

**Zambia: Poverty Reduction Strategy Paper Second Annual Progress Report—
Joint Staff Advisory Note**

The attached Joint Staff Advisory Note (JSAN) on the Second Annual Progress Report for **Zambia**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Second Poverty Reduction Strategy Paper (PRSP) Implementation Progress Report to the Executive Boards of the two institutions. A JSAN evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL
DEVELOPMENT ASSOCIATION

ZAMBIA

**Joint IDA-IMF Staff Advisory Note
on the Second Annual Progress Report**

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

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I. OVERVIEW

- 1. The second Poverty Reduction Strategy Paper (PRSP) Implementation Progress Report and its Addendum¹ of the Government of the Republic of Zambia (GRZ) presents a complete review of government's implementation of the PRSP for the period July 2003–December 2004.** This Second Progress Report and its Addendum (henceforth the Report) describe the results of implementation and monitoring of the PRSP presented to the Boards of the IMF and IDA on May 29, 2002 and July 19, 2002, respectively. The Report incorporates inputs from civil society and the donor community. In addition, the Report also includes a “Supplement on Policies and Objectives for 2005” prepared by the Ministry of Finance and National Planning in February 2005.”
- 2. As articulated in the Report, the government's strategy to reduce poverty focuses on promoting economic growth through macroeconomic stabilization and diversification and improving the quality of service delivery, while addressing cross-cutting issues of governance, HIV/AIDS, gender, and the environment.** The Report confirms that the PRSP strategy remains valid and therefore is a fundamental point of reference for the dialogue between government, civil society, and the donor community.
- 3. The Report is a product of a consultative process involving a wide variety of stakeholders.** Efforts were made to strengthen stakeholder participation in evaluating the implementation of Poverty Reducing Programs (PRPs). The Sectoral Advisory Groups (SAGs), each consisting of representatives of civil society, private sector, academicians, and donor community, have become an important voice in reviewing PRSP implementation and the implementation of its monitoring framework. The SAGs meet individually on a monthly basis and jointly during two annual national conferences to

¹ Republic of Zambia (December 2004), *Zambia Second PRSP Implementation Progress Report July 2003-June 2004*, Ministry of Finance and National Planning; and Ministry of Finance and National Planning (February 2005), *Addendum to Zambia's Second PRSP Implementation Progress Report July 2004-December 2004*.

discuss progress in implementing the PRSP and the Transitional National Development Plan (TNDP).

4. **Government has indicated that it plans to align the PRSP processes further with its existing national planning and reporting processes.** The time period for the PRSP (2002-04) was extended by one year to overlap with the TNDP.² Staffs share the authorities' and stakeholders' view that the policies and targets described in the PRSP remain valid. The next PRSP/TNDP is expected to cover a 5-year period and outline the development plans for Zambia from 2006 onwards. The reporting period of the annual progress report is currently not in line with Zambia's financial year. This has complicated comprehensive evaluations of planned and actual inputs, outputs, and outcomes, as much of the data is reported by calendar year. To address this problem, Zambia's annual Economic Report, which describes economic progress over the previous financial year, will be expanded to become the main vehicle to report on PRSP implementation. Staffs urge the authorities to assume a forward-looking approach in the preparation of the Economic Report, in particular in the section addressing progress on PRSP implementation.

5. **The Joint Staff Advisory Note (JSAN) on the Report provides staffs' advice on priorities for advancing the PRSP's implementation.** This note is organized into three sections. Section II highlights progress in implementing the PRSP and provides suggestions for strengthening its implementation. The concluding section addresses risks associated with implementation and recommends issues for discussion by the Boards.

II. PROGRESS IN IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY AND THE WAY FORWARD: CRITICAL AREAS FOR SUCCESS

A. Macro Economic Performance and Structural Reforms

6. **Zambia's economic performance continued to strengthen.** After climbing above a rate of 5 percent in 2003, real GDP growth is estimated at 5 percent in 2004. The 2004 outturn marks the fifth consecutive year of solid increase of GDP per capita, after more than two decades of economic decline. Despite this progress, inflation remains relatively high and consistent implementation of the MTEF is needed to reach the medium-term objective. Staffs share the Report's emphasis on the broadening of GDP growth: not only the mining sector, but also the agricultural and the construction sectors provided relevant contributions. However, on the basis of the PRSP estimates, staffs also note that this trend still falls short of the economic growth needed to significantly reduce poverty in Zambia (6-8 percent per year).

