

INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

ZAMBIA

Assessment of Interim Poverty Reduction Strategy Paper

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

July 12, 2000

1. The I-PRSP prepared by the Zambian authorities contains an analysis of the nature and extent of poverty in Zambia, a review of government poverty reduction strategies and a detailed outline of the participatory process to be followed in preparing a full PRSP. The staffs of the Fund and IDA consider that the following issues merit particular attention by the Boards.
2. **A firm commitment to poverty reduction** is clearly articulated in the I-PRSP prepared by the Zambian authorities. It documents a long record of policies and programs directed towards poverty reduction which began shortly after independence. In the boom years of the sixties and early seventies those policies were focused on social safety net operations and programs addressing the special development needs of the rural poor but, as the copper sector declined and the economy stagnated, later policies focused more on structural reforms geared towards rekindling sustained growth. The paper provides a frank assessment of the deficiencies of some of these earlier policies and the failure of the economy to adjust to the decline in world copper prices. Over the past ten years, structural reforms have transformed Zambia from an economy dominated by state-owned enterprises, government-administered price structures and protective mechanisms to a much more open economy where prices are largely market determined and many state-owned enterprises have been restructured and divested to private ownership, including the copper company (ZCCM). Poverty reduction policies now focus upon completing the process of structural reform and privatization, establishing a stable macroeconomic environment, and upon social expenditure programs—particularly in basic education and health—that will help raise the production and productivity of the poor and, hence, their incomes.
3. **The consultative and participatory process of the I-PRSP was limited to the government institutions.** However, the drafting of the I-PRSP came soon after the adoption of a National Poverty Reduction Framework (NPRF) which had been formulated in

consultation with stakeholders in civil society, government and the donor community. To the extent that the I-PRSP draws material from the conclusions and recommendations that emerged from the NPRF it reflects the process of consultation that preceded it.

4. **The I-PRSP contains an accurate diagnosis of poverty in Zambia** drawing upon a relatively strong data base which has been assembled from three nation-wide household surveys conducted at intervals over the past ten years. The surveys have yielded reliable and detailed information on the extent and characteristics of poverty, both urban and rural. New factors and dimensions of poverty are emerging in Zambia as a consequence of the HIV/AIDS epidemic which now affects 20 percent of the population, and is in need of urgent attention. The national household sample survey of 1998 found that 16 percent of children had lost one or both parents and that number is projected to increase significantly in the years ahead. Many families are pushed into poverty by the death of the principal breadwinner and the effectiveness of programs in education and health focused upon the poor are impaired with the sickness or death of key personnel. The I-PRSP clearly identifies the new dimensions of poverty as an issue that needs to be addressed in the PRSP process alongside more "traditional" aspects of poverty which are often associated with rural populations in remote areas.

5. **Poverty reduction policies** are explicitly linked to the United Nations International Development Goals with the aim of reducing extreme poverty by half before 2015. Reference is made in the I-PRSP to ongoing programs that are geared specifically to advancing those goals, such as the IDA-supported Basic Education Sub-sector Investment Program which aims at providing universal primary education by the year 2005. The I-PRSP also serves as a vehicle for the government to reaffirm its commitment to allocating at least 36 percent of discretionary domestically-financed expenditures to social sector spending in education, health, water and sanitation and social safety net programs. In addition, the I-PRSP identifies broad indicative measures and policies that may be considered in the future without preempting the outcome of consultative procedures contemplated as part of the full PRSP process. The staffs' overall assessment of the Government's present poverty reduction policies is that they address many of the issues associated with traditional sources of poverty, but they fail to take sufficient account of the new factors and dimensions of poverty that are now emerging in Zambia as a result of the HIV/AIDS epidemic. Institutions and programs are not yet adequate to handle the scale of the problem (see paragraph 4 above). Special attention should be given in the full PRSP to policies and programs that explicitly address the new factors and dimensions of poverty in Zambia today and to the strategy for channeling resources freed by debt relief to augment social spending.

6. **Poverty monitoring issues** are only briefly addressed in the I-PRSP. Zambia is fortunate to have good data on poverty and a statistical capability for keeping the data base current. However, the effective monitoring of enhanced programs for poverty reduction will call for more frequent sample data geared towards assessing the impact of specific interventions. The I-PRSP is commendably candid in acknowledging that Zambia does not

have all the specialized expertise to determine what data are needed and to set up a statistical system that can respond promptly to information needs as they arise and it foresees a need to hire outside expertise for that purpose. The full PRSP will need to indicate much more explicitly how Zambia proposes to set up a monitoring system which should include database issues as well as specific institutional responsibilities, coordination arrangements, plans for publication and possible involvement of civil society in the monitoring process.

7. **The road map towards a full PRSP** provided in the interim document is long on process and short in content. Areas where additional information must be assembled and where present policies and programs are deficient are not discussed in great detail and they will need to be identified at a very early date so that work can be begun to fill in the gaps as soon as possible. Unless the gaps are clearly identified and prioritized, and unless plans to address them are made early in the process of preparing a PRSP, there is a danger that the recommendations of a PRSP may be difficult to implement in a meaningful way. In that context, the Public Expenditure Review currently being undertaken by the Government and the Bank with support from other donors, will provide an important resource for the full PRSP.

