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INTERNATIONAL DEVELOPMENT ASSOCIATION

ZAMBIA

**Poverty Reduction Strategy Paper
Joint Staff Assessment**

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

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I. OVERVIEW

- 1. The Poverty Reduction Strategy Paper (PRSP) of the government of Zambia builds upon the interim strategy paper (I-PRSP) presented to the Boards of the IMF and IDA at the end of July 2000. It has been developed through a participatory process involving government, the private sector, civil society and donors.** The process included working groups, consultation workshops, and a national stakeholder summit. Although most of the preparatory work was undertaken prior to the elections in December 2001, it has been endorsed by the new cabinet. Its main recommendations have been introduced to the Parliament in the context of the recent budget discussions and it will be presented in full along with the three-year rolling plan later this year.
- 2. Once a middle income country, Zambia has lived through three decades of declining living standards arising from poor management of the government-owned copper mines, falling export revenues (over two-thirds of which is from copper exports), failure to diversify the economy away from mining, weak macro-economic management, rising foreign debt, and recurrent fiscal crises.** Despite attempts since the mid-1990s to improve performance through macroeconomic stabilization and structural reforms (including privatization of the mines), growth has proved elusive. Per capita income in 2000 was about 60 percent of its level in the late 1960s. It is appropriate therefore that the approach adopted in the development of the PRSP has been to analyze the lessons of the past and to focus on growth-promoting strategies for the future. However, in the last stages of finalization of the PRSP, Zambia has faced a new crisis, precipitated by the threatened withdrawal of the principal copper producer. This situation has introduced enormous uncertainty into the policy-making environment. However, the crisis has increased rather than diminished the relevance of the strategy of growth and diversification adopted in the PRSP, and the urgency of its effective implementation.
- 3. The Zambian PRSP has as its major objectives to promote growth and diversification in production and exports, to improve delivery of social services and to incorporate crosscutting policies for HIV/AIDS, gender and the environment.** Its main

strengths are (i) a strong participatory process that has involved civil society and donors in all stages of the development of the strategy; (ii) a poverty analysis that makes good use of quantitative and qualitative data, covers multiple dimensions of poverty, and provides data disaggregated by socio-economic group, gender and region; (iii) an appropriate macroeconomic framework and financing plan; (iv) identification of priority sectors in terms of their contribution to pro-poor growth; and (v) the inclusion of an ambitious, if general, program to improve governance and reduce corruption.

4. **There are a number of areas where the work is still ongoing and will need to be further developed as the government moves into PRSP implementation.** These include: further specifying the poverty-reducing activities within the priority sectors; more details on the financing of the PRSP, including annual allocations of PRSP expenditures within the framework of a new MTEF; further refinement of targets and indicators; and fuller integration of crosscutting issues such as gender, HIV/AIDS, and environment in some sectors. These areas reflect institutional and capacity weaknesses in government and limited diagnostic studies underlying sectoral policies.

5. **The government has already taken some steps to address these weaknesses, with donor support.** They include a comprehensive work program to improve budgeting and public expenditure management; technical assistance to refine performance indicators and strengthen monitoring; and sectoral studies to explore options for diversification away from the copper industry and to strengthen competitiveness in the main sectors. The government has also introduced a number of institutional changes in the Ministry of Finance and National Planning (MFNP) to improve policy planning, coordination and monitoring. Steps have been taken to strengthen institutional capacity with donor support, including the World Bank's Public Sector Capacity Building Project (PSCAP), but further assistance will need to be identified and donor financing sought. The government intends to report progress in these areas in the annual PRSP reports.

II. PARTICIPATORY PROCESS

6. **The Zambian PRSP has, from the beginning, adopted a participatory approach.** The document was prepared by eight thematic working groups, composed of representatives from government, NGOs, academia, businessmen, the church, parliamentarians and donors. They were tasked with undertaking a review of the key poverty issues in their sector and the strengths and weaknesses of current policies, as well as the development of new policy priorities, costing of proposed programs, and targets and indicators to monitor and track progress. Meeting almost weekly over some six months, they produced early drafts of the document. In addition, a number of workshops were organized on specific themes, for example on data needs of the PRSP and sector seminars.

