

INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL
DEVELOPMENT ASSOCIATION

ZAMBIA

**Poverty Reduction Strategy Paper—Progress Report
Joint Staff Assessment**

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

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1. **The first Poverty Reduction Strategy Paper (PRSP) Progress Report¹ of the Government of the Republic of Zambia (GRZ) presents a complete review of the Government's implementation of the PRSP for the period January 2002–June 2003.** This Progress Report (henceforth the Report) presents the results in the implementation of the PRSP presented to the Boards of the IMF and IDA on May 29th, 2002 and July 19th, 2002 respectively. The Report incorporates inputs from Government, civil society, and the donor community. The Joint Staff Assessment (JSA) on the Report addresses the following key areas: (a) Zambia's macroeconomic framework; (b) progress in poverty reduction; (c) implementation of sector policies and programs; (d) public expenditure management; (e) monitoring and evaluation; (f) consultation; and (g) risks to the strategy.

I. OVERALL ASSESSMENT OF THE REPORT

2. **The Report concluded that the implementation of the PRSP has been weaker than intended because of the extreme pressures placed on the budget by extra-budgetary expenditures, which reduced the funding available to PRSP programs and activities.** Stakeholders concurred with this conclusion. The Report also acknowledged that Zambia's economic program supported by the Fund's Poverty Reduction and Growth Facility (PRGF) arrangement has been off track since April 2003 due to fiscal slippages, in particular salary and wage overrun, which led to high domestic borrowing. The lack of a macroeconomic program with the IMF led both to a delay in reaching the Completion Point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and to a withholding of budget support by donors.²

3. **Notwithstanding the reduced availability of financial inputs, outcomes as measured in per capita GDP growth, investment, export diversification and**

¹ Government of Republic of Zambia (2004), *Zambia First PRSP Implementation Progress Report January 2002-June 2003*, Ministry of Finance and National Planning.

² Note that the government and the IMF agreed to an Extended Staff Monitoring Program in December 2003.

improvements in the external environment were in 2003 better than foreseen in the PRSP. As articulated in the Report, the government's strategy to reduce poverty focuses on promoting economic growth through diversification and improving the quality of service delivery, while addressing the cross-cutting issues of governance, HIV/AIDS, gender and the environment. The Report notes that although improvements have been recorded in the last two years, Zambia's macroeconomic environment still remains unbalanced, largely due to slippages in fiscal policy, especially in 2003. The Report makes a candid assessment of Zambia's current situation with regard to the MDGs. It states that it would require growth rates in excess of 8 percent and a scaling up of the government efforts in the areas that are covered by the MDGs. Staff concurs with the Report's assessment that reaching the MDGs therefore calls for continuous concerted efforts and scaling up of the implementation of the PRSP by the government, cooperating partners, and other stakeholders.

4. **The Report noted that the actual allocation of funds to the various programs and activities envisaged under the PRSP was hampered in the absence of a Medium-Term Expenditure Framework (MTEF) underpinned by Activity Based Budgeting (ABB), which contributed to a lack of specific targeting of budget resources towards Poverty Reduction Programs.** During the period under evaluation, the government, however, made good progress in improving the institutional set up of its public expenditure management system to tackle the identified shortcomings. The government introduced ABB, developed a MTEF, and implemented a commitment control system.³ The Report indicates that the introduction of ABB will allow the adoption of a broader and more adequate definition of poverty-reducing expenditures. Thus far, GRZ's efforts at monitoring and evaluation of poverty-reducing expenditures have focused on expenditures financed from a designated account for HIPC savings. The intention to adopt a broader definition of poverty reducing expenditures is welcome and will bring GRZ's practice more in line with the practice of other countries.

5. **The Report provides a description of the implementation of the sectoral and policy reforms identified in the PRSP, but it does not always show how the programs and projects implemented performed against the baseline that had been presented in the original PRSP.** The Report contains partial information about how progress in implementing reforms helped achieve the strategic objectives and outcomes specified in the PRSP. To a large extent, the limited quantitative reporting in the Report reflects a lack of relevant data. This together with a monitoring and evaluation system still in its infancy has continued to hamper prioritization of various PRSP programs. Indeed, still more work in the area of monitoring and evaluation is needed to be able to link information on (intermediate) outcomes with expenditure allocations and show how the sectoral actions implemented under the PRSP are part of priority plans and resource allocations in the national budget both at the central and the regional level.

