

Zambia: Accelerating and Sharing Growth through Improved Competitiveness

Strong macroeconomic management, coupled with rapid growth in mining, construction, telecommunications and tourism, helped spur Zambia's economic growth to 5 percent on average during 2001-2008. The economy, however, remains excessively dependent on the copper sector that, as experience has shown, has not generated the jobs and income levels needed to achieve the country's poverty reduction goals. The International Development Association's work on a wide range of fronts is helping improve the lives of many Zambians by helping them fight malaria, get better schooling, and have access to clean water.

Challenge

Zambia's economic growth has not translated into significant poverty reduction, with 64 percent of the population living below the poverty line and 51 percent considered in extreme poverty according to 2006 data. As the world economy gradually picks up again, the Zambian economy will need to accelerate and sustain growth rates of about 7 percent from an average growth rate of about 5 percent during the past decade in order to achieve the Millennium Development Goals, deal with high levels of poverty, insufficient economic diversification, the devastating levels of HIV/AIDS and malaria and attain the national vision of becoming a middle-income economy by the year 2030.

Reaching and sustaining growth in excess of 7 percent will depend on Zambia's ability to become more competitive and integrated within the regional and global economies. Zambia currently ranks

112 out of 133 countries in the 2009-10 Global Competitiveness Index prepared by the World Economic Forum. While good progress has been made in maintaining macroeconomic stability, significant actions are necessary to further diversify the economy and energize rural areas, which continue to suffer from development neglect. Underlying the slow pace of development is insufficient investment in public infrastructure and services—both hard (roads, energy, information and communication technologies) and soft (skills, health, markets)—and the overall investment climate, which results in the high cost of doing business in the country.

Approach

IDA's Country Assistance Strategy (CAS) for Zambia for the Fiscal Years 2008-2011 focuses on highly selective and targeted projects that maximize the impact of the government's development efforts. To respond to Zambia's evolving development needs, the Bank's CAS supports two areas in particular: (i) improved expenditure management and close collaboration and monitoring with the government and local stakeholders to ensure that revenues are used wisely to benefit as many households as possible; and (ii) a program of investments in infrastructure that will increase economic opportunities for all Zambians through improved connectivity and integration with regional economies, resulting in increased competitiveness, increased access to regional markets and a narrowing of development gap between urban and rural areas.

To implement the strategy, a wide menu of World Bank Group products is being used including International Development Association (IDA) lending and non-lending activities;

support from the International Finance Corporation for private sector investment and political risk guarantees from the Multilateral Investment Guarantee Agency for foreign investment. Zambia also has access to trust funds managed by the World Bank, such as the Global Environmental Facility (GEF), the Carbon Financing Fund, the Water and Sanitation Program, the Public-Private Infrastructure Advisory Facility, and the Africa Catalytic Growth Fund.

Results

IDA has invested significantly in improving the road network in Zambia. During the past decade, total investments in the roads sector have amounted to over US\$200 million. This financing has resulted in the construction of major national highways such as the Lusaka-Chirundu mountain road and the Chingola-Kasumbalesa Road, which are major trade links leading to Zimbabwe and Democratic Republic of Congo (DRC), respectively. IDA has also financed the reinstatement of priority river crossings in Southern, Luapula, North Western and Northern Provinces, helping improve accessibility to agricultural centers and markets.

IDA's engagement in the energy sector began with its investment in the Kariba Dam, which remains the principal source of electricity in Zambia. Since that time, IDA has been an important partner in supporting the government's efforts to rehabilitate and upgrade Zambia's major hydropower facilities and transmission network through the Power rehabilitation Project (1999-2005). Supported by financing from IDA, GEF, and the European Union (EU), a five-year US\$75-million project aims to provide electricity services to 65,000 new customers, including households,

schools, clinics, and farm blocks, benefiting a total population of 550,000 Zambians between 2010-2015.

Since 1995, IDA has provided over US\$90 million to improve water and sanitation services in Zambia and has thus contributed to improving the health of Zambians and specifically the welfare of women and children by releasing them from the burden of fetching water from unsafe sources. An urban water project between 1996 and 2000 that rehabilitated and extended water and sanitation facilities reached 1.2 million people in nine towns across the country. At least 71,000 residents in previously neglected peri-urban areas also benefited directly from improved access to clean water. The same project supported water sector reforms, which resulted in the creation of commercial water utilities. The ongoing Water Sector Performance Improvement project, co-financed by IDA, is helping improve service delivery for 2 million people in Lusaka and the 130,000 residents of urban Chongwe, Kafue, and Luangwa districts.