7. **As underlined in the Report, a large fiscal adjustment was instrumental to the positive macroeconomic performance in 2004.** Domestic borrowing was limited to less than 1 percent of GDP, compared with over 5 percent of GDP in 2003. However, authorized expenditure of about 1 percent of GDP went unexecuted by the end of 2004,

² The TNDP for the period 2002-2005, prepared when the current government took office in 2002, encompasses all the areas discussed in the PRSP, but also includes other areas such as the Judiciary, Law and Order, and Defense and Security.

mainly because disbursements of US\$38 million of external budget support came in late December. The Report appropriately highlights progress on control of total expenditure and progress on budget execution, in particular, on the wage bill and on the releases for priority poverty-reduction programs (PRPs), where 100 percent of the budgeted amounts were released, up from about 50 percent in 2003. However, weaknesses still remain, as indicated by shortfalls in executing domestically financed capital spending and overruns on recurrent departmental charges. A fuller explanation of these weaknesses would have provided additional background for including specific recommendations in the forward-looking section of the Report.

8. **The Report also points out that fiscal adjustment helped to sustain lower interest rates on bank lending and provided room for credit expansion to the private sector.** The Report indicates that, boosted by lower lending rates, credit for private investment expanded by over 60 percent during the year through December 2004, in particular, in the sectors indicated by the PRSP as critical for enhancing diversification of the Zambian economy.

9. **The Report notes that, despite higher oil prices, external developments in 2004 have been favorable.** Merchandise export receipts increased by more than 50 percent, as a result of higher copper prices and strong growth in copper and nontraditional export volumes. Imports have also risen substantially, driven by large-scale investment in the expansion and rehabilitation of the mining sector, as well as by higher oil prices. The kwacha appreciated in real terms by about 10 percent in 2004. Given that a further appreciation could undermine nontraditional exports, staffs consider critical fiscal consolidation and enhanced coordination of fiscal and monetary policies.

10. **For 2005 and the medium term, the macroeconomic framework described in the Report and in the Supplement on Policies and Objectives for 2005 envisage a consolidation of the recent trend.** Significant private investment in mining, agriculture, and tourism during 2004 is expected to help maintain growth of 5 percent in 2005. Inflation is expected to decline to 15 percent by the end of the year. The 2005 budget submitted to parliament aims to limit the domestic financing needs of the central government to 1.6 percent of GDP. Donors' budgetary support—excluding additional debt relief expected at the attainment of the completion point under the enhanced HIPC Initiative—is projected to rise to 2.1 percent of GDP. Expenditure composition reflects continuing re-orientation of resources towards PRSP priorities. Under the expanded classification introduced in the 2005 budget, allocations for poverty reduction programs account for more than 22 percent of domestically financed spending (i.e., almost 5 percent of GDP). Over the medium term, the Report projects GDP growth at 5 percent and inflation declining to a single digit rate. On the fiscal side, domestic financing is assumed to gradually decline to less than 1 percent of GDP, while allocations on poverty-reducing programs are expected to expand on the basis of savings from external and domestic debt service.

11. **The Report discusses the need for and progress with structural reforms.** In particular, the Report identifies the need for structural reforms in the areas of public

sector management, civil service, financial sector policies and institutions, and legal and regulatory frameworks that affect the private sector.

12. **The Report describes the revised Public Sector Reform (PSR) strategy adopted by government in June 2004.** The focus of the revised PSR strategy is on (i) improving public expenditure management and financial accountability (PEMFA); (ii) strengthening human resource management and rationalizing the size of the civil service; and (iii) articulating a strategy for decentralization.