6. **The Report confirms that the PRSP strategy remains valid and therefore is a fundamental point of reference for the dialogue between the government, the civil**

³ The 2004 budget is fully based on an ABB system and framed within a medium term budget framework, which was widely discussed with relevant stakeholders.

society, and donors. Diversification of the economy, a growth conducive macroeconomic environment, development of supportive infrastructure, and improvement of governance are considered necessary to consolidate and amplify the recent positive trend of economic growth.

II. PROGRESS IN IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

A. Macroeconomic Framework

7. **After more than two decades of economic decline and inflation averaging over 50 percent, since 2000 growth has averaged 4 percent per annum and inflation has been sharply reduced.** In 2002, real GDP grew by 3.3 percent, despite difficulties in the mining sector and the impact of a severe drought. In 2003, GDP growth reached 5.1 percent, supported by a recovery in the agricultural sector, high copper prices, and strong growth in non-traditional exports. The 12-month inflation rate, at 17.2 percent in December 2003, was the lowest in two decades. However, the Report recognizes that the average GDP increase in 2002-2003 was lower than the rates needed to accelerate poverty reduction (5-8 percent) and that macroeconomic stability remains very fragile and dependent on strong fiscal discipline.

8. **The Report indicates that slippages in fiscal policy significantly affected government ability to execute budgeted allocations on poverty-reducing programs.** Overruns of the wage bill in 2002 and 2003 and *ad hoc* extrabudgetary expenditure were financed by domestic borrowing and diversion of resources from priority items. As a consequence, in 2003 domestic debt and interest payments rose considerably, along with an accumulation of arrears on domestic spending. Actual spending on the tracked subset of poverty-reducing programs remained about 1 percent of GDP, i.e., half the level budgeted in 2002 and 2003. The Report properly indicates that the lack of an MTEF in support of the 2002 and 2003 budget cycles was a relevant cause of the weak fiscal discipline and the insufficient provision of funding to PRSP.

9. **The Report recognizes that a front-loaded fiscal adjustment is critical for macroeconomic stability.** Although the document does not discuss detailed fiscal measures for the 2004 budget, the 2005-2007 medium-term expenditure framework indicates that expenditures are reduced and re-oriented to poverty reduction and that the strong revenue performance is maintained. These interventions lead to phase out of domestic financing and a considerable increase in poverty-reducing spending. The adjustment of the level and composition of spending is to be supported by a Public Sector Reform Program, a three-pillar program aiming at strengthening public expenditure management and financial accountability; rightsizing the government and streamlining the compensation system for civil service employees; and decentralizing relevant government operations and improving participatory governance.

10. **In addition to weak fiscal discipline, the Report recognizes that absorptive capacity of spending agencies has limited actual use of funding provided.** The authorities indicate that the reasons for the weak absorptive capacity varied from sector to sector and district to district, but common among them was the lack of information on

timing of disbursements, seasonally inconsistent timing of disbursements, insufficient provision of counterpart funds to match donor-financed capital projects, inadequate provision of capital equipment to facilitate implementation of infrastructure works, and long and complicated tender procedures. The introduction in the 2004 budget cycle of an MTEF, the government's commitment to avoid unbudgeted expenditure, the integration of the commitment control system in the computer-based financial management system and implementation of the structural reforms included in the Public Sector Reform Program are key to increasing short and medium-term absorptive capacity.

11. **The implementation of structural reforms has been mixed since January 2002.** Progress was made in some public expenditure management areas (introduction of MTEFs in support of 2004 budget cycle, implementation of a strengthened commitment control system, timeliness of financial reporting), in tax policy and administration, in the foreign exchange market, in restructuring state-owned enterprises (in particular, the Zambia Energy Supply Authority), and in strengthening governance and fighting corruption. However, delays and shortcomings affected implementation of the Integrated Financial Management and Information System, civil service pay and pension reforms, the preparation of a plan for clearing domestic expenditure arrears, and the privatization of the Zambia National Commercial Bank.