IDA has played a supportive role in boosting productivity in Zambia's agriculture sector. From 1992 to 1996 the Second Coffee Project helped achieve the objectives of expanding the agricultural base and diversifying foreign exchange earnings by supporting the establishment of 1,550 hectares of coffee farms and 20 hectares of cut flower industries, adopting state-of-the art irrigation and processing systems. The Agriculture Sector Investment Program has refocused the extension services of the Ministry of Agriculture and Cooperatives away from a costly top-down approach to a participatory group-based approach. The project supported a number of specific research programs and provided resources for the creation of the Golden Valley Agricultural

Research Trust, which is currently one of the prominent agricultural research trusts in Zambia. In 1998, IDA, through the Enterprise Development Project, provided US\$35-million to farmers and enterprises through eligible participating financial institutions at a time when commercial banks were providing only short-term loans. The revolving Enterprise Development Fund now stands at US\$50 million and over time has contributed to the development of commercial agriculture. Ongoing IDA grant support through the Agricultural Development Support Project since 2006 is ensuring smallholder commercialization by promoting the development of a network of well-functioning processes of production to market delivery of a selected agricultural products . The Bank is now engaged in preparing a US\$100-million Irrigation Development Project, which will reduce smallholder dependence on rain-fed agriculture as well as a US\$45-million project aimed at supporting the development of the livestock sector.

IDA has backed the government's economic reform program, through initiatives aimed at supporting businesses and targeting sectors like mining and tourism. Together with the EU, IDA has funded a computerized mining cadastre that will streamline the process of securing a mining license, and provided a range of facilities to improve the productivity of small-scale miners in Mapatizya and Ndola. In the tourism sector, IDA is funding a "one-stop shop" to license businesses in Livingstone, refurbishing roads, museums and historical buildings, and providing training and improved market access for small and medium -sized lodge operators and curio sellers. In partnership with Norway, IDA is helping to improve the management of Kafue National Park in order to protect natural

resources, encourage tourism development, and make the park self-sustaining.

IDA has been helping Zambia tackle health challenges, particularly HIV/AIDS, malaria, and maternal and child health. Through its contributions to the Social Development Fund, IDA has financed the construction of 88 new rural health centers, providing 1,445 beds and benefiting 647,959 patients between 2000 and 2006. Drawing on IDA funding and the Bank's technical expertise, Zambia has increased public access to services to treat and prevent malaria since 2006. Malaria is the leading cause of morbidity and the second highest cause of mortality in Zambia, particularly for women and children. Between 2006 and 2008 when IDA was one of the main financiers to the National Malaria Control Program, it achieved the following outcomes: (i) the percentage of households owning at least one insecticide-treated bed net increased to 62 percent from 38 percent; (ii) the percentage of pregnant women who received a complete course of intermittent preventive treatment for malaria increased to 66 percent from 59 percent; (iii) the population covered by Indoor Residual Spraying increased to 3.5 million during the 2008/09 transmission period from 1.3 million during the 2005/6 transmission period; and (iv) a 68 percent reduction in child anemia and a 53 percent drop in child parasitemia. The annual number of malaria deaths in the country decreased by at least 50 percent during the period 2000-2008, during which time the population rose by 30 percent, implying a reduction in the death rate of over 60 percent. Between 2006 and 2008, under-five malaria deaths decreased to 2,680 from 3,235 (17 percent). These outcomes contributed to reductions in under-five and infant mortality rates of 29 percent and 26 percent respectively between 2002 and 2007.

Significant gains have been made in the gross school enrolment ratio and gender parity in Zambia. IDA's assistance in the education sector in Zambia has resulted in the construction of 2,924 new classrooms and 1,945 teacher's houses and the rehabilitation of 2,992 classrooms and 1,366 teachers' houses, predominantly in rural areas. IDA funds financed over 6 million textbooks and teacher guides between 2000 and 2006. Through the Social Investment Fund, IDA has also financed additional classrooms and desks benefiting more than 100,000 pupils. In addition, IDA provided a US\$25 million credit to improve technical and vocational training.