13. **During 2004, priority was given to preparing the PEMFA program.** An implementation plan was prepared, successfully appraised, and negotiated with the cooperating partners. This plan needs to be vigorously implemented to provide Zambia with an effective public expenditure management and financial accountability system. The collaboration between government and its cooperating partners has resulted in the signing of a Memorandum of Understanding (MoU) between GRZ and its cooperating partners, including the EU and IDA. The MoU outlines the principles for collaboration.

14. **Staffs commend the authorities for the work undertaken on reform measures in parallel with the preparation of the PEMFA program.** Specifically, the MTEF process was further strengthened and budget preparation, execution, and reporting were improved. The Finance Act was amended in December 2004, with a focus on enhancing accountability. The 2004 budget was prepared according to an activity-based budgeting framework. This improvement allowed government to redefine PRPs, although unfortunately the definition used to monitor PRPs in 2003-2004 and in the Report still covers only HIPC-financed poverty reducing expenditures. The government also modified its financial management system to track the resources flowing to the wider definition of PRPs.

15. **As part of the PEMFA program and with assistance from the World Bank, work is underway on a debt strategy, including a much needed capacity building component to strengthen back-office operations.** These improvements in debt management, which could usefully have been referred to in the Report, are critical to minimize risks to debt sustainability after attainment of the completion point under the HIPC initiative. In this context, staffs welcome the MoFNP's plan to validate, within 45 days from the end of each quarter, the external debt stock data and to update its 3-year schedule of debt-service obligations falling due.

16. **The Report states that a lean, efficient, and cost-effective civil service is yet to be achieved.** A process—similar to the one used to design the PEMFA program—is under way to prepare a tangible reform plan. This process is now at the stage when the proposed activities can be appraised and their financial needs assessed. Staffs recommend an acceleration of this process to align implementation of civil service reforms with the ongoing reforms under the PEMFA program. During 2004, government also took an important intermediate step that will facilitate the implementation of reforms in this area by putting in place a Payroll Management and Establishment Control (PMEC) system. The PMEC system improves payroll management, provides better data and establishment control mechanisms, and enhances accuracy of the payroll and budget control.

17. **A discussion of the new decentralization strategy in 2004, which is to be implemented over a five-year period and is to commence in 2005, could usefully be included in the next progress report.** The current report does not contain a discussion of its content. Even though staffs are aware that progress with respect to this pillar is lagging behind the other two priority areas of the PSR strategy, a section on the content of the strategy and progress with regard to its implementation should be included in government's next annual progress report.
18. **Government has approved its Financial Sector Development Plan (FSDP) in June 2004 and staffs concur with the priorities of the FSDP and that the challenge is now on timely implementation.** The FSDP takes into account many of the recommendations of Zambia's Financial Sector Assessment finalized in 2003. In this context, priority is given to (i) the resolution of the outstanding issues surrounding the state owned non-bank financial institutions; (ii) the improvement of Zambia's credit culture; and (iii) the strengthening of the operational independence of the BoZ.
19. **As government engages in preparing its Second TNDP/PRSP for 2006-10, staffs would encourage a more prominent discussion of PSD issues.** Government has launched a Private Sector Development (PSD) initiative in 2004, which aims at improving the environment for private sector led growth. Government has correctly emphasized that an enabling business environment for private sector led growth is critical to maintain the current growth momentum. An articulation of principles that will guide GRZ's efforts with regard to PSD would be an important step and could help with the prioritization of the many activities that have been identified during the stakeholder consultations in Livingstone in June 2004. Additional important steps to operationalize the PSD initiative would be: (i) to effectively deal with the fragmentation of the current institutional set up to facilitate the interaction with the private sector, in particular for new businesses; (ii) to implement key priority actions identified in collaboration with the private sector, as a way to establish credibility; and (iii) to set up an institutional framework which ensures private sector participation during the implementation and facilitates effective delivery of the actions agreed during the Livingstone consultations.
20. **The objective of export promotion as an engine of growth has not yet been incorporated in the PRSP.** Given the small size of Zambia's domestic market, government considers expansion and diversification of exports as a critical condition for sustained high growth and poverty alleviation. Moving forward, Zambia will need to fully incorporate export diversification into its development strategy and PRSP, and remove the binding constraints to exports based on the findings of the Diagnostic Trade Integration Study (DTIS).
21. **The Report correctly indicates that progress was made with the implementation of the policies for energy and telecommunication and their translation into new legal acts and regulations.** Attention needs to be paid to tariff setting in the utility sectors, in particular with regard to the water utilities, to ensure that the sector moves toward a financially sound position and does not continue to accumulate arrears with suppliers. It is also important to actively promote private participation in

investments in the utility and other infrastructural sector, as the needs are enormous and public resources scarce.