B. Progress in Poverty Reduction

12. **The analysis of progress in reducing poverty is constrained by data availability.** The Report is based on data provided by sector-specific surveys, the census, and public administrations. The results of the 2003 integrated household budget survey will provide important information with regard to poverty and its underlying characteristics. For monitoring and evaluating the impact of the PRSP, it is more important to focus on intermediate outcomes as the relatively short period of PRSP implementation makes it difficult to attribute progress in poverty reduction, e.g. reducing the poverty head count between 1998 and 2003, to PRSP implementation. Fiscal data were inadequate to assess progress in poverty reducing expenditure programs given the absence of ABB and therefore the limited number of monitorable PRSP programs. The authorities underline that the ABB introduced in January 2004 will allow full tracking of poverty-reducing spending, while the ongoing exercise to reclassify spending budgeted and executed from 2000 to 2003 will allow comparisons over time.

C. Progress in Sectoral Policies and Programs

Economic Sectors

13. **In the economic sectors, the PRSP objective of diversifying the economy away from copper and cobalt to agriculture, tourism, gemstone mining, and the manufacturing sector recorded mixed results.** In the agricultural sector the main thrust of the government's strategy was to promote commercial farming, land and infrastructure development, adoption of new technologies by smallholder farmers through increased extension services, and targeted support (through the Food Security Pack program) for vulnerable households to improve food security. The normal rainfall pattern of the 2002/2003 farming season coupled with the government's strategy of subsidizing

agricultural inputs (fertilizers and seeds) for smallholder farmers, as well as the promotion of out-grower schemes in exports crops (tobacco, paprika, coffee, vegetables and cotton) contributed to a significant recovery in agricultural production in 2003 compared to 2002 (when both drought and inadequate supply of agricultural inputs resulted in lower yields). While this helped to reduce the food security problem in rural areas, other poverty reduction programs that are key to long-term sustainable productivity of smallholder agriculture remained largely unfunded. These include animal diseases control programs, extension services, adoption of appropriate technologies, and rural infrastructure, e.g., feeder roads, dams for irrigation as well as dip tanks.

14. **In the tourism sector, the government's strategy was to complete the preparation of the tourism development master plan, create a tourism development revolving fund, and improve infrastructure in the main tourism areas.** The PRSP Report is silent on the status of the preparation of the tourism development master plan. On the other programs, the Report shows that some progress has been made, especially the Tourism Development Credit facility and the promotion and marketing of tourism programs. With regard to investment in infrastructure facilities in the main tourism areas, a lot remains to be done and the Government has negotiated the Support to Economic Expansion and Diversification project with the Bank that will help to accelerate infrastructure development in the Livingstone area (around Victoria Falls) and the Kafue National Park.

15. **In the mining sector, the PRSP strategy focused on diversification through small-scale gemstone mining development, establishment of the gemstone exchange, creation of a plant hire scheme and the creation of a mining community development (revolving) fund.** The Report acknowledges that only the gemstones exchange and the mining sector diversification programs (MSDP) were included in the Government budget. The private sector led National Economic Diversification Task Force (that was created after the June 2002 Diversification workshop held in Kitwe) has been assigned to develop the Gemstone Exchange and it is expected to be operational by the third quarter of 2004. The conditions attached to the MSDP have limited access to this facility, despite a recent review of the conditions. Being largely private sector led, the mining sector has recorded increased activities, especially the opening of the Greenfield operations in the North-Western Province of Zambia. Continued development of the mining sector requires investments in key infrastructure such as roads and railways.