7. **Consultations were also carried out in each province, where discussions focused on the main poverty needs of the region and policy recommendations.** These consultations served to endorse the PRSP focus on increasing growth, especially the need to promote agricultural growth and urban employment. The first complete draft of the PRSP was presented at a **national stakeholder summit**, which took place over three days in October 2001. Many hundreds of participants attended the summit, including parliamentarians and representatives of

the donor community. The working groups revised the document to incorporate inputs from stakeholder workshops and written comments from various donors. The PRSP secretariat, based in the MFNP, coordinated the production of an integrated final document. The final version has been circulated to civil society and donors.

8. **Civil society groups were well organized for participation in the PRSP process.** They formed an umbrella organization called Civil Society for Poverty Reduction (CSPR) with some 90 representatives of different organizations. They conducted their own studies and provincial consultations, and produced their own PRSP document as an input into the process. They declared that eighty percent of their suggestions had been incorporated into the draft PRSP that was discussed at the national summit, although they regretted not having a representative on the final drafting committee. The CSPR has been lobbying government on participatory budgeting and the tracking of HIPC expenditures, and they are currently organizing themselves to participate in PRSP monitoring. The PRSP commits to continuing the working group participatory structure during implementation, although the details remain to be worked out.

III. POVERTY DIAGNOSIS

9. **Zambia is fortunate to possess a run of good quality, national household expenditure surveys (1991, 1993, 1996, 1998), and a new one is currently underway.** It has also a rich experience of participatory poverty assessments. These data have been analyzed by national and foreign agencies in the past, although the results are often not widely disseminated or used for policy making. Government capacity for poverty analysis therefore remains weak, although the Bank is providing support on data analysis. Coordination between statistical agencies, poverty analysis and policy makers also needs to be strengthened.

10. **Within the limitations of space, the PRSP provides a good overall profile of poverty and its causes in Zambia.** An analysis of poverty trends during the 1990s points out that poverty increased to 73 percent in 1998, although there has been a decline in the level of rural poverty, but an increase in urban poverty. The analysis covers income and non-income dimensions of poverty, and includes aspects of vulnerability and coping strategies. It also provides some disaggregation of poverty by stratum, household size, gender, and region. It examines barriers to poverty reduction, emphasizing the lack of growth, high inequality, external dependence, unsatisfactory prioritization, inadequate safety nets, and HIV/AIDS. These factors are broadly endorsed by the participatory assessment data.

11. **The poverty analysis links well to the broad structure of the poverty reduction strategy, which focuses on growth, diversification, governance and social services.** These links are made again in the sector chapters, where a situation analysis provides further detail on sector-related poverty and an evaluation of the limitations of current policies in addressing them. In future, these links could be strengthened by increased attention to geographical targeting, building on the regional analysis of poverty, thereby ensuring that new growth and employment-promoting activities are directed towards the areas that need them most.

12. **There is room for deepening the analysis of the relationship between poverty and policy.** Despite the relative abundance of data and analysis in Zambia, compared with other African countries, there is still much that needs to be understood about policies that promote

growth and poverty reduction, as well as the distributional impact of public expenditure. The newly formed Poverty Reduction and Analysis Unit, set up in MFNP, will need to ensure that better use is made of existing studies, identify the gaps in knowledge that still need to be filled, and seek donor support for capacity building where appropriate. The possibility of conducting a Poverty and Social Impact Analysis (PSIA) for major policy initiatives with support from the Bank has been discussed, but details have not yet been worked out.

IV. THE POVERTY REDUCTION STRATEGY

13. **The PRSP is wide-ranging in scope and has a strong sectoral emphasis.** The overall approach is to achieve poverty reduction through a combination of growth-promoting activities in key economic sectors (with a particular emphasis on rural-based activities) and supporting infrastructure, improved access and quality in the provision of social services, improved governance, and the integration of policies on HIV/AIDS, gender and the environment across the main sectors. The general objectives are translated into broad programs and activities that are costed in appendices. The strategy is costed at US\$1.2 billion over 2002-2004.

14. **The breadth of the policy objectives reflects the inclusive and participatory nature of the design process, which is to be commended. However, further work will be needed to translate some of these policies into specific programs, and to assess their economic feasibility and mechanisms for implementation.** The prioritization process, which is mainly reflected in the costings, should also be refined, for example, by sequencing, and its criteria made more explicit. This would enable the targets and indicators to be better focused.