B. Progress in Poverty Reduction and MDGs Attainment

22. **The Report provides an updated poverty profile and an assessment of Zambia's current situation with regard to its ability to reach the MDGs in 2015.** The updated poverty profile, which is based on the 2002/03 Living Conditions Monitoring Standard Survey (LCMS), provides a sobering picture of Zambia's poverty situation.³ Poverty remains high and largely a rural phenomenon. The overall poverty headcount has remained at 67 percent. The Report indicates that a subset of the MDGs could be reached by 2015, if certain conditions are met. In particular, two conditions are critical: (i) average annual growth rates in excess of 8 percent; and (ii) better prioritization, scaling up, and stronger effectiveness of PRPs related to the MDGs. Staffs recommend that the next Report articulates better how this could be achieved, given that growth rates are not expected to exceed 5 percent over the coming three years.

23. **Staffs commend the authorities on progress made in 2004 under the PEMFA program on tracking poverty-reducing spending.** An important next step is to use the data on expenditure releases for the newly defined PRPs and the updated poverty profiles to evaluate the effectiveness of PRPs. As a result, government will be able to better monitor the impact of PRPs on the poor and to better prioritize and scale up those PRPs that are most effective in reaching and helping the poor in Zambia.

C. Progress in Sectoral Policies and Programs

Economic Sectors

24. **Staffs recommend that future assessments of PRSP implementation give greater weight to identifying bottlenecks to economic growth.** The performance of most economic sectors targeted by the PRSP improved over the period under review and contributed to a broadening of GDP growth. Nevertheless, the PRSP Report is relatively silent on these important developments and focuses mainly on government budgetary activities. In future, a closer evaluation of economic performance by sector would help in formulating more effective policy recommendations.

25. **Staffs consider it important that the authorities re-evaluate the composition of expenditures for agriculture, given that they are heavily tilted towards recurrent expenditures.** In the agriculture sector, the overall objective is to promote self-sustaining export-oriented activities that ensure increased household incomes and food security. The analysis of expenditure executed on agricultural programs over the review period shows that subsidies (for fertilizer, seeds, and maize procured by Food Reserve Agency) accounted for about 70 percent of the total, while the plan was to spend over 80 percent of the resources on productive investments and service provision to the sector. The

³ The 1998 LCMS and the LCMS 2002/03 are of different design and as a result it is difficult to undertake a comparative analysis of poverty (see chapter 3 of the Report).

pattern of actual expenditures is not sustainable and clearly needs to be reviewed in order to realize the sector's goals.

26. **Tourism benefited from improved infrastructure, promotion of Zambia as an international destination, and further diversification of activities in Zambia's main destinations.** A next important step is to extend infrastructure development beyond Livingstone and the Kafue National Park to other important tourist attractions around the country. Further, the publicly-financed Tourism Development Credit Facility, established to provide credit on a revolving basis to entrepreneurs, is not sustainable and its operations are ineffective. Efforts should continue to focus on addressing macroeconomic weaknesses that make bank credit too costly.

27. **Developments in the mining sector clearly show that private capital is better placed to provide a sustainable basis for financing and servicing the sector.** The sector's contribution to economic growth, employment, and budgetary revenues could be strengthened through the development of a more consistent policy, legal, regulatory, and institutional framework. Diversification of mining activities could be more actively pursued, mainly by increasing production of precious and semi-precious stones or other minerals. At the same time, attention should be paid to enhance the well-being of the communities affected by mining activities. Most of these elements are part of IDA's Support of Economic Expansion and Diversification program. However, in order for this program to be effective and sustainable, it is essential that government encourage and utilize private provision of necessary services (such as the gemstone exchange and credit programs). The PRSP programs in the mining sector all received much lower funding than allocated in the budget. Staffs recommend to the authorities to fully fund these programs and improve evaluation of developments in the mining sector.

