6	-485.0
(in percent of GDP)	-11.0%	-6.9%	-6.8%	-6.8%	-6.3%	-6.2%	-6.2%	-6.2%	-6.2%	-6.2%	-6.2%	-6.2%	-6.1%	-6.0%
<b>III. Long-term Capital Inflows</b>	169.0	336.0	353.6	406.0	321.7	328.9	327.6	322.7	322.5	329.1	328.1	318.7	337.6	270.2
1. Net Foreign Direct Investment	162.8	150.0	200.0	250.0	253.8	257.6	261.5	265.4	269.4	273.4	277.6	281.7	245.9	301.6
2. Net Long-term Borrowing	3.9	210.7	173.2	177.6	92.2	97.1	93.5	86.3	84.0	88.3	85.2	73.7	118.8	17.2
a. Disbursements 5/	166.1	299.0	264.7	271.7	194.9	170.0	170.0	170.0	170.0	170.0	170.0	170.0	205.0	170.0
b. Repayments Due 6/	-162.2	-88.3	-91.5	-94.1	-102.7	-72.9	-76.5	-83.7	-86.0	-81.7	-84.8	-96.3	-86.2	-152.8
3. Other Net LT Flows (change in net foreign assets)	2.3	-24.7	-19.6	-21.6	-24.4	-25.8	-27.4	-29.1	-30.8	-32.7	-34.7	-36.8	-27.1	-48.6
Errors and Omissions and Net Short-term Capital	-171.5	-183.1	-100.0	-100.0	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0	-73.3	-50.0
<b>IV. Overall balance</b>	-348.3	-81.4	20.6	59.0	16.9	11.3	-5.5	-26.0	-44.2	-56.5	-77.4	-107.8	-18.3	-264.8
<b>VI. Financing</b>	348.3	68.3	-189.5	-170.0	-154.8	-145.6	-150.0	71.1	77.9	49.6	44.4	43.1	-49.9	84.3
1. Change in net international reserves														
of Bank of Zambia (- incr)	-35.1	-80.2	-228.5	-221.3	-104.9	-60.3	-66.2	-72.6	-39.9	-42.4	-45.1	-48.0	-96.1	-64.1
a. Gross official reserves of BoZ	-2.0	-100.1	-120.4	-113.0	-54.9	-60.3	-66.2	-72.6	-39.9	-42.4	-45.1	-48.0	-71.5	-64.1
b. BoZ liabilities	-33.1	19.9	-108.1	-108.3	-50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-24.7	0.0
2. IMF (net) 7/	13.8	27.5	-94.7	-94.7	-197.3	-234.3	-234.3	-8.2	-35.6	-63.0	-67.1	-67.1	-100.2	-17.0
3. Debt rescheduling 8/	442.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Net change in arrears (+ incr)	-250.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. BOP support grants	60.5	121.0	133.7	146.0	147.5	149.0	150.5	152.0	153.5	155.0	156.6	158.1	146.5	165.4
6. BOP support loans	117.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a. Multilateral	117.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>VII. Remaining finance gap (- is surplus)</b>	0.0	13.1	168.9	111.0	137.9	134.3	155.6	-45.1	-33.7	6.9	33.0	64.7	68.2	180.5
1. Additional borrowing (gap filling) 9/	0.0	13.2	170.3	113.2	141.2	138.6	161.1	5.6	5.6	12.6	39.0	71.2	80.0	201.4
2. Total Debt Service due on gap fill loans	0.0	-0.1	-1.4	-2.2	-3.3	-4.3	-5.5	-5.6	-5.6	-5.7	-6.0	-6.5	-4.0	-20.9
<b>Memorandum Items</b>														
Exports volume growth (percentage change) 10/	-3.9%	10.4%	16.7%	10.3%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	7.6%	5.5%
Imports volume growth (percentage change) 10/	-12.1%	16.7%	12.3%	11.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	7.7%	5.3%
Gross Reserves (including gold)	46.1	146.2	266.6	379.6	434.5	494.8	561.0	633.6	673.5	716.0	761.1	809.1	506.7	1081.7
Gross official reserves (in months of imports) 11/	0.5	1.3	2.1	2.6	2.8	3.0	3.2	3.4	3.4	3.4	3.4	3.4	2.9	3.4

Sources: Zambian authorities; and staff estimates and projections.

1/ 2000-2002: IMF PRGF program - from 2003: assumptions described in Box 2.

2/ Exports (imports) of goods and services as defined in the IMF Balance of Payments Manual, 5th edition, 1993.

3/ After full application of traditional debt relief mechanisms - includes interests due to the IMF.

4/ Current account differs from Table 1 due to different rescheduling assumptions.

5/ New borrowing assumptions are described in Box 2. Excludes new loans from the IMF.

6/ After full application of traditional debt relief mechanisms - excludes amortization of IMF loans.

7/ Disbursements minus principal repayment. Reflects disbursements under current PRGF arrangement through to March 2003.

8/ US\$442.5 mn represents the benefits of the flow rescheduling under Naples terms simulated for the period April-December 1999.

The rescheduling of the stock-of-debt under a Naples terms is applied above the line as of 2000: interest and principal payments due are adjusted accordingly.

9/ By assumption, all gap fill loans are issued on IDA terms.

10/ Merchandise exports (imports).

11/ Imports of goods and nonfactor services.

Table 10. Zambia: Nominal and Net Present Value of External Debt Outstanding

	Nominal debt at end-98 before rescheduling 1/			Nominal debt at end-99 after rescheduling 2/			NPV of debt at end-99 after rescheduling 2/		
	Millions of U.S. dollars	Percent of total	Percent of group	Millions of U.S. dollars	Percent of total	Percent of group	Millions of U.S. dollars	Percent of total 3/	Percent of group
<b>Total</b>	6,437	100.0	...	5,390	100.0	...	3,959	100.0	...
Multilateral institutions	3,437	53.4	100.0	3,473	64.4	100.0	2,127	53.7	100.0
Multilateral institutions (excl IMF)	2,249	34.9	65.4	2,302	42.7	66.3	1,165	29.4	54.8
IMF	1,188	18.4	34.6	1,171	21.7	33.7	963	24.3	45.2
World Bank	1,642	25.5	47.8	1,741	32.3	50.1	788	19.9	37.0
<i>Of which:</i>									
IBRD	41	0.6	1.2	29	0.5	0.8	29	0.7	1.4
IDA	1,589	24.7	46.2	1,703	31.6	49.0	750	18.9	35.2
IFC	12	0.2	0.3	9	0.2	0.2	9	0.2	0.4
Other	608	9.4	17.7	561	10.4	16.2	377	9.5	17.7
<i>Of which:</i>									
African Development Bank	132	2.1	3.8	119	2.2	3.4	139	3.5	6.5
African Development Fund	213	3.3	6.2	211	3.9	6.1	95	2.4	4.5
BADEA	28	0.4	0.8	24	0.4	0.7	18	0.5	0.9
European Investment Bank	..	..	..	21	0.4	0.6	18	0.5	0.9
European Development Fund	..	..	..	117	2.2	3.4	72	1.8	3.4
EU	168 3/	2.6	4.9	4	0.1	0.1	2	0.0	0.1
IFAD	60	0.9	1.7	59	1.1	1.7	28	0.7	1.3
OPEC	7	0.1	0.2	7	0.1	0.2	6	0.1	0.3
Official bilateral creditors	2,961	46.0	...	1,883	34.9	...	1,798	45.4	...
Paris Club	2,699	41.9	100.0	1,707	31.7	100.0	1,700	42.9	100.0
Post-cutoff date	569	8.8	21.1	302	5.6	17.7	285	7.2	16.8
Pre-cutoff date	2,130	33.1	78.9	1,405	26.1	82.3	1,415	35.7	83.2
<i>Of which: ODA</i>	295	4.6	10.9	327	6.1	19.2	407	10.3	23.9
<i>Non-ODA</i>	1,835	28.5	68.0	1,078	20.0	63.1	1,008	25.5	59.3
<i>Of which:</i>									
Austria	33	0.5	1.2	28	0.5	1.7	14	0.4	0.9
Brazil	71	1.1	2.6	73	1.4	4.3	28	0.7	1.7
Canada	53	0.8	2.0	26	0.5	1.5	24	0.6	1.4
France	156	2.4	5.8	80	1.5	4.7	82	2.1	4.8
Germany	527	8.2	19.5	229	4.2	13.4	223	5.6	13.1
Italy	97	1.5	3.6	93	1.7	5.4	37	0.9	2.2
Japan	674	10.5	25.0	759	14.1	44.5	927	23.4	54.5
Netherlands	1	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Russia	382	5.9	14.1	72	1.3	4.2	70	1.8	4.1
United Kingdom	442	6.9	16.4	178	3.3	10.4	172	4.4	10.1
United States	264	4.1	9.8	170	3.2	10.0	121	3.0	7.1
Non-Paris Club Official Bilateral	262	4.1	100.0	175	3.3	100.0	98	2.5	100.0
Post-cutoff date	124	1.9	47.3	87	1.6	49.7	75	1.9	76.4
Pre-cutoff date	138	2.1	52.7	88	1.6	50.3	23	0.6	23.6
<i>Of which: ODA</i>	92	1.4	35.3	85	1.6	48.2	19	0.5	19.8
<i>Non-ODA</i>	46	0.7	17.5	4	0.1	2.1	4	0.1	3.8
<i>Of which:</i>									
Bulgaria	2	0.0	0.9	2	0.0	1.2	2	0.1	2.1
China	127	2.0	48.4	116	2.2	66.2	47	1.2	48.1
Czech Republic	0	0.0	0.1	0	0.0	0.2	0	0.0	0.2
India	17	0.3	6.7	17	0.3	9.9	17	0.4	17.2
Iraq	66	1.0	25.0	0	0.0	0.3	0	0.0	0.5
Romania	16	0.3	6.2	9	0.2	5.2	9	0.2	9.1
Saudi Arabia	18	0.3	6.7	15	0.3	8.4	8	0.2	7.8
Yugoslavia	15	0.2	5.9	15	0.3	8.6	15	0.4	15.1
Commercial loans	39	0.6	...	34	0.6	...	33	0.8	...