A. Targets, Indicators, and Monitoring

15. **Further work is needed to improve clarity on the core goals and targets of the PRSP.** Appendix 3 provides targets and indicators for each sector and subsector objective, some of which are still under construction. In this appendix, it is stated that the PRSP aims to reduce the poverty headcount index from 73 percent in 1998 to 65 percent by 2004, which is where it was in 1996. Rural poverty is to be reduced from 83 to 75 percent and urban poverty from 56 to 50 percent. The staffs consider these targets to be ambitious in the current circumstances.

16. **In general, the indicators chosen are relevant to the overall objectives, although further work is needed to finalize them and ensure that the targets are realistic and monitorable within the timeframe of the PRSP.** The detailed indicators were assembled by the PRSP working groups after reviewing the ongoing program targets, data availability and resources. An attempt was made to achieve a balance between intermediate and final indicators, although this is not always achieved for each sector. Some of the social sector targets broadly correspond to the Millennium Development Goals (MDGs), although the MDGs are barely mentioned in the text. The ongoing work on indicators, supported by the EU, should define how the government will monitor the MDGs (or some adaptation of them) within the PRSP process.

17. **The PRSP sets out an institutional framework for monitoring, which will be led by the new Planning and Economic Management Department within MFNP.** It will involve coordination between central government departments as well as with provincial and district planning units. A role is also envisaged for participatory monitoring by civil society groups,

although the details of this are not yet worked out. These institutional arrangements are appropriate; the issue will be to make them work, since coordination in the past has been poor. It would be useful, for example, to develop a timetable of key monitoring activities and outputs expected from the relevant institutions, to ensure that data flow regularly. It will be important to report on the further development of the monitoring process in the annual PRSP progress report.

B. Macroeconomic Framework

18. **The PRSP commits to the continuation of the cautious macroeconomic policies of recent years.** Macroeconomic stability is seen as crucial to stimulating export-based, private sector-led growth. The main objectives include reducing inflation from 18.7 percent in 2001 to about 5.0 percent by end-2004, the fiscal deficit from 8.1 percent to 6.4 percent of GDP and the current account deficit from 20.4 percent to 13.7 percent of GDP in the same period. The PRSP also aims to reduce aid dependence in the medium-term to a more sustainable level. This macroeconomic framework is broadly consistent with the PRGF objectives and targets agreed with the IMF, and the policy agenda agreed with the World Bank under its adjustment credit.

19. **A key objective of the macroeconomic framework is acceleration and diversification of growth in order to reverse the declining trend of per capita income in the past three decades.** The PRSP states that a 5-8 percent growth rate would be desirable for poverty reduction. Nevertheless, in view of the adverse impact of HIV/AIDS on the economy and the reduced prospects for the mining sector, it is recognized that growth prospects are likely to be more modest in the near term. The staffs consider that the projected growth rate of 4.1 percent over the three year period is realistic, provided that current macroeconomic policies are maintained. The PRSP indicates that growth should be broad-based, brought about by increased private investment, both domestic and foreign, in labor-intensive export-oriented sectors. However, the text does not provide much detailed discussion of specific sources of growth or projected sectoral growth rates. It would be desirable to strengthen the government's analysis of the relationship between growth and poverty reduction, drawing on the methodology that has been developed for Zambia, for example in the recent public expenditure review. This would permit the government to target more precisely that levels and types of growth will be necessary to reduce poverty.

20. **The macroeconomic framework presented in the PRSP is the base case scenario, based on the maintenance of the current level of copper production for 2002 and a small annual decline thereafter.** In the event of a deterioration beyond this level, the government has indicated that it will undertake broad-based measures to ensure that the fiscal program remains on track, and seek additional concessional support from donors as necessary. It recognizes that a worst case scenario of a major disruption in copper production would have drastic effects on growth, employment, balance of payments, and poverty in the country and would require a major re-shaping of the PRSP strategy. The government is currently working hard to avoid this.