8. **There are risks to the strategy if macroeconomic management does not improve.** Poverty reduction in Zambia will require strong and sustained economic growth, a stable macroeconomic environment conducive to private sector investment, and the achievement of low inflation. Zambia has a weak track record with its adjustment programs supported by the Fund in recent years. The protracted delay in privatizing the copper company led to a stagnation of economic activity and undermined public finances. Moreover, inflation is stubbornly high when compared with other countries considered to be approaching their HIPC decision points, and it is targeted to come down only modestly to about 19 percent by end-2000. Failure to give sufficient priority to reducing inflation would threaten the living standards of the poorest Zambians whose incomes typically fail to keep pace with rapid price increases.

9. The authorities are targeting real GDP growth of at least 5 percent per annum in the medium term, and a further consolidation in the budget deficit. Achievement of this growth target will be critical and poses a major challenge for a country whose per capita income has been falling through the 1990s. Movement to an even higher growth path would greatly facilitate the authorities' poverty reduction goals; the full PRSP should focus more sharply on policies to reach these goals. In this connection, income distribution policies as well as the quality and pattern of growth and their linkages to poverty reduction will also need to be considered in the medium term. Higher growth will require the provision of sufficient credit to the private sector and that, in turn, will require containing the overall public sector deficit, as well as maximizing external assistance on highly concessional or grant terms. It will also require better expenditure control than in the recent past. The authorities have developed a number of measures designed to increase fiscal transparency, improve accountability, enforce discipline, and reduce domestic arrears. Failure to effectively implement these measures would

undermine the macroeconomic framework and growth prospects and impair efforts to improve the effectiveness of social sector spending and monitoring.

10. **There are risks to the strategy if the structural reform agenda falters.** The authorities have committed to the privatization of the electricity company (ZESCO) and the major commercial bank (ZNCB) as rapidly as possible. They have also committed to effectively privatize the petroleum sector. Any move to delay the privatization process in these sectors identified under the structural reform program would undermine the authorities' efforts at promoting sustained growth and poverty reduction. Further reforms linked to effective decentralization in such areas as education, health and water supply must also be pursued vigorously if significant headway is to be made in poverty reduction.

11. **The prioritization and costing of a poverty reduction action plan** in the I-PRSP is weak and this aspect of Zambia's poverty reduction strategy will need to be more thoroughly examined and more clearly articulated in the full PRSP. The action plan is based upon a set of national development priorities that emerged from a National Poverty Reduction Framework (NPRF) following wide consultations with key stakeholders in government, civil society and the donor community. It would appear that the NPRSF was not constrained by any reasonable resource envelope and, as a consequence, the estimated cost of the action plan, US\$4.9 billion (around 140 percent of GDP) is unrealistic. The I-PRSP itself concedes that the action plan's "financial requirements are huge and it is not clear at this stage whether the funding will be available and if so, from where". The judgement of the staffs is that financing on this scale is inconsistent with budget constraints and the action plan needs to be further prioritized and costed to fit within a realistic resource envelope consistent with identifiable sources of finance. Within the full PRSP process, costing the poverty reduction strategy and integrating it into medium-term budget and macroeconomic frameworks would be instrumental in leading all stakeholders to consider policy trade-offs and establish their priorities. In this context, the Public Expenditure Review will be important in identifying priority expenditure areas. It is important that the government evaluate carefully the lessons that can be learned from the NPRF experience so that the PRSP will not be similarly flawed.

12. **The process for preparing a full PRSP** as laid out in the I-PRSP is extensive but not as clearly structured as it needs to be. Consultation and consensus building are rightly at the heart of the process. However, it is not clear what results are expected from each stage of the consultation process and milestones need to be established at the outset. The participation envisaged is comprehensive and extends from the local community level to the national level and to the broader international community as the government seeks to share the experiences of Malawi, Tanzania and Uganda in preparing their own PRSP. It will not be easy to manage a consultative process quite so extensive and diverse as the one envisaged, nor will it be easy to discipline the recommendations that emerge from the process within realistic resource envelope which takes into account both financial and manpower constraints. A clearer articulation of the proposed agenda may be needed to keep the process under control and to

ensure that it stays on track. Recently approved technical assistance funding from IDA and donor resources should facilitate the process.

Assessment

13. The staffs of the IMF and IDA consider that the major strengths of the Zambian I-PRSP are (i) a clear commitment to poverty reduction, (ii) an accurate diagnosis of poverty in Zambia, (iii) a clear discussion of the government's present poverty reduction strategy and programs together with future plans to develop them further within the context of a full PRSP in a participatory process, and (iv) an acknowledgement that improved governance and transparency are key issues to be addressed in the full PRSP. The staffs recommend that the full PRSP should (i) articulate clearly the Government's policies to accelerate growth, (ii) incorporate the lessons learned from the NPRF experience to strengthen the country ownership of PRSP, (iii) take full account of new factors and dimensions of poverty that are emerging in Zambia including particularly HIV/AIDS, (iv) provide for the establishment of a poverty monitoring system; and (v) include full costing of recommended policy and program actions within the context of medium-term budget and macroeconomic frameworks.

Recommendation

14. The staffs of the Bank and the Fund consider that Zambia's I-PRSP provides a sound basis for the development of a fully participatory PRSP and for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the Bank and the Fund reach the same conclusions.

Zambia: Summary of IMF and IDA events in 2000-2001

Bank/Fund Events	Date
Fiscal Sustainability Credit	June 2000
First Review under PRGF Arrangement	July 2000
HIPC Preliminary Document	July 2000
I-PRSP Assessment	July 2000
HIPC Decision Point Document	End-2000/Q1 2001
Second Review under PRGF Arrangement	February/March 2001
Public Expenditure Review (ESW)	March 2001
Presentation of the full PRSP	Mid-2001
Fiscal Sustainability Credit II	October 2001