Sources: Zambian authorities; and staff estimates.

1/ Based on end-98 exchange rates.

2/ After full use of traditional debt relief mechanisms and comparable treatment by Non-Paris Club official bilateral and commercial creditors.

Multilateral figures are based on end-1999 data, partly reconciled with creditors. Bilateral figures are based on end-1998 data and estimated 1999 flows.

3/ Includes European Investment Bank and European Development Fund.

Table 11. Zambia HIPC Initiative: Assistance Levels Under a Proportional Burden-Sharing Approach 1/  
(in millions of US dollars in end-December NPV terms; unless otherwise indicated) 2/

	Total	Multilaterals	Bilaterals	Commercial Banks	Common Reduction Factor 3/ (Percent)	Memo item: Required NPV debt reduction on comparable treatment on bilateral debt based on overall exposure 4/ (Percent)
Debt relief under baseline scenario	2,468	1,326	1,121	21	62.3	
NPV of debt 5/ 6/	3,959	2,127	1,798	33		
Three-year export average	994					
NPV of debt-to-export ratio (percent) 7/	398					
Paris Club Creditors:						87.4
of which pre-cod non-ODA						101.7
Non-Paris Club Creditors:						87.4
of which pre-cod non-ODA						800.4

Sources: Zambian authorities; and staff estimates and projections.

1/ Assumes proportional burden-sharing as described in "HIPC Initiative: Estimated Costs and Burden-Sharing Approaches" (EBS/97/127; 7/7/97, and IDA/SEC M97-306;7/7/97), that is, after full application of traditional debt relief mechanisms.

2/ Using six-month backward-looking discount rates at end-December 1999 and end-December 1999 exchange rates.

3/ Each multilaterals' NPV reduction at the decision point in percent of its exposure at the decision point.

4/ Includes traditional debt relief; a hypothetical stock-of-debt on Naples terms with comparable treatment for non Paris Club creditors.

5/ Applies a hypothetical stock-of-debt operation on Naples terms at end-December 1999.

6/ Based on latest data available at the decision point after full application of traditional debt relief mechanisms.

7/ Based on the three-year backward looking average of exports of goods and nonfactor services (e.g. 1997-99).

Table 12. Zambia: External Debt Indicators: Baseline Scenario and Sensitivity Analysis, 1999–2019 1/  
(in millions of US dollars; unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average	
													2000 - 2009	2010 - 2019
<b>Baseline scenario</b>														
Nominal debt stock after traditional debt relief mechanisms	5390.1	5616.5	5760.4	5851.7	5857.8	5854.2	5873.3	5957.1	6011.2	6049.3	6106.8	6195.0	5893.8	6981.8
Multilateral	3473.5	3432.1	3154.0	2875.2	2592.6	2307.0	2018.3	1956.3	1893.9	1838.2	1783.9	1731.8	2385.2	1436.7
Official Bilateral	1882.7	1837.6	1794.5	1749.5	1699.7	1678.1	1656.1	1631.8	1605.6	1577.0	1546.8	1513.0	1677.7	1287.9
o/w Paris Club	1707.4	1679.7	1651.9	1621.7	1586.7	1568.6	1550.5	1530.2	1507.3	1481.6	1452.7	1420.2	1563.1	1200.5
o/w Post cutoff date	302.1	275.0	248.0	218.7	186.9	173.3	160.7	148.0	135.4	122.7	110.1	97.4	177.9	54.3
Commercial	34.0	27.1	20.2	13.3	6.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0	6.8	0.0
New debt	0.0	319.7	791.8	1213.8	1559.2	1867.8	2198.9	2369.0	2511.7	2634.1	2776.0	2950.2	1824.2	4257.2
Nominal debt before traditional debt relief	6254.0	6025.5	5567.0	5115.4	4658.5	4219.8	3830.3	3707.2	3581.1	3458.9	3334.6	3210.7	4349.8	2598.7
NPV of debt	3958.9	4133.0	4109.6	4071.7	3964.9	3857.5	3753.3	3811.0	3843.5	3858.7	3878.0	3909.1	3928.1	4225.2
Multilateral	2127.4	2168.1	1976.6	1777.3	1566.4	1343.9	1108.5	1089.4	1070.5	1058.6	1048.2	1040.3	1420.8	938.2
Official Bilateral	1798.3	1804.2	1761.7	1717.2	1667.9	1646.1	1623.4	1598.8	1572.3	1543.5	1513.1	1479.2	1644.8	1258.1
o/w Paris Club	1700.2	1720.7	1690.9	1658.7	1621.9	1601.5	1580.7	1558.2	1533.3	1505.6	1475.0	1440.7	1594.7	1217.1
o/w Post cutoff date	285.2	259.0	232.9	204.5	173.8	160.8	148.8	136.7	124.7	112.8	100.8	88.9	165.5	49.4
Commercial	33.2	26.5	19.7	12.9	6.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	6.6	0.0
New debt	0.0	134.3	351.7	564.3	724.3	866.4	1021.4	1122.7	1200.7	1256.7	1316.7	1389.6	855.9	2028.9
NPV of debt before traditional debt relief	5075.6	4916.3	4532.7	4150.0	3755.8	3373.0	3030.5	2943.2	2853.6	2768.4	2680.0	2594.3	3500.4	2155.2
<i>(in percent of exports of goods &amp; non factor services) 2/</i>														
NPV of debt after traditional debt-relief mechanisms	398.20	443.5	395.4	331.1	286.0	255.9	233.7	222.6	210.7	198.6	187.3	177.2	276.5	144.8
o/w multilateral	214.0	247.1	224.0	190.4	165.2	146.6	132.6	129.2	124.5	119.1	114.2	110.1	159.3	100.2
Debt service	16.2	20.0	35.5	31.1	29.6	25.9	24.3	10.6	11.5	11.9	11.5	10.8	21.2	8.7
o/w multilateral	--	7.5	25.5	22.4	21.3	20.1	19.1	5.4	5.1	4.5	4.2	3.9	13.5	3.7
NPV of debt after enhanced HIPC relief 3/	494.0	512.7	386.7	336.9	235.3	131.9	128.5	125.1	120.4	114.9	110.0	106.0	220.2	99.5
NPV of debt after unconditional delivery of enhanced HIPC relief 4/	150.0	168.7	168.4	150.8	138.8	131.9	128.5	125.1	120.4	114.9	110.0	106.0	135.8	99.5
Debt service after enhanced HIPC relief	16.2	16.4	18.1	16.6	13.6	10.5	8.9	5.5	6.6	7.4	7.1	6.7	11.1	4.6
<i>(in percent)</i>														
NPV of debt-to-revenue ratio (before rescheduling) 5/	1128.0	932.3	882.5	740.5	630.6	532.8	451.1	407.3	367.1	334.3	303.9	275.9	558.2	178.2
NPV of debt-to-revenue ratio 5/	714.0	639.5	651.5	589.4	536.7	487.0	442.0	418.7	394.0	372.9	353.4	335.9	488.5	280.0
NPV of debt-to-revenue after (unconditional) enhanced HIPC relief 4/ 5/	269.0	243.3	277.5	268.5	260.5	251.1	243.0	235.3	225.1	215.8	207.6	200.9	242.8	192.2
NPV of debt-to-GDP ratio (before rescheduling)	198.5	177.8	161.6	140.1	114.8	98.0	83.9	76.6	69.7	63.5	57.7	52.4	104.4	33.9
NPV of debt-to-GDP ratio	125.7	122.0	119.3	111.5	97.7	89.6	82.2	78.7	74.9	70.9	67.1	63.8	91.4	53.2
NPV of debt-to-GDP ratio after (unconditional) enhanced HIPC relief 4/	47.3	46.4	50.8	50.8	47.4	46.2	45.2	44.2	42.8	41.0	39.4	38.2	45.4	36.5
Grant element in total debt	26.6	26.4	28.7	30.4	32.3	34.1	36.1	36.0	36.1	36.2	36.5	36.9	33.3	39.3
Grant element in new debt	--	58.0	55.6	53.5	53.5	53.6	53.5	52.6	52.2	52.3	52.6	53.7	53.7	52.5
<b>Lower Copper Exports scenario 6/</b>														
NPV of debt after traditional debt-relief mechanisms	3958.9	4133.0	4116.5	4043.9	4030.0	3924.8	3843.9	3908.7	3953.4	3991.6	4033.1	4085.3	3997.9	4480.2
<i>(in percent of exports of goods &amp; non factor services) 2/</i>														
NPV of debt after traditional debt-relief mechanisms	398.2	443.5	406.1	350.6	325.8	305.0	292.8	286.9	275.1	259.3	244.5	231.2	319.0	188.8
Debt service	16.2	20.0	37.8	34.8	34.7	31.8	31.2	13.6	14.7	15.1	14.5	13.6	24.8	11.0
NPV of debt after enhanced HIPC relief 3/	494.0	512.7	397.4	356.4	275.1	181.1	187.6	189.4	184.8	175.6	167.3	160.0	262.7	143.8
NPV of debt after unconditional delivery of enhanced HIPC relief 4/	150.0	168.7	179.1	170.4	178.6	181.1	187.6	189.4	184.8	175.6	167.3	160.0	178.3	143.8
Debt service after enhanced HIPC relief	16.2	16.4	20.5	20.3	18.7	16.4	15.8	8.5	9.7	10.6	10.1	9.5	14.7	6.9
<i>(in percent)</i>														
NPV of debt-to-revenue ratio 5/	714.0	639.5	652.6	585.4	545.5	495.5	452.7	429.4	405.2	385.8	367.5	351.0	495.9	301.0
NPV of debt-to-GDP ratio	125.7	122.0	119.5	110.7	99.3	91.2	84.2	80.7	77.0	73.3	69.8	66.7	92.8	57.2
Grant element in new debt	--	58.0	55.8	52.7	54.8	54.6	54.6	53.6	53.2	53.3	53.5	53.7	54.4	52.9

Sources: Zambian authorities; and staff estimates.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.