16. **The PRSP industrial strategy of investment and trade promotion and Small and Medium Enterprises development in both urban and rural areas has recorded increased budget allocations.** The funding for the industrial sector Poverty Reduction Programs have been dominated by the Export Processing Zones Program (EPZ), that is being implemented through the new EPZ authority, and the investment opportunities identification program to create a national investment plan (by the Investment Center). The government has recognized the proliferation of publicly financed private sector development institutions (the Investment Center, Zambia Privatization Agency, the Export Processing Zone, the Export Board of Zambia, the Small Enterprise Development Board, etc.) that need to be rationalized to make investment promotion cost-effective and efficient.

17. **The PRSP crosscutting strategies in the energy, communications and transport sectors aimed at increasing the national accessibility of electrical energy, reducing the cost of electricity, developing an ICT policy, and rehabilitating and extending the road network.** A lot of progress has been made in this area, but the government funding of capital projects still remains a major area of concern. It is expected that through the implementation the ongoing public expenditure management reforms future funding of capital projects will improve.

Social Sectors

18. **In education, the focus of interventions were aimed at increasing access to primary, secondary, and tertiary education, improving the quality and relevance of the education provided at these levels, and reducing disparities in education provision by promoting gender equality.** Significant progress was made in meeting these sector objectives, especially at the primary school level. In February 2002, the government introduced a free primary education policy, which saw all user fees abolished for grades 1-7, and made school uniforms no longer compulsory. During the review period, a total of 106 primary and 18 secondary schools were constructed, and the provision of school materials such as books improved. Reflecting these improvements, enrolment at the primary school level increased by 7 percent (compared to a target of 2 percent); enrolment at secondary school level increased by 5 percent; the mean mathematics score increased from 36 percent to 39 percent; and the mean English score increased from 33 percent to 35 percent. Overall reading levels improved, including improvements in reading and writing levels of children in schools in Grade 1. However, while the recent gains in learning achievements and enrolments are encouraging, there is concern that these gains are at risk because of the teacher employment crisis, and the high attrition rate of teachers due to HIV/AIDS. The number of basic schoolteachers, which had increased in 2002, fell back in 2003. There were about 9,000 teaching vacancies, mostly in rural areas in 2003.

19. **In health, most of the interventions were directed at the provision of a health care package, the Integrated Malaria Control Programmes, and the rehabilitation of existing health facilities and construction of additional health facilities.** The Report underscores that significantly less than planned resources were released to purchase essential health drugs (TB, STI and anti malaria drugs) and anti-retroviral drugs and the provision of Basic Health Care Package (purchase of drugs in the hospitals, including TB second line drugs, anti-trypanosomal drugs), but provides no specific explanation for this. Under the Integrated Malaria Control Programme (Rollback Malaria Programme) government resources were spent (a total of Kwacha 500 million) to supplement those from donors. However, the incidence of malaria continued to rise from 387 per thousand population in 2002 to 428 in 2003. Without significantly scaled up interventions, it is unlikely that the battle against malaria could be won. Zambia's proposal to the Global Fund on scaling up malaria control and management was approved in 2003 for funding, which could help the efforts to scale up interventions. In terms of rehabilitation of provincial and district hospitals, less than one-third of the allocation was released to

provinces. Given the low level of actual funding against allocations and needs, however, progress was slow in terms of health outcomes.⁴

20. **In nutrition, the focus was on delivering of appropriate micronutrients to children under 5, strengthening institutional capacity of the National Food and Nutrition Commission, and developing a national nutrition policy.** The Report acknowledges that actual funding for nutritional programs and activities fell short of what was planned in the PRSP. Nonetheless, some progress was achieved during the period under review. In terms of improving micronutrients, the main activities of the National Food and Nutrition Commission included fortification of sugar and maize meal with Vitamin A. Through the national Child Health Week and National Immunization Days, about 4.4 million children under the age of five were administered with Vitamin A supplement during 2002, a national coverage of 88 percent. Maize meal fortification trials, which had started in 2000, were expanded to six selected hammer mill sites in 2002 (Chipata, Chaisa, Bauleni, George, Chawama and Kanakatapa). While the trials are gaining acceptance by the communities involved, significant scaling up is needed to have impact on nutrition outcomes such as stunting and wasting. A draft nutrition policy document was submitted to Cabinet in 2003, and the National Food and Nutrition Commission is currently revisiting its structure to strengthen its capacity to scale up interventions as well as increase its effectiveness.