21. **The government has established a high level task force to prepare an effective response to the copper sector crisis.** With assistance from the World Bank and international financial, legal, and technical advisors, the task force is analyzing the economic and social impact of the crisis, reviewing the options and associated issues, and preparing recommendations for the government. The task force has also initiated work on diversification of production and

exports and preparation of a social safety net program for the Copperbelt. Clearly, developments in the copper sector, together with progress on diversification, will need to be assessed on a continual basis and their implications discussed in the first annual PRSP progress report.

C. Governance

22. **High priority is given to improving both economic and political governance, which are seen as part of the overarching framework of the PRSP**, along with growth, diversification, and improving social services. This is a welcome development and fully in line with the continent-wide priorities adopted under the New Partnership for Africa's Development (NEPAD).

23. **The PRSP constitutes a good beginning for placing good governance at the center of economic and political management.** However, turning its broad objectives into concrete policy actions will require further work, and ensuring their effective implementation will need strong political will. In this connection, the government has initiated a work program on public expenditure management and financial accountability to set out measures to improve effectiveness, accountability and transparency in public spending. The PRSP expresses a strong commitment to improving public expenditure management, strengthening Anti-Corruption Commission, as well as to implementing the National Capacity Building Program for Good Governance, with a particular priority on increasing access to justice, decentralizing government functions and improving communications between government and citizens. It also stresses the principle of "zero tolerance" of corruption, including public denouncement by the political leadership of identified corrupt practices and abuse of public resources.

D. Structural, Sectoral, and Cross-Cutting Policies

24. **The PRSP also focuses on structural measures to strengthen private investment and improve the regulatory and financial environment.** Emphasis on public enterprise reform and privatization will help to reduce the quasi-fiscal deficit thereby easing pressure on interest rates and inflation and supporting private investment. The PRSP would benefit from increased attention to the role of the private sector, further specifying the main components of the business environment and investment regime to promote private investment. These could include improvements in governance, the stability of the banking sector, and the regulation of public utilities.

25. **Given that poverty is mainly concentrated in rural areas in Zambia, the growth-promoting programs are mainly directed to these areas**—agriculture, tourism (game parks), agro-processing, small-scale mining and supporting infrastructure. The private sector is expected to lead in the development of these sectors, and there is a strong external orientation; it is intended to attract "quality investors" and consumers (tourists) from abroad, and new agricultural and manufacturing output will be largely for export. The role of government is mainly to create a level playing field, reduce transaction costs by improving infrastructure and communications, and provide supporting promotional activities. The PRSP gives priority to activities that will have large employment-generation effects, and aims to foster both large and small-scale enterprise development, and linkages between them. Examples include outgrower schemes that link large export-oriented commercial farms with smallholders, and industrial parks that cluster a

variety of linked business activities together. Infrastructure investment will be concentrated in these areas to reduce overheads.

26. **The focus on outgrower schemes as a source of agricultural growth is appropriate given Zambia's plentiful natural assets, and it builds on existing successes that already provide as much employment as the mining sector.** The PRSP mentions that land allocations for these schemes will have to be handled carefully given the fact that the overwhelming majority of the land is under traditional forms of tenure, which does not provide incentives for long-term investment in land development. The Land Act is to be reviewed but few details are given. Care will be needed to ensure that the rural poor are not deprived of access to their sole source of livelihood.

27. **Agriculture is given the highest priority in the PRSP for diversifying production and exports, creating employment, increasing incomes, and improving food security.** There is scope for this, given large unused potential in the sector (only 14 percent of the cultivable land is presently cultivated, and nine percent of irrigation potential is used). Building on the earlier marketing and pricing reforms, agricultural policy will focus on encouraging small-scale and commercial farming by improving the land tenure system, strengthening rural infrastructure and extension services, and better utilizing the water resources. The emphasis is appropriate, although it would be necessary to identify some of the obstacles to rapid agricultural growth. In particular, greater clarity is needed about government's role in the input and credit markets, which are not adequately addressed in the PRSP. Studies recently initiated by the task force and the World Bank on diversification and competitiveness will provide the analytical background to improve policies in agriculture and other priority sectors.