2/ As defined in IMF Balance of Payments Manual, 5th edition, 1993. Based on a three-year average of exports on the previous year (e.g. export average over 1997-99 for NPV of debt-to-exports ratio in 1999).

3/ Delivery of enhanced HIPC relief under Cologne terms is simulated on bilateral debt in early 2004, following delivery of interim assistance. Consequently, NPV of debt during 1999-2003 is higher when compared to the hypothetical scenario of traditional debt relief, since delivery of the latter is assumed to take place in 1999.

4/ Entire assistance assumed to be delivered unconditionally at end-December 1999.

5/ Revenues are defined as central government revenues, excluding grants.

6/ Copper prices drop 5% from the baseline each year in 2001-2005, and gradually recover to their 2000 level by 2015.

Export volumes rise 1 percentage point slower than in the baseline scenario from 2001 onward.

Table 13. Zambia: Net Present Value of External Debt After Rescheduling, 1999–2018  
(in millions of US dollars)

After traditional debt relief 1/	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1999–2008	2009–2018
	Actual	Projected										Average		
NPV of total debt 2/	3958.9	4133.0	4109.6	4071.7	3964.9	3857.5	3753.3	3811.0	3843.5	3858.7	3878.0	3909.1	3936.2	4147.4
NPV of old debt	3958.9	3998.7	3757.9	3507.4	3240.5	2991.2	2731.9	2688.3	2642.8	2602.1	2561.3	2519.5	3212.0	2276.5
Official bilateral and commercial	1831.5	1830.6	1781.3	1730.1	1674.1	1647.3	1623.4	1598.8	1572.3	1543.5	1513.1	1479.2	1683.3	1312.6
Paris Club	1700.2	1720.7	1690.9	1658.7	1621.9	1601.5	1580.7	1558.2	1533.3	1505.6	1475.0	1440.7	1617.2	1272.2
post-cutoff date	285.2	259.0	232.9	204.5	173.8	160.8	148.8	136.7	124.7	112.8	100.8	88.9	183.9	57.5
pre-cutoff date	1415.0	1461.8	1458.0	1454.2	1448.0	1440.6	1432.0	1421.5	1408.6	1392.9	1374.1	1351.8	1433.2	1214.7
o/w ODA	407.0	410.0	407.5	404.9	402.3	399.7	391.7	394.4	391.7	389.0	386.2	383.4	400.4	370.3
Other official bilateral	98.1	83.5	70.7	58.4	46.1	44.7	42.7	40.6	39.0	37.8	38.2	38.5	56.2	40.4
post-cutoff date	74.9	59.5	46.0	32.8	19.6	17.2	14.2	11.1	8.3	6.0	5.1	4.2	29.0	1.6
pre-cutoff date	23.2	23.9	24.7	25.6	26.5	27.5	28.5	29.5	30.6	31.8	33.0	34.3	27.2	38.8
o/w ODA	19.5	20.2	21.0	21.9	22.8	23.8	24.8	25.8	27.0	28.2	29.5	30.8	23.5	35.9
Commercial	33.2	26.5	19.7	12.9	6.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0
post-cutoff date	33.2	26.5	19.7	12.9	6.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0
pre-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	2127.4	2168.1	1976.6	1777.3	1566.4	1343.9	1108.5	1089.4	1070.5	1058.6	1048.2	1040.3	1528.7	963.9
o/w IMF	962.6	1010.8	830.2	640.7	441.8	230.1	7.5	5.1	2.6	0.0	0.0	0.0	413.1	0.0
o/w World Bank	787.7	805.5	819.7	832.0	841.2	850.7	857.7	860.3	860.6	861.0	859.5	858.2	837.6	803.3
o/w AfDB/AfDF	233.3	214.9	196.9	181.7	166.9	152.7	139.0	126.2	116.4	111.1	106.0	102.3	163.9	94.0
Others	143.8	136.9	129.8	122.9	116.6	110.4	104.3	97.8	90.9	86.5	82.7	79.8	114.0	66.7
NPV of new debt	0.0	134.3	351.7	564.3	724.3	866.4	1021.4	1122.7	1200.7	1256.7	1316.7	1389.6	724.2	1870.9
<i>Memorandum items:</i>														
Exports of goods and services 3/	841.7	1035.6	1240.8	1412.9	1505.5	1604.2	1709.4	1821.4	1940.8	2068.1	2203.6	2348.1	1518.0	2981.4
Three-year export average 4/	994.2	931.9	1039.4	1229.8	1386.4	1507.6	1606.4	1711.7	1823.9	1943.4	2070.8	2206.6	1417.5	2801.7
Central government revenue 5/	554.4	646.3	630.8	690.8	738.7	792.1	849.1	910.2	975.6	1034.7	1097.3	1163.8	782.3	1450.1
NPV of debt-to-exports ratio (percent) 6/	398.2	443.5	395.4	331.1	286.0	255.9	233.7	222.6	210.7	198.6	187.3	177.2	297.6	151.6
NPV of debt-to-revenue ratio (percent)	714.0	639.5	651.5	589.4	536.7	487.0	442.0	418.7	394.0	372.9	353.4	335.9	524.6	291.7
<i>After enhanced HIPC assistance 7/</i>														
NPV of total debt 2/	4911.3	4778.1	4019.3	4142.6	3262.4	1989.0	2063.6	2141.5	2196.6	2232.9	2278.4	2338.3	3173.7	2799.6
NPV of old debt	4911.3	4643.8	3667.6	3578.3	2538.1	1122.7	1042.2	1018.8	995.9	976.2	961.8	948.7	2449.5	928.7
Official bilateral and commercial	2783.9	2475.7	2041.5	1998.6	1952.3	589.4	562.1	531.9	501.2	471.0	442.5	413.8	1390.8	333.5
Paris Club	2584.0	2295.6	1943.1	1919.1	1891.7	559.3	537.0	509.8	481.4	453.1	425.0	396.6	1317.4	316.7
Other official bilateral	166.5	151.6	77.0	64.8	52.6	28.9	25.1	22.1	19.8	18.0	17.6	17.2	62.6	16.8
Commercial	33.4	28.4	21.5	14.7	7.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	10.7	0.0
Multilateral	2127.4	2168.1	1626.0	1579.7	585.8	533.2	480.1	486.9	494.7	505.2	519.2	534.9	1058.7	595.2
NPV of new debt	0.0	134.3	351.7	564.3	724.3	866.4	1021.4	1122.7	1200.7	1256.7	1316.7	1389.6	724.2	1870.9
<i>Memorandum items:</i>														
<b>Old Debt</b>														
NPV of debt-to-exports ratio (percent) 6/	494.0	498.3	352.9	291.0	183.1	74.5	64.9	59.5	54.6	50.2	46.4	43.0	212.3	34.3
NPV of debt-to-revenue ratio (percent)	885.8	718.5	581.4	518.0	343.6	141.7	122.7	111.9	102.1	94.3	87.6	81.5	362.0	66.0
<b>Total Debt</b>														
NPV of debt-to-exports ratio (percent) 6/	494.0	512.7	386.7	336.9	235.3	131.9	128.5	125.1	120.4	114.9	110.0	106.0	258.6	100.5
NPV of debt-to-revenue ratio (percent)	885.8	739.3	637.2	599.7	441.6	251.1	243.0	235.3	225.1	215.8	207.6	200.9	447.4	193.7
<i>After unconditional delivery of enhanced HIPC assistance 8/</i>														
NPV of total debt 2/	1491.3	1572.2	1750.5	1855.0	1924.7	1989.0	2063.6	2141.5	2196.6	2232.9	2278.4	2338.3	1921.7	2799.6
NPV of old debt	1491.3	1437.9	1398.8	1290.7	1200.4	1122.7	1042.2	1018.8	995.9	976.2	961.8	948.7	1197.5	928.7
Official bilateral and commercial	689.9	664.8	652.2	639.7	614.6	589.4	562.1	531.9	501.2	471.0	442.5	413.8	591.7	333.5
Paris Club	640.5	620.2	610.0	599.9	579.6	559.3	537.0	509.8	481.4	453.1	425.0	396.6	559.1	316.7
Other official bilateral	34.3	32.9	32.3	31.6	30.3	28.9	25.1	22.1	19.8	18.0	17.6	17.2	27.5	16.8
Commercial	15.2	11.7	10.0	8.2	4.7	1.2	0.0	0.0	0.0	0.0	0.0	0.0	5.1	0.0
Multilateral	801.4	773.1	746.6	651.0	585.8	533.2	480.1	486.9	494.7	505.2	519.2	534.9	605.8	595.2
NPV of new debt	0.0	134.3	351.7	564.3	724.3	866.4	1021.4	1122.7	1200.7	1256.7	1316.7	1389.6	724.2	1870.9
<i>Memorandum items:</i>														
<b>Old Debt</b>														
NPV of debt-to-exports ratio (percent) 6/	150.0	154.3	134.6	105.0	86.6	74.5	64.9	59.5	54.6	50.2	46.4	43.0	93.4	34.3
NPV of debt-to-revenue ratio (percent)	269.0	222.5	221.8	186.8	162.5	141.7	122.7	111.9	102.1	94.3	87.6	81.5	163.5	66.0
<b>Total Debt</b>														
NPV of debt-to-exports ratio (percent) 6/	150.0	168.7	168.4	150.8	138.8	131.9	128.5	125.1	120.4	114.9	110.0	106.0	139.8	100.5
NPV of debt-to-revenue ratio (percent)	269.0	243.3	277.5	268.5	260.5	251.1	243.0	235.3	225.1	215.8	207.6	200.9	248.9	193.7

Sources: Zambian authorities; and staff estimates and projections.