21. **In water and sanitation, the main interventions focused on water resources management and development, and provision of water and sanitation services.** The Report notes that steps were taken towards improving water resources management and development, but the progress remained inadequate and less than expected. The main intervention were: (i) a formulation of a Water Resources Action Programme, which aims at establishing a comprehensive framework for effective use, development and management of the Zambia's water resources in a sustainable manner; and (ii) water resource infrastructure development program which involved dam construction and rehabilitation, borehole drilling, construction of weirs and wells. To this effect, 8 dams were completely rehabilitated in 3 provinces, 153 boreholes were drilled in 6 provinces while work on 379 boreholes in 3 provinces is still on going. Notwithstanding the impact this development has had on the supply of water in rural areas, not much progress was made in the development of water supply infrastructure due to insufficient funds.

22. **To improve water supply and sanitation, the government implemented reforms in the water sector, but their impact on services was limited.** The reforms included devolution of service delivery from Central Government to the local authorities; establishment of several commercial water utilities allowing for competition amongst the providers (9 commercial utilities by 2002). Limited improvements were seen in terms of service delivery and access to both water supply and sanitation in areas serviced by the commercial utilities. Notwithstanding this improvement, the situation in council operated areas continues to deteriorate and to be a source of concern. A number of districts go without water supply, sometimes for days, due to equipment breakdown and lack of

⁴ Changes in Infant Mortality Rate, Under Five Mortality Rate, and Maternal Mortality Rate could not be assessed, as data for the Living Conditions Monitoring Survey III 2003 are not yet analyzed.

maintenance. The water and sanitation services in rural areas still remain poor, due mainly to lack of adequate funding.

23. **Interventions in social safety nets focused on poor and vulnerable persons, including fund transfers for use as school fees and other requisites, repatriation for stranded persons, health-exemption fees as well as purchase of food rations.** The Report underscores that some limited progress was achieved in providing safety nets to the most vulnerable and needy. The interventions were carried through the Public Welfare Assistance Scheme (PWAS), the Peri Urban Self Help, and the Food Security Pack programs. In 2002, the PWAS programme was extended to 27 districts and continued its restructuring in order to minimize targeting problems. The Food Security Pack programme is implemented on behalf of government through a Non Government Organisation called the Programme Against Malnutrition, which receives a grant from government. It is estimated that the programs covered all the districts in the country and involved over 50,000 persons. Given Zambia's exposure to natural, health and external shocks, staffs believe that greater attention should be given to social safety nets programs in the future.

Cross Cutting Initiatives

24. Zambia's PRSP identified a number of crosscutting issues that are critical for poverty reduction in Zambia. These include governance, HIV/AIDS and gender.

25. **To improve governance, the government undertook several positive steps during the review period.** The government announced in early 2002 a policy of "Zero Tolerance on Corruption", and launched the National Movement Against Corruption, an alliance of strategic partnerships from government, civil society organizations and the private sector. The Anti-Corruption Commission was strengthened through increased funding, and construction of new offices and staff houses in provinces. The process of investigating former political leaders as well as senior public officers suspected of corruption was initiated in 2002, and some assets were forfeited to the state while some high profile cases are currently being prosecuted in the courts of law. To further strengthen political governance as well as the rule of law, in 2003, the government initiated a constitutional review process aimed at removing serious conflicts and inconsistencies contained in the Constitution. In addition, a process of Electoral Reform was initiated, and an Act of Parliament was passed to mandate continuous voter registration.