28. **The production and export diversification strategy of PRSP also involves expansion of labor-intensive manufacturing** including agro-processing, and wood and leather products. Investment promotion, particularly in the small and medium scale sectors, export support, and skill development are identified as key elements of the manufacturing sector program, but specific policy interventions are yet to be developed. These policy interventions will need to be based on sound analytical underpinnings.

29. **The PRSP recognizes that given a large resource base, the mining sector will continue to play an important role in the foreseeable future in Zambia and that diversification away from copper mining will take time.** However, given the downturn in mining prospects, PRSP proposals for new investment in this sector may be over-optimistic. Mining sector policies should rather emphasize cost cutting and efficiency measures.

30. **Special emphasis on infrastructure is justified to support the overall focus on growth and diversification, but the relative roles of the public and private sectors needs to be spelled out more clearly.** The main approach adopted in all infrastructure sectors (transport, power, telecommunications, and water supply) supports the macroeconomic objective. However, the focus is largely on new investment, with inadequate emphasis on maintenance, operational efficiency, the quality of service delivery, and the regulatory framework.

31. **In the past few years, the government has made special efforts to protect expenditure and improve service delivery in the social sectors, particularly in education**

and health. The PRSP maintains this emphasis as an important component of the overall strategy of growth with equity. However, policies in these sectors would improve substantially with better targeting. It is not clear, for example, how resources will be allocated within the sectors towards pro-poor activities, such as primary education and primary health. The sector indicators could also better reflect the pro-poor emphasis. For example, primary enrolment rates in lower income quintiles could be used as an indicator, in addition to overall enrolment rates. Similarly, in the health sector, indicators such as infant/maternal mortality rates (if possible, specified by income quintiles) would be preferable to life expectancy at birth, which is difficult to monitor. Weaknesses in the planning and policy-making functions in the line ministries will require due attention during implementation of the PRSP.

32. **Given Zambia's exposure to natural, health and external shocks, the staffs believe that greater attention should be given to social safety net programs.** The Public Welfare Assistance Scheme (PWAS), which targets specific vulnerable segments of the population, receives only occasional references in the report. An immediate next step in the PRSP process should include: identification of the risks facing vulnerable groups, a review and assessment of the existing safety net interventions in terms of their scope, coverage and effectiveness, and development of an integrated strategy for a more comprehensive safety net framework and social risk management .

33. **The PRSP acknowledges HIV/AIDS (which will receive 7.9 percent of the PRSP budget), gender and environment as important crosscutting issues, but fuller integration is still to be developed in some sectors.** In order to effectively mainstream these issues in a multi-sector context, it will be necessary to extend coverage to all sectors, review and assess their coverage in existing programs, develop a more detailed cross-cutting policy agenda, and identify performance indicators that would enable more effective monitoring of these issues within sector programs.

E. Public Expenditure Program and Financing

34. **The PRSP projects a resource envelope for the 2002-04 period comprising a combination of domestic revenues and foreign grants of 18.5 percent and 5.4 percent of GDP, respectively, which are in line with the recent trends.** Total expenditure is projected to fall from 32.2 percent of GDP in 2001 to 29.4 percent in 2004, resulting in a reduction in fiscal deficit from 8.1 percent of GDP to 6.4 percent in the same period.

35. **The PRSP projects an external financing requirement of \$1,125 million over 2002-2004, of which the expected HIPC resources (debt service payments relief) amount to about \$773 million.** This amounts to about 10 percent of GDP, which is slightly lower than the foreign financing received in recent years. The staffs share the view expressed in the PRSP that donor financing will be crucial to the success of the PRSP, and that extra effort will be required to ensure that donors feel able to honor their commitments.

36. **Work is underway to include a full analysis of the inter-sectoral composition of public expenditure in the PRSP.** This will include a review of the main trends in the past, from the point of view of poverty reduction objectives of the PRSP, and indicating changes in expenditure composition in the future, in line with PRSP priorities. Such analysis is necessary to

be able to link the PRSP priorities to the budget, provide the basis for tracking expenditure, and assess whether the PRSP targets are met. Since the present expenditure coding system in the budget does not allow a precise sectoral classification of expenditure, the government is in the process of reclassifying the present expenditure coding. The new system will allow better expenditure analysis and management. It will also improve the system already established for tracking HIPC-funded expenditures and complement the specific expenditure tracking surveys.