1/ Assumes a stock of debt operation on Naples terms in December 1999, with comparable treatment from non-Paris Club bilateral creditors.

2/ Discounted on the basis of a six-month average of Commercial Interest Reference Rate (CIRR) for July–December 1999. The conversion of currency-specific NPVs into

U.S. dollars occurs for all years at the base date exchange rate (December 1999).

3/ As defined in IMF Balance of Payments Manual, 5th edition, 1993.

4/ Backward-looking average (e.g. average over 1997–99 for exports in 1999).

5/ Converted into U.S. dollars at the end-of-period 1999 exchange rate.

6/ NPV of debt percent of three-year average of exports of goods and services.

7/ Most of the delivery of enhanced HIPC relief under Cologne terms is simulated on bilateral debt at the Completion Point, following delivery of interim assistance

Consequently, NPV of debt during 1999–2003 is higher when compared to the hypothetical scenario of traditional debt relief, since delivery of the latter is assumed to take place in 1999.

Modalities of simulated HIPC assistance are explained in paragraph 64 of the Preliminary HIPC Document.

8/ Entire assistance assumed to be delivered unconditionally at end-December 1999.

Table 14. Zambia: Debt Service Payments on Public and Publicly Guaranteed External Debt, 2000-2019  
(in millions of U.S. dollars; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average			
												2011-13	2014-16	2017-19	
<b>Before debt relief</b>															
Debt service on outstanding debt 1/	372	588	567	558	526	469	197	196	188	188	182	184	181	140	
Principal	223	453	447	452	434	388	123	126	122	123	124	134	146	117	
Interest	148	135	121	107	92	81	74	70	66	65	58	50	35	23	
<b>After traditional debt relief mechanisms 2/</b>															
Principal	93	328	331	339	312	312	92	121	144	152	153	151	161	208	
Multilateral	41	278	279	283	286	289	62	62	56	54	52	60	71	77	
o/w IMF	0	232	232	232	234	234	3	3	3	0	0	0	0	0	
o/w World Bank	11	16	20	24	25	28	33	36	36	38	38	47	58	64	
o/w AfDB/AfDF	17	18	15	16	16	16	16	13	9	9	8	6	6	6	
Others	13	13	12	11	11	11	11	11	8	7	6	7	7	7	
Official bilateral	45	43	45	50	22	22	24	26	29	30	34	42	54	78	
Paris Club	28	28	30	35	18	18	20	23	26	29	32	41	53	77	
post-cutoff date	27	27	29	32	14	13	13	13	13	13	13	12	7	6	
o/w ODA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
pre-cutoff date	1	1	1	3	5	5	8	10	13	16	20	29	47	71	
o/w ODA	0	0	0	0	0	0	0	0	0	0	0	0	2	5	
o/w non ODA	1	1	1	3	5	5	8	10	13	16	20	28	45	66	
Other official bilateral	17	15	15	15	3	4	4	3	3	1	1	1	1	1	
post-cutoff date	17	15	15	15	3	4	4	3	3	1	1	1	0	0	
Commercial	7	7	7	7	5	1	0	0	0	0	0	0	0	0	
post-cutoff date	7	7	7	7	5	1	0	0	0	0	0	0	0	0	
New borrowing	0	0	0	0	0	0	5	33	60	67	67	49	36	52	
Interest	114	112	109	106	104	104	102	102	101	101	101	101	100	99	
Multilateral	33	31	28	25	22	20	17	16	15	14	14	13	11	9	
o/w IMF	6	6	4	3	2	1	0	0	0	0	0	0	0	0	
o/w World Bank	15	14	14	13	13	12	12	12	11	11	11	10	9	8	
o/w AfDB/AfDF	10	9	8	7	6	5	4	3	2	2	2	1	1	1	
Others	2	2	2	2	2	2	2	1	1	1	1	1	1	1	
Official bilateral	75	72	70	68	66	66	65	64	63	62	61	58	51	41	
Paris Club	72	70	68	67	65	65	64	64	63	62	61	57	50	40	
post-cutoff date	10	8	7	5	4	4	3	3	3	2	2	2	1	1	
o/w ODA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
pre-cutoff date	62	62	61	61	61	61	61	60	60	59	58	56	49	40	
o/w ODA	12	12	12	12	12	12	12	12	12	12	12	12	12	12	
o/w non ODA	49	49	49	49	49	49	48	48	47	47	46	44	37	28	
Other official bilateral	3	3	2	1	1	1	1	1	1	1	1	1	1	0	
post-cutoff date	3	2	1	0	0	0	0	0	0	0	0	0	0	0	
pre-cutoff date	1	1	1	1	1	1	1	1	1	1	1	1	1	0	
o/w ODA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Commercial	2	2	1	1	0	0	0	0	0	0	0	0	0	0	
post-cutoff date	2	2	1	1	0	0	0	0	0	0	0	0	0	0	
New borrowing	3	6	10	13	15	18	20	21	23	25	26	31	38	48	
<b>After enhanced HIPC assistance 3/</b>															
Principal	92	178	176	145	118	103	50	78	103	105	105	86	68	80	
Multilateral	41	128	124	91	77	76	15	15	13	11	10	11	13	14	
Official bilateral	45	43	45	47	35	25	29	30	29	28	28	26	19	13	
o/w: Paris Club	27	28	30	32	18	20	25	27	27	27	25	19	13		
Commercial	5	7	7	7	7	1	0	0	0	0	0	0	0	0	
New borrowing	0	0	0	0	0	0	5	33	60	67	67	49	36	52	
Interest	78	47	59	60	50	50	49	50	50	50	51	53	57	64	
Multilateral	33	12	21	19	17	15	13	13	12	12	12	11	10	8	
Official bilateral	40	27	27	27	18	17	16	15	15	14	13	11	9	8	
o/w: Paris Club	40	24	25	26	17	17	16	15	14	14	13	11	9	8	
Commercial	2	2	1	1	0	0	0	0	0	0	0	0	0	0	
New borrowing	3	6	10	13	15	18	20	21	23	25	26	31	38	48	
<i>Memorandum items:</i>															
Exports	1036	1241	1413	1506	1604	1709	1821	1941	2068	2204	2348	2670	3230	3907	
Debt-service ratio before HIPC relief (percent)	20	35	31	30	26	24	11	11	12	11	9	8	8	8	
Debt-service ratio after HIPC relief (percent)	16	18	17	14	11	9	5	7	7	7	5	4	4	4	

Source: Zambian authorities and staff estimates and projections.

1/ Before debt relief.

2/ A stock-of-debt under Naples terms is simulated at end-December, 1999.

3/ Completion point is assumed to be reached in early 2004.

Table 15. Zambia: Discount Rate and Exchange Rate Assumptions

	Discount Rates 1/ (in percent)	Exchange Rates 2/ (currency per U.S. dollar)
<b>Currency</b>		
Austrian Schilling	5.47	13.70
Belgian Franc	5.47	40.16
Bulgarian Leva	5.59	1.95
Canadian Dollar	6.67	1.44
Swiss Franc	4.27	1.60
Chinese Yuan	5.59	8.28
Deutsche Mark	5.47	1.95
Danish Kroner	5.32	7.40
Spanish Peseta	5.47	165.62
European Currency Unit/Euro	5.47	1.00
Finnish Markaa	5.47	5.92
French Franc	5.47	6.53
British Pound	6.70	0.62
Irish Pound	5.47	0.78
Indian Rupee	5.59	43.49
Iraqi Dinar	5.59	30.00
Italian Lira	5.47	1,927.40
Japanese Yen	1.98	102.20
Kuwaiti Dinar	5.59	0.30
Luxemburg Franc	5.47	40.16
Netherland Guilder	5.47	2.19
Norwegian Kroner	6.64	8.04
Saudi Arabian Riyal	5.59	3.75
Special Drawing Rights	5.59	0.73
Swedish Kronor	5.80	8.53
Russian Rouble 3/	7.04	0.60
United States Dollar	7.04	1.00
Yugoslav Dinar	5.59	11.61

Source: European Central Bank; IMF, International Financial Statistics; OECD; and staff estimates.

1/ Average Commercial Interest Reference Rates for respective currencies over the six-month period prior to end-1999 (i.e., the end of the period for which actual debt and export data are available).

2/ End-of-period exchange rates as of end-December, 1999.

3/ Former Soviet debt converted at 0.6 Rouble per USD, as agreed between Russia and the Paris Club.