26. **The effort to combat the HIV/AIDS pandemic has been somewhat strengthened, but a lot more remains to be done to contain the spread of the disease, and reduce the incidence and the socio-economic impact of the disease.** The government in December 2002 enacted the National HIV/AIDS/STI/TB Council and Secretariat to coordinate and support the development, monitoring and evaluation of the multi-sectoral national response to HIV/AIDS and other diseases. There was a limited increase in the number of Voluntary Counseling and Testing Centers, provision of preventive TB vaccines, and provision of Anti-Retrovirals in public hospitals. Recent data from the Zambia Demographic Health Survey 2001/2002 report shows that the majority of Zambians are now aware of how HIV/AIDS is transmitted. The survey also

shows that the prevalence rate among the adult population has slightly declined, compared to previous results. While these are encouraging signs, staffs believe that greater effort is needed by the authorities to effectively mainstream anti-HIV/AIDS initiatives in a multi-sectoral context, review and assess coverage of existing programs, and consolidate the monitoring and evaluation systems for HIV/AIDS, which tend to be fragmented due to interventions by many stakeholders.

27. **Efforts were made to improve gender equality, and promote the empowerment of women, but results were limited.** Interventions included improving the participation of women in decision-making, promotion of women's economic empowerment and development of the National Gender and Development Information System. To increase participation of women in decision-making, efforts were made to appoint women to various decision-making positions at Cabinet Minister and Deputy Minister levels with a view to moving towards a thirty percent minimum representation.⁵ However, as of 2003, the representation of women at the ninth session of parliament stood at only 14 percent. Of all the selected positions in decision-making, women accounted for only 18 percent. To promote women's economic empowerment, government focused on improving access to land by women (who are discriminated against due to customary practices of land allocation in the rural areas of Zambia). The draft land policy, currently under discussion, proposed 30 percent of the land to be demarcated and allocated for women and other vulnerable groups. Limited grants were also provided to support women in poultry, fish, and crop farming, tailoring and designing, and in running orphanages. However, since the actual funding for gender programs and activities was only 11 percent of the budget allocations in both 2002 and 2003, the impact was very minimal. The setting up of a National Gender and Development Information System has commenced with assistance from donors, but further efforts are needed to complete the system, and use such information to generate better public awareness and inform decision-making about gender inequality.

28. **A review of a regional perspective of PRSP implementation⁶, which focuses mainly on infrastructure development and land resettlement schemes in the regions, indicates that progress was less than expected.** The main activities carried out included construction and rehabilitation of feeder roads, drilling of boreholes and rehabilitation of wells, and demarcation, clearing and development of farm-blocks. Progress was less than expected in almost all areas because of significant shortfalls in budget releases to these programs and activities. Staffs believe that the authorities should focus on correcting the weaknesses in expenditure policy and control, and speed up public sector and structural reforms to better reorient expenditures toward pro-poor activities such infrastructure development and land resettlement schemes.

⁵ The 30 percent representation in decision-making is stipulated by the 1997 Southern African Development Community (SADC) Gender Declaration.

⁶ Zambia's regional development issues are addressed in Zambia Transitional National Development Plan (TNDP), a development plan that complements the PRSP in some areas.

D. Public Expenditure Management

29. **The government initiated some reforms in public expenditure management to improve accountability, transparency, and management of public resources.** Such reforms included the designing of the Integrated Financial Management Information System, development of a MTEF anchored in an ABB system and implementation of a Commitment Control System for public expenditures. The government has also initiated reforms aimed at payroll control, and streamlining and rationalization of the civil service. While these are a promising start, staffs would urge the government to speed up the implementation of a comprehensive program of public expenditure reforms, as articulated in the recently completed Public Expenditure Management and Financial Accountability Review, and follow through with the civil service restructuring and right-sizing. These latter reforms would enable to bring the size of civil service in to line with the resources available to pay for salaries and wages, while ensuring adequate staffing to the education and health sectors. The new budget classification and the MTEF provide the basis for a better prioritization and a higher execution of spending on poverty-reducing programs.