37. **The government is currently preparing a comprehensive work program to improve the public expenditure management.** This includes the development of a Medium-Term Expenditure Framework (MTEF), implementing an Integrated Financial Management and Information System (IFMIS) to comply with international accounting standards, improving the predictability and transparency of cash release decisions, extending activity-based budgeting to a few ministries on a pilot basis, and preparing a Civil Service Reform including wage policy and pension reforms.

38. **As noted above, the report presents a separate PRSP expenditure program for 2002-2004, which amounts to \$1.2 billion, 28 percent of total expenditure for the period.** While the sectoral allocation of this program fully reflects the PRSP priorities, it shows only total expenditures for three years. It would be beneficial if the program expenditures were broken down for each program year to facilitate integration with the annual budget process and analysis of the link between expenditures and outcomes.

39. **The staffs believe that the authorities have made a good effort to cost the PRSP strategy and ensure that it is broadly in line with the available resource envelope, although the work is unfinished.** Costings for the three-year period were prepared by the line ministries in consultation with the PRSP secretariat, based on an analysis of current capital and recurrent costs. As noted, this process was made difficult by the lack of a budget classification by program and the absence of detailed cost information for many externally financed projects. The cost data therefore lack detail, particularly on the annual allocations during the PRSP period. Nevertheless, they provide a basis for the identification of priorities, and have already been used in allocating resources in this year's budget.

F. Risks to the Strategy

40. **The current uncertainty over the future of copper mining is the greatest risk to the strategy, because of the possibility of a general economic contraction, the cost implications of major safety net operations, and the external sector deterioration.** While work is still ongoing to estimate the likely economic, social and fiscal impact of the crisis, which would depend on a number of factors including the change in copper prices, it is clear that such a crisis would delay the attainment of the objectives and targets of the PRSP. In the event of a deterioration in the present circumstances, which might imply diversion of resources from the PRSP priorities, the PRSP strategy would need to be adjusted or even substantially reformulated, and further donor assistance mobilized to the extent possible. Any necessary adjustments or reformulation of the PRSP will be based on the ongoing work of the taskforce and will be reported in the first annual PRSP report.

41. **External program assistance to Zambia has declined sharply in recent years from \$539 million in 1999 to \$376 million in 2001.** Given the critical importance of foreign assistance for a full and effective implementation of PRSP, it is essential that the government work closely with its major development partners and take all steps within its power to mobilize adequate foreign assistance, in line with the medium-term PRSP objective of reducing aid dependence. This would require working closely with the donors, to speed implementation of agreed programs and giving high priority to reforms to improve governance.

42. **Another risk to the strategy is the limited capacity for implementation in government.** The PRSP provides the necessary instruments for implementation (programs and activities, linked to objectives with costings and targets in broad terms), however, government is still highly centralized in Zambia, and implementation at local level is weak. Decentralization and capacity building are among the main objectives of the PRSP but the details of realizing them have not yet been fully worked out. During implementation, it is essential that a road map for decentralization and capacity building is developed with a list of required technical assistance and a timetable for implementation.

43. **A past record of poor governance poses a further risk to the strategy, since it affects policy implementation and external resource flows (from donors and foreign investors alike).** However, the new government has indicated a strong commitment to anti-corruption efforts; it will need to support the public statements made so far with specific actions.

V. CONCLUSIONS

44. **The strategy set out in the PRSP is a good step forward in Zambia's fight against poverty.** It presents a coherent and comprehensive strategy, which is particularly appropriate in the light of the current crisis in the copper sector, and benefits from broad-based consensus over the identified priorities. However, further work is necessary to (i) strengthen the analytical underpinnings of the strategy with feasibility and social impact studies, (ii) further specify priorities and sequencing within sectors, (iii) refine and summarize the targets and indicators, and (iv) translate the broad costings into annual expenditure plans. With donor support, the government has already taken a number of initiatives to address these weaknesses, and intends to report progress in these areas in the first annual PRSP report.

45. **The staffs of the World Bank and IMF consider that this PRSP provides a credible poverty reduction strategy and is a sound basis for IDA and Fund concessional assistance. The staffs recommend that the Executive Directors of the World Bank and the IMF reach the same conclusion.**