Table 16. HIPC Initiative: Status of Country Cases Considered Under the Initiative  
July 2000

Country	Decision Point	Completion Point	NPV of Debt-to-Export Target (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value)					Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
				Total	Bilateral	Multi-lateral	IMF	World Bank			
Completion point reached under enhanced framework											
Uganda				1,003	183	820	160	517	40	1,950	
<i>original framework</i>	Apr. 97	Apr. 98	202	347	73	274	69	160			Received
<i>enhanced framework</i>	Feb. 00	May 00	150	656	110	546	91	357			Being sought
Decision point reached under enhanced framework											
Benin	Jul. 00	Floating	150	265	77	189	24	84	31	460	Being sought
Bolivia				1302	425	876	84	194	30	2,060	
<i>original framework</i>	Sep. 97	Sep. 98	225	448	157	291	29	53			Received
<i>enhanced framework</i>	Feb. 00	Floating	150	854	268	585	55	141			Being sought
Burkina Faso				398	56	342	42	162	46	700	
<i>original framework</i>	Sep. 97	Jun. 00	205	229	32	196	22	91	27	400	Being sought
<i>enhanced framework</i>	Jul. 00	Floating	150	169	24	145	20	71	20	300	Being sought
Honduras	...	...	137 3/	569	208	361	18	85	18	1,024	...
Mauritania	Feb. 00	Floating	137 3/	622	261	361	47	100	50	1,200	Being sought
Mozambique				1,970	1,235	736	141	434	72	4,300	
<i>original framework</i>	Apr. 98	Jun. 99	200	1716	1076	641	125	381			Received
<i>enhanced framework</i>	Apr. 00	Floating	150	254	159	95	16	53			Being sought
Senegal	Jun. 00	Floating	133 3/	452	193	259	42	116	18	800	Being sought
Tanzania	Apr. 00	Floating	150	2,026	1,006	1,020	120	695	54	3,000	Being sought
Completion point reached under original framework											
Guyana	Dec. 97	May 99	107 3/	256	91	165	35	27	24	410	Received
Decision point reached under original framework											
Côte d'Ivoire	Mar. 98	Mar. 01	141 3/	345	163	182	23	91	6 4/	800	Being sought
Mali	Sep. 98	Spring 00	200	128	37	90	14	44	10	250	Being sought
<b>Total assistance provided/committed</b>				8,502	3,650	4,850	708 5/	2,380		15,170	
Preliminary HIPC document issued 6/											
Cameroon	...	...	150	1,466	1,047	358	41	197	30	2,700	...
Ethiopia	...	...	200	636	225	411	22	214	23	1,300	...
Guinea	...	...	150	638	256	383	37	173	34	1,148	...
Guinea-Bissau	...	...	200	300	148	153	8	73	73	600	...
Nicaragua	...	...	150	2,507	1,416	1,091	32	188	66	5,000	...

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanism

3/ Eligible under fiscal criteria; figures provided show the ratios of debt-to-exports that correspond to the targeted debt-to-revenue ratio. For Guyana an

Côte d'Ivoire, a 280 percent NPV of debt-to-revenue ratio was targeted at the completion point; for Honduras, Mauritania and Senegal, a 250 percent ratio was targeted at the decision poi

4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded fro

the NPV of debt at the completion point in the calculation of this ratio.

5/ Equivalent to SDR 512 million at an SDR/USD exchange rate of 0.744

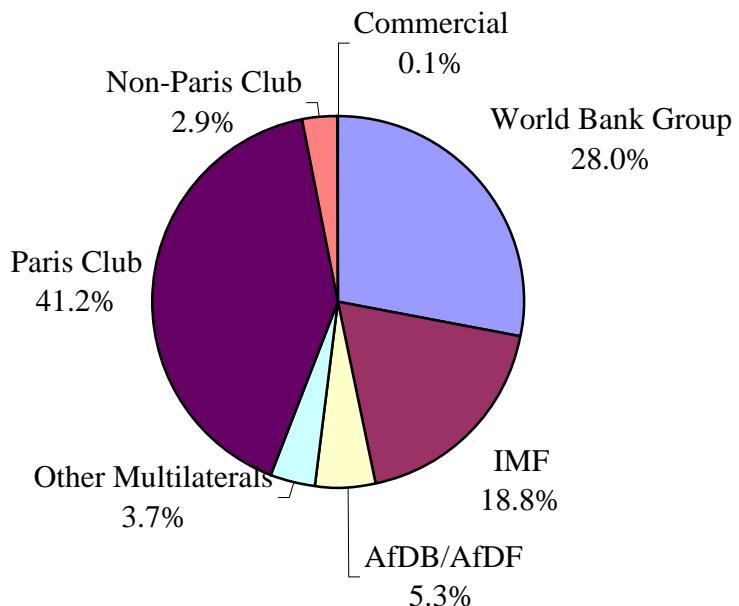
6/ Figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; and are subject to chang

Assistance levels for Ethiopia and Guinea-Bissau were based on the original framework and applied at the completion point; for Nicaragua, Tanzania, Guinea, a targets are based on the enhanced framework and assistance levels are at the decision poin

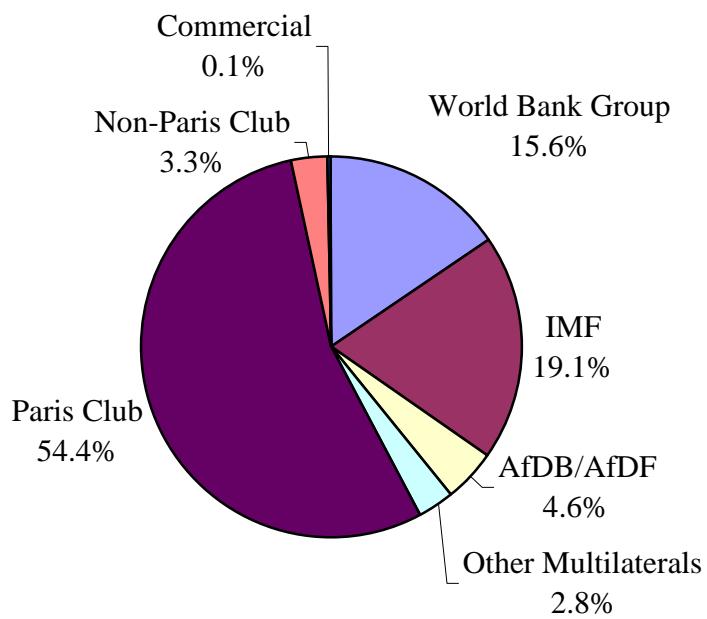
**Figure 1. Zambia: Composition of Stock of External Debt, end-December, 1999**

**Before full use of traditional debt relief mechanisms.**

**Nominal Value of Debt: US \$6227 million**



**Present Value of Debt: US \$5050 million**

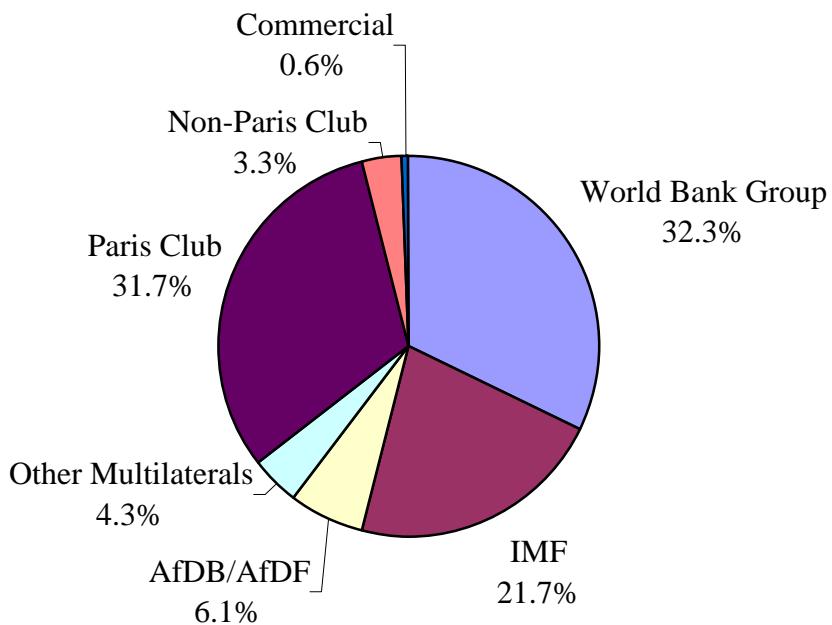


Sources: Zambian authorities; and staff estimates.

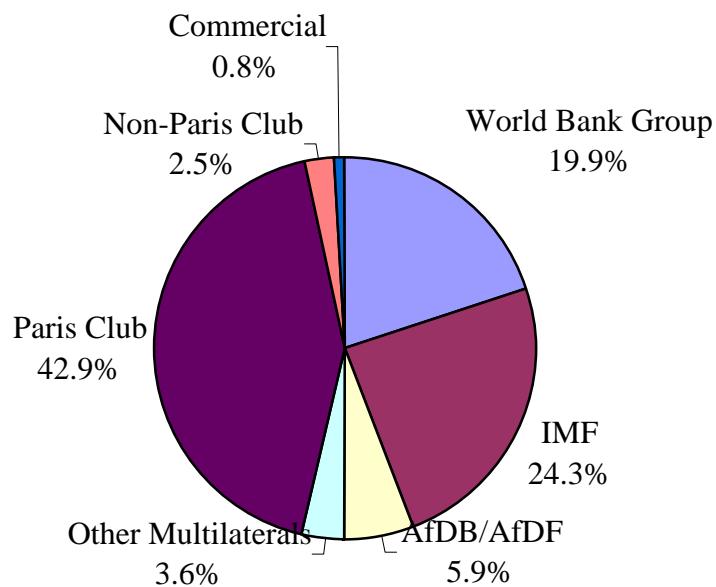
**Figure 2. Zambia: Composition of Stock of External Debt, end-December, 1999**

After full use of traditional debt relief mechanisms.