E. Monitoring and Evaluation

30. **A significant effort has been undertaken by the GRZ in the area of results based monitoring and evaluation for the PRSP.** An Input-Output-Outcome-Impact model has been proposed that aims to involve the National, Provincial, and District Governments and the sector ministries. This program is comprehensive in its design and recognizes the need for significant support from the National Statistics Office to carry out the new monitoring mandate. Progress in implementing the structures has been slow, partly because of its elaborate institutional set-up. It is important for the government to decide promptly on the priority set of indicators that it wants to use to monitor progress under the PRSP, with a focus on intermediate (poverty) indicators and when and how the data will be collected, as well as settle on a simplified institutional structure such that it facilitates the flow of information between the relevant government agencies. Staffs recommend that government first prepares an implementation strategy and clarifies roles and (institutional) responsibilities of different actors involved. The Bank and other donors are assisting the government in this endeavor. It is expected that the proposed revisions will be reflected in the next Report and will facilitate the prioritization of poverty reduction programs.

F. Consultations

31. **In the JSA accompanying the full PRSP, it was acknowledged that the process of preparation had been highly participatory.** The implementation phase of the PRSP is actively monitored by civil society. The Civil Society for Poverty Reduction (CSPR), an umbrella organization of some 90 civil society groups, independently evaluates progress of the implementation of the PRSP and its reports are posted on its website: <http://www.cspr.org.zm> or can be found at <http://www.sarpn.org.za/index.php>.

32. **The monitoring and evaluation framework allows and supports the regular participation—at all levels of government—of implementing institutions, civil society**

organizations, private sector, and cooperating partners in monitoring and evaluating PRSP implementation. Sector Advisory Groups, and provincial and district Development Coordinating Committees periodically provide inputs to the Ministry of Finance and National Plan, to issue-specific consultative fora, and to the Annual Poverty Forum, whose recommendations are submitted to Cabinet for information and decision-making. It is important to ensure that such a participatory process is institutionalized and can meaningfully be linked into the decision process of PRSP implementation and monitoring.

G. Risks to the Strategy

33. In staffs' view the PRSP continues to be subject to several important political, institutional, and economic risks.

- To improve PRSP implementation, the Government will face demands for additional resources for PPRSP expenditure programs. However, the elections planned for 2006 might lead to “short-termism,” which could displace the poverty reduction agenda as a priority and hence increased appropriations for PRSP expenditure programs might not materialize, leading to a continuation of current trends in PRSP implementation.
- Important institutional risks to program execution are posed by weaknesses in implementation capacity and financial management in line ministries and other government agencies. In particular slow progress in executing programs to contain the impact of the HIV/AIDS pandemic carries serious potential risks to Zambia's future.
- Zambia remains vulnerable to droughts and to terms of trade shocks. Risks stemming from the dependency on international copper prices were partially addressed by sectoral policy to promote economic diversification, namely in agriculture, non-copper mining, manufacturing, and tourism. The recent increases in copper prices might re-ignite the hope that Zambia can rely once again on the copper sector for economic prosperity.
- Weak fiscal discipline could generate significant risks to macroeconomic performance. In the short run, risks could stem from potential difficulties in fully implementing expenditure and tax reforms. In particular, pressures from civil service unions for increasing wages and demands for additional resources from non-priority sectors, e.g. defense, constitute substantial risk to the fiscal program. In the medium term, risks could also stem from pension liabilities.

34. These risks are not evaluated by the Report. Staffs recommend that the authorities incorporate a section in the next PRSP Report, detailing their importance, possible impact on attaining PRSP/MDG goals, and outlining possible strategies to mitigate these risks.

III. CONCLUSIONS

35. **Staffs conclude that the Report adequately reflects the accomplishments and shortcomings in the implementation of the poverty reduction strategy since its adoption.** Despite constraints of data availability the Report candidly identifies the main obstacles to stronger implementation of the PRSP. Staffs welcome the authorities' restated commitment to the strategy proposed in the PRSP. Staffs concur with the priority measures indicated in the Report.

36. **In sum, in the view of staff of the World Bank and the IMF, Zambia's Poverty Reduction Strategy continues to articulate a sound set of policies and programs.** However, despite satisfactory growth performance and some progress on reforms related to public expenditure management processes, satisfactory implementation of the PRSP still needs to be established. Nevertheless, in light of the recent reforms and policy commitment staffs consider that the strategy continues to provide a credible framework for Fund and World Bank concessional assistance. Staffs recommend that the respective Executive Directors of the World Bank and the IMF reach this conclusion.