

Zambia - European Community

**Country Strategy Paper
and
National Indicative Programme**

for the period 2008- 2013

The Government of Zambia and the European Commission hereby agree as follows:

- (1) The Government of Zambia (represented by Hon. Ng'andu P. Magande, Minister of Finance and National Planning) and the European Commission (represented by Dr. Derek Fee, Head of Delegation in Zambia), hereinafter referred to as the "parties", held discussions in Lusaka from January 2006 to October 2007 with a view to determining the general orientations for cooperation for the period 2008–2013. During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Zambia were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, and revised in Luxembourg on 25 June 2005. These discussions complete the programming process in Zambia. The Country Strategy Paper and the Indicative Programme are annexed to this document.
- (2) As regards the indicative programmable financial resources which the Community plans to make available to Zambia for the period 2008-2013, an amount of **EUR475 million** is scheduled for the allocation referred to in Article 3.2 (a) of Annex IV to the ACP-EC Partnership Agreement (A-allocation) and of **EUR14.8 million** for the initial allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macro-economic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which Zambia benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and therefore does not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of this Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership, but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Zambia within the limits of the A- and B-allocations referred to in this document. The respective projects and programmes shall be implemented according to the rules and procedures laid down in the 10th EDF multi-annual financial framework for the period 2008-2013. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the APC-EC Partnership Agreement for support to non-State actors or on the basis of Article 72(6) to the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations. Financing decisions shall be taken and

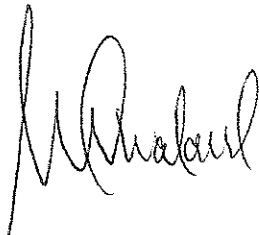
implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

- (6) The European Investment Bank may contribute to the implementation of this Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall undertake an annual operational review of the Indicative Programme and a mid-term and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of needs and performance at the time.
The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance.
Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased in order to take account of special needs or exceptional performance.
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework for the period 2008-2013, will be regarded as definitive within eight weeks of the date of signature, unless either Party communicates the contrary before the end of this period.

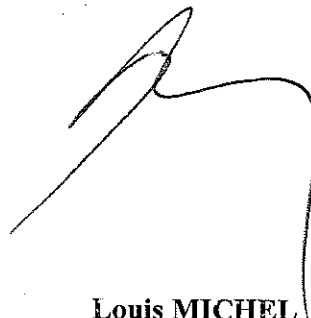
Done at Lisbon on 9 December 2007.

For the Government of Zambia

For the European Commission



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Minister of Finance and National Planning
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Louis MICHEL
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LIST OF ABBREVIATIONS

ABB	Activity Based Budget
ACP	African, Caribbean, Pacific Group of States
ADB	African Development Bank
AGOA	African Growth and Opportunity Act
AIDCO	EuropeAid
AIDS	Acquired Immune Deficiency Syndrome
ART	Anti-Retroviral Therapy
ASS	African Sub-Saharan zone
ATI	African Trade Insurance Agency
AU	African Union
AWP	Annual Work Plan
BCHP	Basic Health Care Package
BoP	Balance of Payments
BoZ	Bank of Zambia
CAP	Common Agriculture Policy
CBoH	Central Board of Health
CDE	Centre for the Development of Enterprise
COMESA	Common Market for Eastern and Southern Africa
CP	Cooperating Partners
CPI	Consumer Price Index
CRC	Constitution Review Commission
CRS	Catholic Relief Service
CSO	Central Statistics Office
CSP	Country Strategy Paper
CTA	Centre for the Development of Agriculture
DANIDA	Danish International Development Authority
DFID	Department for International Development
DHS	Demographic Health Survey
DMMU	Disaster Management and Monitoring Unit
DNR	Department of National Registration
DRC	Democratic Republic of Congo
EAC	East African Community
EBA	Everything But Arms
EBZ	Export Board of Zambia
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
ECZ	Electoral Commission of Zambia
EDF	European Development Fund
EDP	Export Development Programme
EESM	Enhanced Export Support Mechanism
EFA	Fast Track Initiative
EFF	Export Financing Facility
EIA	Environment Impact Assessment
EIB	European Investment Bank
EIB-FF	European Investment Bank Financing Facility
EOM	Election Observation Mission
EMIS	Education Management Information System
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
ESAF	Enhanced Structural Adjustment Facility
ESIP	Education Sector Investment Programme
ETC	Economic and Technical Cooperation
EU	European Union
EUOM	European Union Observer Mission
EUR	Euro
FA	Financing Agreement

FAO	Food and Agriculture Organisation
FNDP	Fifth National Development Plan
FRA	Food Reserve Agency
FSDP	Financial Sector Development Programme
FSP	Fertilizer Support Programme
FTA	Free Trade Area
GDP	Gross Domestic Product
GLR	Great Lakes Region
GMO	Genetically Modified Organisms
GRZ	Government of the Republic of Zambia
HBC	Home Based Care
HDI	Human Development Index
HDR	Human Development Report (by UNDP)
HIP	Harmonisation in Practice
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
HOD	Head of Delegation
HOMs	Heads of Mission
HMIS	Health Management Information System
HRSP	Human Resource Strategic Plan
IDA	International Development Assistance
IFMIS	Integrated Financial Management Information System
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organisation
IMF	International Monetary Fund
IO	Indian Ocean
IOC	Indian Ocean Commission
IOM	International Organisation for Migration
IRCC	Inter-Regional Coordinating Committee
IT	Information Technology
JAR	Joint Annual Report
JASZ	Joint Assistance Strategy for Zambia
KCM	Konkola Copper Mines
LCMS	Living Conditions Monitoring Survey
LDC	Least Developed Countries
MACO	Ministry of Agriculture and Cooperatives
MCDSS	Ministry of Community Development and Social Services
MCT	Ministry of Communication and Transport
MCTI	Ministry of Commerce, Trade and Industry
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFNP	Ministry of Finance and National Development
MLGH	Ministry of Local Government and Housing
MMD	Movement for Multiparty Democracy
MoE	Ministry of Education
MoH	Ministry of Health
MoU	Memorandum of Understanding
MP	Member of Parliament
MTE	Medium-Term Expenditure
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Financial Framework
MTENR	Ministry of Tourism, Environment and Natural Resources
MTR	Mid-Term Review
NACL	National Airports Corporation Limited
NAO	National Authorising Officer
NEPAD	New Partnership for African Development
NFNC	National Food and Nutrition Commission
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
NSA	Non-State Actors