**Nominal Value of Debt: US \$5390 million**



**Present Value of Debt: US \$3959 million**



Sources: Zambian authorities; and staff estimates.

## **Zambia: Key Structural Measures: Past Reforms and Future Milestones**

### **Trade and Exchange Rate**

#### **Reforms:**

1. A first major step towards a more open trade system was made in 1990 with a considerable reduction in the average level and dispersion of tariffs. A minimum tariff rate of 15 percent was established for most products that had previously been subject to zero rate, and the maximum tariff was reduced from 100 percent to 50 percent, In addition the scope for discretionary import duties was limited.
2. The dual exchange system was unified in 1991 through the elimination of the official exchange rate which was applied to the external transactions of ZCCM and to oil and fertilizer imports.
3. In 1991, the coverage of the Open General License (OGL) system was expanded considerably to about 90 percent of merchandise imports. In 1992 fertilizer was included on the OGL list. The licensing requirement for OGL imports was eliminated in 1993, and most of the remaining restrictions on imports were eliminated in 1994.
4. In 1992, the effective import tax was reduced by cutting from 25 percent to 20 percent the sales tax premium applied to imported goods.
5. In January 1996 the Government abolished tax exemptions for government imports. Average tariffs were reduced through a 15 percent cut in tariffs on most products. During 1997-99 average tariffs were further reduced to an average of 13.6 percent, and non-tariff barriers were substantially eliminated.
6. In sum, Zambia has moved from a restrictive to an open trade system, as evidenced by a reduction in its rating under the Index of Aggregate Trade Restrictiveness maintain by the Fund, from "7" in 1992, to a present rating of "2" (see "Trade Liberalization in Fund-Supported Programs" WEFS February 1998).

#### **Future Milestones:**

1. Reduction of maximum import tariff rate to 20 percent.

### **Taxation**

#### **Reforms:**

1. The personal income tax system was reformed in 1992. The previous structure of ten rates was replaced by a three-rate structure of 15, 25 and 35 percent; a basic tax exemption was replaced by a tax credit, giving the same amount of tax relief to all tax payers; and fringe benefits became taxable.

2. The company tax rate was cut from 45 to 40 percent in 1992, and further reduced to 35 percent in 1993 (with exceptions for commercial banks, agricultural enterprises and non-traditional exports). A special rate of 30 percent was introduced in 1995 for companies listed on the Lusaka Stock Exchange.
3. A complex sales tax was simplified in 1992, and replaced in 1995 with a Value Added Tax set initially at 20 percent, but reduced to 17½ percent in 1997.
4. An independent tax collection agency, the Zambia Revenue Authority, was established in 1994. Since then, there have been significant improvements in all areas of tax collection and compliance, with the exception of the parastatal sector.
5. Significant tax breaks for the new owners of the privatized copper mines were introduced in the 2000 Budget, including a reduction in the company tax rate to 25 percent, with a 20 year carry-forward period for losses; exemption from excise duties on electricity and from customs duties (up to a ceiling of US\$15m a year) for 5 years.

**Future Milestones:**

1. Improved revenue-collection from the state electricity and oil companies (2000).
2. Maintaining the integrity of the tax system by not introducing any new tax exemptions, rebates or other forms of preferential tax reduction.
3. Reform of the company tax system, with the main aim of unifying the various rates, in a revenue-neutral fashion (2001-2003).

**Public Expenditure Management**

**Reforms:**

1. A system of monthly cash allocations was introduced in 1993, to run in parallel with annual budget appropriations. Under this system, the Ministry of Finance can fund expenditure accounts only to the extent that revenues have been collected; it is constrained from using additional credit from the Bank of Zambia or commercial banks.
2. Improved systems for reporting and monitoring arrears, commitments and expenditures were introduced 1998-1999, with the assistance of a resident IMF advisor.
3. Measures to address continued weaknesses in expenditure management were announced in the 2000 Budget, including sanctions for Controlling Officers in line ministries that continue to accumulate arrears.

**Milestones**

1. Improved transparency, in particular through the regular publication of monthly cash allocations to each line ministry (2000).

2. Consolidation of line ministries' commercial bank accounts (2000).
3. Implementation of an Integrated Financial Management Information System (2001-2003) following the appointment of a project manager in 2000.

### **Agriculture**

#### **Reforms:**

1. Legislation in 1992 and 1994 provided a framework for privatizing state-owned agricultural enterprises, nearly all of which have now been divested.
2. Abolition in 1992 of pan-territorial uniform farm gate pricing policies for agricultural produce.
3. A system of administered agricultural credit was progressively abandoned after 1992/3.
4. The Agricultural Credit Act was amended in 1995 to place agricultural credit institutions within the framework of ordinary banking regulations.
5. The Land Act of 1995 replaced traditional systems of land tenure with ownership based upon the concept of land as a marketable asset.
6. A sector wide Agricultural Sector Investment Program (ASIP) was introduced in 1995 based upon an explicitly articulated National Agricultural Policy.
7. The Ministry of Agriculture was restructured in 1998 with many functions decentralized to the district level.
8. An ASIP Consultative Forum was established in 1998 to facilitate dialogue between the private sector, the public sector and the donor community.
9. A new Cooperative Act of 1998 established the independence of the cooperative movement from Government.

#### **Future Milestones:**

1. Reform fertilizer procurement policies (2001) and restrain the role of the Food Reserve Agency which has crowded out private sector participation in the importation and distribution of fertilizer.
2. Adopt a broad-based rural development strategy and formulate a successor ASIP for the period 2001-2003 in accordance with that strategy.

## Transport

### Reforms:

1. A Road Fund was established in 1993 financed by revenues from a fuel levy.
2. National Roads Board (NRB) established October 1994 (with a majority of members drawn from the private sector) to manage the Road Fund and advises the Minister on road policy and programming matters.
3. Department of Infrastructure and Support Services created in 1995 to, inter alia, assist local authorities prepare and carry out road programs.
4. Roads Department of the Ministry of Works and Supply was restructured to make it a contract management organization. Force account and plant and equipment pools cut were reduced to a skeleton operation.
5. Full survey and inventory of national feeder road network completed in 1997 to prioritize the road investment program in consultation with local communities and to identify feeder roads that will eventually be turned over to local communities.
6. A Road Sector Investment Program (ROADSIP) was adopted by the Cabinet in February 1997 based upon extensive consultation with local stakeholders. NRB was designated program coordinator which received IDA and other donor support.
7. A pilot initiative for community transport infrastructure (non-designated roads and bridges) was launched in 1998. Communities will finance 25% of construction, and 75% of maintenance costs.
8. Launch of appropriate means of transport initiative in 1998 to identify new alternatives on an experimental basis. Field testing launched in second half of 2000.
9. Environmental management guidelines for the road sector, including standard contract clauses, completed by June 2000.
10. Zambia Railways Board approves retrenchment plan 1998 in order to reduce costs, scale back operations to meet declining traffic volumes.
11. Cabinet agrees in early 2000 to recommend to concession railway operation under competitive tender to the private sector.

### Future Milestones:

1. Revision of legislation in 2001 to establish a firm legal basis for NRB and the Road Fund, to streamline sector institutions and to reclassify roads.
2. Transport policy framework document to be adopted by Cabinet in mid 2000 to rationalize road user charges and to allocate them between the NRB and the Road Fund.

3. Launch of next phase of ROADSIP – July 2002.
4. Concession for railway operations to be awarded in early 2001 and monitoring arrangements to be put in place.
5. Policies and plans for: regulation of concessionaires; management of residual public sector role and resources; rationalization of any staff not taken on by the concessionaires – to be addressed by early 2001.

### **Energy**

#### **Reforms:**

1. A National Energy Policy was adopted by the Government.
2. A new Electricity Law was enacted in 1995 to revoke the monopoly previously invested in ZESCO and to provide for private participation in the power sector (liberalization of entry).
3. Energy Regulation Board established in 1996 as an autonomous agency to license private operators and regulate tariff structures.
4. In May, 1999 the Government published a "Framework and Incentive Package for Private Sector Participation in Hydropower Generation and Transmission Development".

#### **Future Milestones:**

1. As a first step towards reestablishing the financial viability of ZESCO, arrears from the former ZCCM are to be settled by the Government which has already accepted liability for them (2000).
2. A study to identify modalities and options for the eventual privatization of ZESCO will be undertaken in 2000.
3. Privatization of ZESCO (2001-02).

### **Water Supply and Sanitation**

#### **Reforms:**

1. A National Water Reform Policy Statement was issued in 1994 stating that sector objectives were (i) to provide a sustainable level of service and (ii) to recover full cost wherever possible.

2. The Water and Sanitation Act of 1997 established a decentralized institutional framework for water supply and sanitation.
3. A National Water Supply and Sanitation Council (NWASCO) was established in October 1999 to issues licenses and regulate domestic water providers.

**Future milestones:**

1. Engage an experienced private operator to manage the water and sanitation assets of ZCCM (in nine mining towns) which have now been transferred to an independent holding company.

**Privatization**

**Reforms:**

1. In 1992 the Zambia Privatization Agency was established to implement a far reaching program of privatization.
2. In 1995, ZIMCO, the holding company for parastatals was liquidated and this presaged a major acceleration of the privatization process.
3. Over the seven year period 1992-1999 upwards of 250 formerly state-owned companies were either privatized, leased or, in a few cases, liquidated.
4. In March 2000, ZCCM, the state copper company, was privatized.