28. **The Report shows a mixed record of implementation of the various programs in the manufacturing sector.** The Report also indicates the high cost arising from the proliferation of publicly funded private sector development institutions. The creation of a one-stop private sector development institution, the Zambia Development Agency—amalgamating the Zambia Investment Center, the Export Board of Zambia, and the Zambia Privatization Agency—will be an important step to reduce the current fragmentation. Further, increasing value-added for the domestically sourced raw materials and intermediate goods could provide a solid basis for broadening the impact of the manufacturing sector in the country.

29. **Significant progress has been recorded in the energy sector.** In particular, progress has been made in four areas: (i) the commercialization of the state-owned electricity utility company (ZESCO); (ii) the review of the electricity and energy regulations statutes; (iii) the creation of the rural electrification authority; and (iv) the construction of regional inter-connector power lines to extend Zambia's electricity energy exports to the region. Since poverty is more widespread in rural than urban areas, the high funding for rural electrification and the electrification of some farm blocks is quite encouraging as it contributes to the improvements in the rural quality of life.

30. **The Report reveals a steadfast commitment by government to the road sector.** Government is commended for progress with the consolidation of the various roads-development related institutions into one agency (the Roads Development Agency), which should allow for a more streamlined approach to the sector. In 2003 alone, about 74 percent of the planned road maintenance program was implemented. However, as a result of poor routine maintenance, overall road network has deteriorated. Government should be commended for establishing, as a part of the 2002 review of the transport policy, the National Road Fund to provide a stable source of funding for road maintenance (through a fuel levy) and the Road Transport and Safety Agency for improving road safety.

Social Sectors

31. **In the education sector, improvements in budget planning and execution have to go hand in hand with the interventions that are directed at increasing access to basic education, increasing overall quality and relevance of the curriculum, and increasing retention to be sustainable.** At the primary school level Gross Enrolment Ratios (GERs) rose by another 5.4 percentage points to 93.1 percent from 87.7 percent in 2003. At secondary and tertiary education levels GERs also showed an increase i.e. 2.6 and 15 percentage points respectively. Improvements in teacher pupil ratios were hampered by budgetary constraints. The Ministry of Education had not removed many retired teachers from its sectoral budget and, consequently, has constrained its financial ability to hire. However, this issue has been addressed in the 2005 budget,⁴ which provides for the hiring of 7,000 additional teachers, substantially reducing the shortfalls registered in 2004. To continue making improvements in enrolment, quality, and retention, government needs to strengthen the capacity of the Ministry of Education to plan, monitor, and prioritize its scarce resources. In allocating budgetary resources, the Ministry of Education should also take fully into account the need to increase the number of teachers in the rural areas, to improve gender composition of teaching staff, and to address the impact of HIV/AIDS pandemic on teachers and pupils.

32. **Even though budgetary releases to health programs declined to 1.7 percent of GDP in 2004 from 2.1 percent in 2003, the health sector witnessed notable improvements due to increased timeliness of the release of resources.** The Report notes that this was reflected in improvements in key basic health care delivery indicators such as health centre outpatient per capital attendance and by the general decrease in the incidence of the major diseases such as malaria, non-pneumonia respiratory infections, and diarrhea. The drug situation generally improved with 0.79 kits opened per 1,000 patients in 2004 compared to 0.73 kits opened per 1,000 patients in 2003. Further, the percentage of fully immunized children under one year improved from 74 percent in 2003 to 77 percent in 2004. A major challenge in the health sector is to increase its human capacity, such that it can effectively absorb the available (external) project funding for many of its programs. To face this challenge, the government has to take into

⁴ The Dutch government has made available a grant in the amount of Euro 9.2 million to settle the backlog of retirement and associated repatriation allowances and to provide for part of the settling in allowances of the new teachers.

account the fact that many NGOs are able to provide health workers in Zambia with more attractive remuneration packages than the ones paid by the public sector.