IDA Contribution

Since 1955 the World Bank has financed 250 projects through concessional IDA credits and grants amounting to approximately US\$4.6 billion. As of June 30, 2010, total net commitments were about US\$400 million for ten projects and two GEF activities. Infrastructure accounts for the largest sector of the portfolio with a share of approximately 60 percent, followed by agriculture, environment, finance and private sector development, the public sector, and human development.

IDA also provides a range of analytical and advisory services designed to provide Zambia with experiences from around the world in order to help it improve its policy environment and accelerate its development efforts. This non-lending technical assistance program has helped augment the government's capacity to provide quick support to implement policy reforms. Studies and technical assistance activities are selected and prepared in collaboration with the government, development partners and other stakeholders, and are widely discussed and disseminated once

completed. This type of work is funded from the World Bank's administrative budget, often complemented by support from other development partners.

Some examples of analytical reports and advisory services include: a poverty and vulnerability assessment that helped identify the policy challenges Zambia needs to address in order to reduce poverty; a study demonstrating that the economic impact of nature-based tourism is substantially higher than previously perceived; periodic investment climate assessments that provide Zambia with regional and global benchmarks against which it measures itself in order to fix competitiveness issues; Public Expenditure Reviews, which provide recommendations at the macro and sectoral level aimed at improving the efficiency and equity of government expenditures; and a report on jobs and prosperity, which explores reasons for Zambia's low competitiveness and includes in-depth analysis of the mining, tourism and livestock sectors.

Partners

The World Bank is a signatory to the 2005 Paris Declaration on Aid Effectiveness, which promotes country ownership, harmonization, alignment, results, and mutual accountability of development assistance and partners. The declaration is a roadmap to improve the quality and effectiveness of development assistance—and Zambia is an excellent example of a country in which the intentions of the Paris Declaration are being implemented. As part of this process, the cooperating partners have prepared a Joint Assistance Strategy for Zambia to collectively respond to the national priorities highlighted in the Fifth National Development Plan and Vision 2030. Partners have agreed on a division of

labor based on their respective comparative advantages. Since 2005, the World Bank has been one of nine cooperating partners providing direct budget support to the Government of Zambia. Budget support helps fund the government's Poverty Reduction Strategy as reflected in strategy documents, including the Fifth National Development Plan.

Moving Forward

Zambia, a country that has experienced five successful multiparty elections since 1991, is a peaceful, democratic country with enormous economic potential grounded in its rich endowment of natural resources. With good economic management and several years of strong economic growth, Zambia has turned around its image as a country performing considerably below its potential. In sharp contrast with 1991-1998, the country has recorded GDP growth of 5 percent or higher for the last nine consecutive years, led in particular by the mining, construction, and service sectors.

Zambia will need to address challenges on several fronts in order to achieve its longer term vision of becoming a prosperous middle income country by 2030. These include:

- Ensuring that scarce fiscal resources are spent on activities that promote competitiveness and growth and the provision of services that will allow all Zambians to participate in such growth. The Office of the Auditor General has revealed misuse of Government resources in several sectors, notable the health and the roads sectors, and efforts are presently underway to tighten financial management and improve overall governance of financial resources.

- Reducing dependence on copper remains a key priority. Excessive dependence on mineral resources has periodically subjected the economy to fluctuations in international commodity prices, resulting in volatile exchange rates and creating macroeconomic uncertainty. Although non-traditional exports have grown in recent years and now amount to US\$1 billion annually, further diversification is necessary. Government also needs to collect more revenues from the mining sector to ensure that the country can bridge its large infrastructure gap.
- Investing in human resources and developing sound institutional capacity remains a high priority. Capacity limitations often result in delayed implementation and convey an impression that many of the reform

initiatives implemented by Government are externally driven even when there is broad internal consensus on such reforms.

Ensuring that Zambia maintains its excellent track record of a stable and peaceful democracy is essential. Political discourse in the run up to the 2011 general elections has at times become confrontational and although all senior political leaders have publicly stated their support for peaceful, fair and free elections, this message needs to be mainstreamed so that the random acts of violence that have sometimes taken place during bi-elections can be avoided.

Last updated September 2010.
<http://www.worldbank.org/ida>