**Future Milestones:**

1. Fifty companies remaining in the portfolio of ZPA are to be privatized (2000-2002).
2. The financial viability of ZESCO, the power company, is to be reconstituted as a prerequisite for privatization and a study of possible modalities for privatization is to be undertaken (2000)
3. The distribution of petroleum products is to be fully privatized (2000).

**Health**

**Reforms:**

1. In 1992 the government issued a National Health Policy and Strategy in which the sector goal was to *"provide Zambians with equity of access to cost-effective, quality health care as close to the family as possible"*.

2. Decentralization of health services leading to the establishment and/or reorganization of district health management teams (1993), district health boards (1994) and the Central Board of Health as an apex institution (1996).
3. Financial reforms in support of decentralization included direct funding to districts (1993) and "basket funding" from donors for district health activities (1995).
4. In 1996 a national essential package of health services was defined.
5. A Financial and Administrative Management System was established in 1994.
6. Cooperation with NGOs and donors has included a Memorandum of Understanding signed in 1996 with the Churches Medical Association of Zambia for partial public funding of church hospitals and a Memorandum of Understanding signed in 1999 with all major cooperating partners on future support to the health sector through a sector-wide approach.

**Future Milestones:**

1. Prepare and adopt the next five-year National Strategic Health Plan (2000).
2. Prepare and adopt, together with cooperating partners a Health Sector Investment Plan with a clearly defined resource envelope and implementation strategy (2000).
3. Implement the national HIV/AIDS program (2000-2002).

**Education**

**Reforms:**

1. Establishment of District Education Boards to administer primary education in Copperbelt Province (1995).
2. Basic Education Sub Sector Investment Program (jointly appraised in 1998) received new financing commitments from donors in 1999.

**Future Milestones:**

1. Establishment of District Education Boards in all provinces.
2. Expansion of teacher training to replace untrained teachers by 2002.
3. Reallocate non-wage financial support to districts in favor of poorer districts with less local revenue-raising capacity.
4. Reform the system of financial support for university students to reduce public expenditure on student welfare.

### **Zambia: Debt Management Issues**

The External Resources Mobilization (ERM) is the department in the Ministry of Finance and Economic Development (MOFED) mainly responsible for public debt management in Zambia. Its principal functions are: (i) to project debt service payments; (ii) to ensure, together with the Treasury and the Bank of Zambia (BoZ), that debt service is paid when it falls due; (iii) to keep track of public debt; (iv) to produce debt statistics and analysis; (v) to prepare and execute contracts of guarantee and on-lending; (vi) to manage rescheduling and debt reduction operations; and (vii) to provide policy advice on new borrowing and debt reduction operations.

The ERM prone to a number of shortcomings with respect to administrative capacity and operational efficiency as indicated below:

- i) Data is processed with significant delays due to a shortage of qualified staff and to the use of outdated computer software. It would be appropriate for upcoming technical assistance to focus on staff training and improved software to address these problems. In addition, access to the internet for ERM staff would significantly increase the reliability of data entry and facilitate communication with creditors and multilateral institutions.
- ii) External loans are currently recorded by two separate entities: ERM and BoZ. The ERM database covers all debt serviced by the central government which includes the government's own debt, public as well as government-guaranteed debt of enterprises in default. The Economics Department of BoZ records all other external debt including the liabilities of the central bank itself (in particular all IMF loans to Zambia). However, BoZ data is not sufficiently detailed to permit a full evaluation of the government's contingent liabilities.
- iii) The technical work of the ERM relies on a few highly-skilled staff, working long hours at levels of remuneration that are below those of comparable staff in the private sector. Their workload would be made more manageable if the Treasury were to assume direct responsibility for domestic debt management which ERM now also handles by default.

Staff recommendations for improving the debt management capacity in Zambia include:

- (i) Upgrade computer software. The newest version of the Debt Management and Financial Analysis System (DMFAS) is available at low cost from UNCTAD. It would enable ERM to operate in a network environment (Oracle) and would be fully compatible with Excel and DebtPro software used by Fund and Bank staff.
- (ii) Authorize MOFED to consolidate Zambia's external debt database, including loan information currently handled by BoZ, and intensifying efforts to collect the actual documentation and data from public and private enterprises borrowing abroad;
- (iii) Recruit additional IT and analytic staff rewarded on merit, and provide continued technical training;

(iv) Phase out from the ERM domestic debt management, and transfer responsibility for that task to the Treasury;

(v) Further develop the strategic debt management capacities of ERM, to allow better planning of medium-term external borrowing needs and terms.

**ZAMBIA: ADJUSTMENT RECORD UNDER FUND ARRANGEMENTS, 1986-2000**

Arrangement	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF/PRGF 1/	March 25, 1999	March 24, 2002	254.45	10.00
ESAF 2/	December 6, 1995	December 5, 1998	701.68	661.68
SAF 3/	December 6, 1995	December 5, 1996	181.75	181.75
RAP 4/	July 1992	December 1995	0.00	0.00
Stand-By 5/	February 21, 1986	May 15, 1987	229.80	35.00

1/ Review of First Annual Program was delayed by about a year because of the nonobservance of the June, 1999 performance criteria and subsequent prior actions.

2/ Mid-term review of the first annual arrangement was completed on February 28, 1997. However, Board presentation of the second annual arrangement could not go forward because several prior actions could not be completed. The three-year ESAF arrangement expired on December 5, 1998.

3/ Review of the SAF arrangement was completed and the full amount of program financing was disbursed.

4/ The Rights Accumulation Program (RAP) was successfully completed and Zambia cleared its arrears with the Fund. In completing the review, the Board granted waivers for the nonobservance of a number of performance criteria. The Executive Board also lifted Zambia's ineligibility to borrow from the Fund and approved parallel SAF and ESAF arrangement on December 6, 1995.

5/ Only the initial purchase of SDR35 million was made. No review was completed and the arrangement was cancelled in May, 1987. Zambia has accumulated arrears with the Fund since 1986 and was declared ineligible to use General Resources of the Fund on September 30, 1987.

**ZAMBIA: Evolution of Policy Reform Agreements under IDA**

**A. MACRO**

<b>ERC (3/91)</b>	<b>PIRC (6/92)</b>	<b>PIRC II (6/93)</b>	<b>ESAC (3/94)</b>	<b>ERIP (7/95)</b>	<b>ESAC II (8/96)</b>	<b>PSREP (1/99)</b>	<b>RESULTS ACHIEVED</b>
General fiscal and monetary performance with specific limit on net banking credit	General fiscal and monetary performance	General fiscal and monetary performance	General fiscal and monetary performance	General fiscal and monetary performance	General fiscal and monetary performance	General fiscal and monetary performance	Primary fiscal balance changed from a deficit of 7 percent of GDP in 1991 to about 1 percent of surplus in 1999  Annual inflation reduced from over 170 percent in 1991-1992 to 25 percent in June 1998-99.
	Harmonize sales tax on imports and domestic products Reform business taxation and broaden tax bases		Time-bound action plan for VAT; Ensure parastatal dividends paid directly to Government	Introduce VAT			Zambia Revenue Authority has increased tax collection performance; VAT introduced July 1995
			Redirect budget to social sectors and within those to certain priority categories, e.g., drugs and primary education	Continue redirection of public spending from low-priority areas to social services	Redirect budget to social sectors and within those to certain priority categories, e.g., drugs and primary education	Maintain the share of core social sector expenditures in the health, education, safety nets, disaster relief, and water and sanitation	Social sector share of budget increased from 28 in 1993 to 36 percent in 1999
	Increase nominal interest rates						Interest rates completely decontrolled in 1993; Treasury Bill auction established in 1993
				Improve budget management procedures to avoid arrears and unplanned spending	Prepare guidelines for operation of the Cash Budget ; Adopt and distribute procedures and guidelines for Zambia National Tender Board; Establish time bound plan for public procurement, covering computerization, record keeping, training, administrative strengthening and external monitoring		System for monitoring arrears introduced
Phase out maize subsidies	Eliminate maize and fertilizer subsidies						Maize and fertilizer subsidies eliminated

**B. TRADE**

<b>ERC (3/91)</b>	<b>PIRC (6/92)</b>	<b>PIRC II (6/93)</b>	<b>ESAC (3/94)</b>	<b>ERIP (7/95)</b>	<b>ESAC II (8/96)</b>	<b>PSREP (1/99)</b>	<b>RESULTS ACHIEVED</b>
Achieve market clearing exchange rate in second-window forex market							Exchange rate determined by market forces
Expand OGL to all but a small negative list							All quantitative restrictions on imports removed other than those for health, safety and environmental resources
Remove export bans (except for ivory, oil, maize, and fertilizer)			Eliminate remaining export ban on maize				All export bans removed except for environmental reasons
Compress tariff rates	Reduce top tariff from 100% to 50%; adopt strategy for further tariff reduction	More tariff reduction and compression		Provide relief from transitional anomalies in the tariff structure  Introduction of VAT will automatically lower protection by eliminating “up-lift” factor	Adopt a tariff structure with a maximum rate of 25%. Many raw materials would be free of tariffs, capital goods would be charged 5%, intermediate goods 15% and final goods 25%  Eliminate most tariff exemptions, including for Government purchases, and no introduction of new exemptions; qualifying NGOs to be given refunds or vouchers for customs duties		Highest tariff rate reduced from 100 to 25 percent, and number of tariff bands reduced to 4  Mechanism for relief from tariff anomalies adopted in 1994  Most raw materials subject to zero tariffs  Transparency and simplicity of tariff structure improved with the elimination of most exemptions in 1996
			Simplify and liberalize duty drawback system				Offsetting credit system introduced for duty drawback in 1994
						Revamp Duty Drawback (DD) and Manufactures-Under-Bond (MUB) Schemes; Eliminate the 5 percent Import Declaration Fee.	Revamped schemes fully operational; schemes have helped to promote exports; Eliminated the Import Declaration Fee as of July 1998.