33. **In nutrition, the focus remained on improving Zambia's institutional capacity, expanding the programs of immunization and fortification of sugar and maize meal with Vitamin A, and the scaling up of the Infant and Young Child Feeding program.** In addition, Zambia began implementing the Integrated Management of Childhood Illness program during the period covered by the Report. The Report shows progress in several of the programs undertaken, but could benefit from additional information on the impact of the programs undertaken on outcomes e.g., stunting.

34. **The main focus of the PRSP in the area of water and sanitation is on water resource management and provision of water and sanitation services.** The Water Resource Action Plan (WRAP), initiated in early 2003, aims at establishing a framework for development and effective management and use of Zambia's water resources. The WRAP has become operational. In addition, the Report shows evidence of a scaling up of the implementation of Zambia's Water Resource Infrastructure Development Plan. The Report candidly mentions that implementation of several programs including those aiming at improving Zambia's urban and peri-urban water supply system had not commenced at the expected time due to the non-release of funds. Urban and peri-urban water supply systems are critical given that Cholera is endemic in the major cities of Zambia and over 4 million of Zambians reside in urban areas.

35. **The social safety net programs of the PRSP focus on interventions that mitigate the impact of adverse events on the poor and vulnerable.** The interventions were carried out through the Food Security Program (FSP), Peri- Urban self- Help (PUSH), Public Welfare Assistant Scheme (PWAS), and the National Social Safety Net (NSSN). The previous progress report indicated that the FSP had reached 125,195 beneficiaries during the 2002/03 season. This was increased to 150,000 during the 2003/04 season. The effectiveness of PUSH was hampered by poor release of funds. This did not affect PWAS and NSSN. The PWAS program was extended to cover 72 districts up from 27 districts in 2002. Given Zambia's exposure to natural disasters, the HIV/AIDS pandemic, and external shocks, staffs believe that it is important for government to pay greater attention to the effectiveness of resource allocation to these social safety net programs in particular in light of a decline of their allocations over the past few years.

Cross Cutting Initiatives

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

37. **Several activities to improve socio-political, democratic, and economic governance in Zambia were undertaken during the period covered by the Report.** The Constitutional Review Commission, which started its work in 2002, began to compile its report of recommendations and is expected to issue a draft containing its recommendations in the first quarter of 2005. The Report indicates that many of the PEMFA reforms agreed upon with the cooperating partners will further enhance

transparency and accountability of the executive. In the area of anti-corruption, a National Governance Baseline Survey (NGBS) was conducted and its findings widely disseminated during a conference chaired by the President in November 2004. The main challenges will be to timely conclude the constitutional review as several structural reforms hinge on the passing of proposed constitutional amendments and to translate the findings of the NGBS in tangible actions that will reduce corruption.

38. **To combat the HIV/AIDS pandemic, government undertook several positive steps.** Even though most programs supported under the PRSP umbrella show positive improvements in outreach, knowledge, counseling and testing, and use of ARV, the challenges for Zambia with a prevalence rate of 16 percent among the adult population are obviously immense. The Report correctly identifies a whole set of operational and organizational challenges that need to be addressed if Zambia wants to successfully fight the HIV/AIDS pandemic. One important organizational challenge facing government is to develop a system of monitoring and tracking resources made available to HIV/AIDS programs. To tackle some of those issues, the National Aids Council (NAC) commissioned a functional review of its own organizational structure in 2004, in order to evaluate its own effectiveness. The recommendations of this evaluation have been taken on board and the NAC has been reorganized to better serve its clientele.

39. **Improvements in the institutional framework for gender and environmental protection were initiated or put in place and programs executed, but results remained limited.** Government started amending the Zambian law in conflict with the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW). The percentages of women in decision-making positions and their representation in Parliament did not change vis-a-vis the outcomes reported in the previous annual progress report. To encourage community ownership and management of the environment, the Community Environmental management program was launched and implementation has commenced in 6 of the 8 targeted districts.

D. Institutional Framework for PRSP Implementation, Monitoring, and Evaluation

40. **Significant improvements were put in place during the period covered by the Report to monitor inputs from the budget into PRPs.** The introduction of Activity Based Budgeting (ABB) allowed for a reevaluation of PRPs. The earlier definition, which was strictly linked to HIPC related expenditures, was expanded to cover all public expenditures related to PRSP implementation. In addition, the budget's financial management system was enhanced to monitor releases against the re-defined PRPs and the new definition was embedded in the 2005 budget.

41. **Even though a more operational institutional structure to compile data by region and sector has been put in place, the impact of the PRSP is yet to be effectively measured partly because a core set of indicators to monitor and report on still has to be established.** Government strengthened the PRSP monitoring system by physically moving the Poverty Monitoring and Analysis (PMA) unit from Zambia Social Investment Fund (ZAMSIF) to its Planning and Economic Management Department (PEMD) at the MoFNP in January 2004. Similarly, the Monitoring and Evaluation Unit

was moved from Economic and Technical Cooperation Department at MoFNP to PEMD to ensure that planning, monitoring and evaluation were integrated. The Report candidly states that despite achievements made in terms of reporting structures such as the SAGs, the monitoring structures demonstrated a number of weaknesses during the monitoring of the PRSP. As a corrective measure government proposed a training program for capacity building among SAG members. A training needs assessment was conducted in 2004 and its conclusion is to be tabled in early 2005. Staffs concur that the improvements made with regard to monitoring of inputs into PRPs has been significant and urges government to speed up its effort to effectively monitor outcomes and impacts of those programs. An important first step would be to reduce the number of indicators that are currently being monitored and reported in The Report. A concise list of policy actions covering the most important items with designated annual progress indicators would be welcomed.

III. CONCLUSIONS

42. **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 and are agreeable to the proposed replacement of the Annual Progress with the expanded Annual Economic Report and the merger of the PRSP with the National Development Plan. The latter is to be developed during 2005 and is expected to cover all PRSP relevant sectors for the period 2006-10. Finally, staffs note that the authorities could use the socio-demographic metadata submitted by Zambia to the IMF Statistics Department in their initiatives to address data constraints.

43. **Staffs share the lessons drawn and the recommendations made in the Report (Chapter 6).** In particular, staffs support the recommendations for improving timely disbursement of funds to line ministries and implementing agencies. Staffs also agree on the suggestions for setting a comprehensive and timely reporting system of donor disbursements, a key condition for adequate management of the risks to macroeconomic stability stemming from expanding external inflows.

44. **In addition, staffs underline a number of risks characterizing the macroeconomic framework assumed in the Report.** Climatic and terms of trade shocks could jeopardize the projected scenario. Risks also stem from several elections (for local governments, president, parliament, and possibly constitutional assembly) scheduled during 2005-2007, whose sizeable costs have not been accommodated in the medium-term expenditure framework. Finally, budgetary discipline could be affected by the electoral cycle and the attainment of the HIPC completion point, despite donors' medium-term commitment to expand budgetary support provides strong incentives to consolidate ownership of reforms.

45. **Staffs recommend to the authorities more specifically:**
- (a) to intensify progress on the structural reforms identified in the PRSP and to preserve the domestic financing ceilings approved in the MTEF. To mitigate the impact of climatic and terms of trade shocks, staffs advise steadfast progress in implementing the FSDP and the PSD Initiative to boost the diversification of the Zambian economy. On election-related expenditure, staff urges the authorities to ensure that funding is provided either through external grants or compensatory measures outside the priority areas. On risks indirectly associated with the electoral cycle and the attainment of the HIPC completion point, staff recommends to the authorities, along with steady implementation of the PEMFA program, strict enforcement of public expenditure management procedures, timing reporting on budget execution, and full transparency;
 - (b) to enhance monitoring and evaluation capacity, whose inputs are critical
 - (i) to strengthen the links between PRSP programs, the Medium-Term Expenditure Framework, and the annual budgets; and
 - (ii) to improve assessment of PRSP's impact on poverty reduction and growth.
46. **Do the respective Executive Directors of the Fund and IDA concur** with staffs' identification of priority areas of action and the related recommendations for strengthening PRSP implementation?