**C. PRIVATE SECTOR**

<b>ERC (3/91)</b>	<b>PIRC (6/92)</b>	<b>PIRC II (6/93)</b>	<b>ESAC (3/94)</b>	<b>ERIP (7/95)</b>	<b>ESAC II (8/96)</b>	<b>PSREP (1/99)</b>	<b>RESULTS ACHIEVED</b>
	Reform Investment Law; prepare investment guidelines; streamline operations of Investment Center	Evaluate effectiveness of reformed Investment Act and Investment Center				Streamline investment approval process	Investment Act of 1991 replaced with new Act in 1993; Investment Center reorganized; Investment Guidelines issued in 1995; The 1993 Investment Act was further amended in the 1996 Investment (Amendment) Act of January 27 to simplify the approval process; however, full streamlining of the investment approval process is yet to be achieved.
Liberalize licensing for small-scale enterprise		Prepare action plan for SSE deregulation					Licensing requirements reviewed and simplified for new businesses
		Develop action plan for land market	Create legal basis for market in leasehold land and facilitate subdivision of land and property		Implement 1995 Land Act including the Land Tribunal and the Land Development Fund; The Ministry of Lands to establish a baseline performance assessment of its leaseholds grants; Informal urban settlements to be regularized		Market for leasehold land liberalized and regularized in 1995
			Increase budget allocation for road maintenance				Road Maintenance Fund established, funded by excise tax on fuel
					National Housing Policy		National Housing Policy issued in 1995
					Amend Employment, and Industrial and Labor Relations Acts		
Begin liberalization of maize marketing							Marketing of all crops liberalized in 1992; except temporary ban on maize 0.exports in 1995
Decontrol fertilizer prices							All prices for agricultural products and inputs decontrolled
Begin reducing consumer maize subsidy	Eliminate consumer maize subsidy						Consumer subsidies ended in 1993
					Adopt new mining sector policy to encourage private sector investment; Adopt new legal, fiscal and environmental frameworks; Strengthen capacity of Ministry of Mines to oversee new legal, fiscal and environmental frameworks		Mining policy statement approved by Cabinet in 1995  New legal, environmental, and fiscal frameworks for mining adopted in 1995 Training and reorganization plan prepared under mining sector technical assistance

**D. FINANCIAL SECTOR**

<b>ERC (3/91)</b>	<b>PIRC (6/92)</b>	<b>PIRC II (6/93)</b>	<b>ESAC (3/94)</b>	<b>ERIP (7/95)</b>	<b>ESAC II (8/96)</b>	<b>PSREP (1/99)</b>	<b>RESULTS ACHIEVED</b>
	Reform Securities Law  Establish stock exchange and adopt capital market regulations	Amend Bank of Zambia Act to strengthen prudential regulations of banks					Foreign Exchange transactions liberalized, and exchange rate market determined; Eliminated all interventions in credit allocations and interest rates; BOZ introduced Treasury Bills weekly auctions; Reduced high reserve and liquidity requirements for commercial banks; Changed Banking and Financial Services Law to place all financial institutions under BOZ supervision; Issued BOZ regulations for banks; Developed a Stock Exchange and established a Securities Exchange commission to regulate it
End public monopoly on insurance industry	Reform business legislation	Adopt business legislation	Implement simplified procedures of 1993 Investment Act	Reform insurance industry policies and laws (including pension-fund management companies) and set up new regulatory and supervisory agency			Opened the insurance industry to private companies; new insurance law adopted
		Prepare action plans for DBZ, Eximbank and Lima Bank		Adopt policy framework and strategy for provision of term finance to private sector; Restructure DBZ as apex bank and create collection agency for DBZ loan portfolio; Privatize or close down Eximbank and Lima Bank; Reform rural credit and reorient Government-owned credit institutions			Adopted new policy and strategy for term finance in 1995  Development Bank has ceased new lending  Apex established to on-lend external funds to private sector through commercial banks  Stopped budget allocations to agricultural credit institutions in 1995  Eximbank and LIMA Bank in liquidation

**E. CIVIL SERVICE REFORM**

<b>ERC (3/91)</b>	<b>PIRC (6/92)</b>	<b>PIRC II (6/93)</b>	<b>ESAC (3/94)</b>	<b>ERIP (7/95)</b>	<b>ESAC II</b>	<b>PSREP</b>	<b>RESULTS ACHIEVED</b>
Eliminate "ghost workers" by physical survey  Identify staffing needs in line ministries	Eliminate surplus civil service staff and "ghost workers"  Retrench 10,000 workers and develop deeper restructuring program; include compensation measures		Improve retention incentives for high level staff  Reduce up-front cash costs of severance benefits		Maintain adequate information system with reliable data on number and deployment of teachers		Approved use of in-kind benefits for severance payments in 1994  Nearly all workers now paid by check  Launched a public sector reform program; restructuring plans for 14 ministries approved
						Reduce the size of the civil service by freezing recruitment, retrenching the CDEs, reducing pensionable staff through voluntary separation and enforcing the wage freeze.	A limited hiring freeze, instituted in August 1997, resulted in drop of the non-military public service from 137,000 in 1997 to 112,000 by end-1999.

**F. PRIVATIZATION**

Announce privatization policy and develop modalities	Adopt overall privatization plan/strategy Enact Privatization Law	Update Privatization Program	Begin sale of state-owned farms			Adopted Privatization Act in 1992 Established Zambia Privatization Agency (ZPA) in 1992
Offer at least 6 parastatals for sale	Complete sale of at least 10 companies; and offer for sale companies accounting for 10 percent of total turnover of companies in program  Offer for sale additional 10 parastatals	Offer for sale 60 companies; Reach point of sale for 20 companies; Complete sale or liquidate at least 15 companies; Offer for sale a total of 60 companies				Offered for sale 325 entities; Completed sale or liquidated 235 entities by end-1999.
		Recruit all key ZPA staff				ZPA operational since 1992
		Establish Privatization Trust Fund (PTF)				PTF set-up in 1993 PTF received shares in Chilanga Cement in 1995
		Study options to privatize ZCCM				Study completed; privatization under way
		Complete assessment of impact of privatization on specific target groups				Initial impact assessment completed
				Adopt and begin implementing plans to privatize and restructure ZCCM Adopt plans to develop Konkola Deep project on urgent basis in joint-venture with private sector in manner resulting in majority private-sector ownership and management		
					Implement agreed redundancy plan for ZCCM; Implement the reorganization plan for ZCCM; Complete transfer of ownership and control of remaining core ZCCM assets.	Sale of ZCCM completed March 30, 2000.

**VIII. G. PARASTATALS MANAGEMENT**

<b>ERC (3/91)</b>	<b>PIRC (6/92)</b>	<b>PIRC II (6/93)</b>	<b>ESAC (3/94)</b>	<b>ERIP (7/95)</b>	<b>ESAC II (8/96)</b>	<b>PSREP (1/99)</b>	<b>RESULTS ACHIEVED</b>
Complete studies of Zambia Airways, Post and Telecoms, and Zambia Railways			Adoption of acceptable financial plan for Zambia Airways				Zambia Airways liquidated in 1994  Telecoms separated from Post and commercialized in 1995
	Grant autonomy to all other parastatals						UBZ closed in 1995
	ZIMCO to be restructured and sub-holding companies abolished						ZIMCO closed in 1995. Directorate of State Enterprises set up under Ministry of Finance
	Establish autonomy of key parastatal utilities and establish transitional regulatory system, including price adjustment mechanisms	Study long-term regulatory arrangement for utilities				Complete transfer of ownership and control of remaining core ZCCM assets.	Utilities given authority to set their prices based on agreed mechanisms  Sale of ZCCM completed March 30, 2000.

**H. SOCIAL SECTORS**

<b>ERC (3/91)</b>	<b>PIRC (6/92)</b>	<b>PIRC II (6/93)</b>	<b>ESAC (3/94)</b>	<b>ERIP (7/95)</b>	<b>ESAC II</b>	<b>PSREP</b>	<b>RESULTS ACHIEVED</b>
Implementation schedule for Social Action Program	Develop improved social action program and begin implementation						
Increase budget allocation for education			Meet minimum budget and spending targets for key social services in 1994	Meet minimum budget and spending targets for key social services in 1995	Maintain a social sector budget of at least 35 percent in 1996	Maintain social sector budget at 36 %	Overall budget allocations improved  Social sector share of budget increased from 28 in 1993 to 34 percent in 1996; maintained at 36 % in 1998/99

			Expand role of NGOs in social services delivery  Decentralize delivery of health and education services		Formulate a policy on collaboration with NGOs		Sector strategies adopted Decentralization of service delivery begun
			Adopt comprehensive water sector policy				Water sector policy adopted in 1994
					Prepare an Education Sector strategy  Formulate a national drug procurement policy		

### I. SOCIAL SECURITY

ERC (3/91)	PIRC (6/92)	PIRC II (6/93)	ESAC (3/94)	ERIP (7/95)	ESAC II	PSREP	RESULTS ACHIEVED
				Reform Social Security/Pension Fund System  Adopt action plan to cover unfunded liabilities of existing statutory pension funds  Repeal 22-years-of-service compulsory retirement law and modify benefit formulae and early retirement conditions  Adopt action plan to improve administration and operations of Zambia National Provident Fund			New Social Security Act Passed by Parliament.  Adopted reform strategy by NSSRISC based on joint Bank/ILO study in 1995  Draft legislation under preparation  Approved Cabinet Memorandum on Social Security Reform in 1995