NTB	Non-Tariff Barriers
NTEs	Non-Traditional Exports
NRFA	National Road Fund Agency
OAU	Organisation of African Unity
OAG	Office of the Auditor General
OECD	Organisation for Economic Cooperation and Development
OVC	Orphans and Vulnerable Children
PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Accountability
PEMFA	Public Finance Management and Reform
PEMFAR	Public Expenditure Management and Financial Accountability Review
PEMS	Public Financial Management System
PEPFAR	Presidents' Emergency Plan for AIDS Relief
PF	Patriotic Front
PFM	Public Finance Management
PMTCT	Prevention of Mother To Child Transmission
PMU	Project Management Unit
PPF	Pre-Production Facility
PPP	Purchasing Power Parity
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Service Capacity-Building Project
PSD	Private Sector Development
PSRP	Public Sector Reform Programme
PTR	Pupil-Teacher Ratio
PWAS	Public Welfare Assistance Scheme
RDA	Road Development Agency
RIFF	Regional Integration Facilitation Forum
RIP	Regional Indicative Programme
ROADSIP	Road Sector Investment Programme
RoO	Regional Organisation
RTSA	Road Traffic and Safety Agency
RSP	Regional Strategy Paper
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SAG	Sector Advisory Group
SBS	Sector Budget Support
SEA	Strategic Environmental Assessment
SIP	Sector Investment Programme
SME	Small and Medium-sized Enterprises
SPA	Strategic Partnership with Africa
SPS	Sanitary and Phytosanitary
SPSP	Sector Policy Support Programme
SQMT	Standardisation, Quality, Metrology and Testing
STD	Sexually Transmitted Diseases
SWAp	Sector-Wide Approach
TA	Technical Assistance
TAZ	Tobacco Association of Zambia
TAZARA	Tanzania-Zambia Railway System
TB	Tuberculosis
TCF	Technical Cooperation Facility
TDP	TEVET Development Programme
TFC	Task Force on Corruption
TI	Transparency International
UDA	United Democratic Alliance
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

UNFPA	United Nations Population Fund
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UPND	United Party for National Development
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
VCT	Voluntary Counselling and Testing
VOC	Vehicle Operating Costs
WFP	World Food Programme
WHO	World Health Organisation
WTO	World Trade Organisation
ZMK	Zambian Kwacha
ZRL	Zambia Railways Limited
ZANACO	Zambia National Commercial Bank
ZAWA	Zambia Wildlife Authority
ZECAB	Zambian Education Capacity Building
ZESCO	Zambia Electricity Supply Corporation
ZMM-GT	Zambia-Malawi-Mozambique Growth Triangle

EXECUTIVE SUMMARY

The 10th EDF Country Strategy Paper provides a framework for EC assistance programmes under the Cotonou Partnership Agreement for the years 2008 to 2013. The framework is based on EU/ACP cooperation objectives, such as poverty reduction, sustainable development and the gradual integration of ACP countries into the world economy. It also derives from Zambia's policy agenda (*5th National Development Plan 2006-2010, FNDP*), an assessment of the country situation, and the activities of other major cooperating partners in Zambia (*Joint Assistance Strategy Zambia, JASZ*). The framework is fully consistent with the *European Consensus on Development*, with its emphasis on country ownership and aid effectiveness, and focus on attaining the MDGs and democratic governance. The framework concludes with the proposed EC response strategy and an Indicative Programme.

The theme of the FNDP is "Broad Based Wealth and Job Creation through Citizenry Participation and Technological Advancement". The focus will be on 1) pro-poor growth-oriented sectors that create employment and income opportunities for the poor, including in particular rural development, agriculture and manufacturing, and 2) economic infrastructure and human resources development. The FNDP draws attention to those sectors that maximise growth stimulation as well as those, such as agriculture, education and health, that best address the plight of the poor.

The Joint Assistance Strategy Zambia (JASZ) was agreed and signed after the FNDP 2006-2010 was officially launched (January 2007). The purpose of the JASZ is to harmonise and align the assistance provided by cooperating partners to support the implementation of Zambia's national development goals. This is in line with the 2005 Paris Declaration, to which Zambia and its cooperating partners are signatory. The JASZ should be the appropriate instrument with which to progress towards further harmonisation according to the requirements of the Cotonou Agreement and the EU development strategy.

The basic criteria considered for the selection of the sectors/areas and support modalities under the 10th EDF CSP-NIP are as follows: the FNDP main objectives and financial needs, the comparative advantage of the EC as defined in the *European Consensus*, the division of labour and complementarity between cooperating partners under the JASZ, and the aid implementing methods recommended by both the EU development strategy and the FNDP. Interventions are planned under two focal areas: *Regional Integration/Infrastructure and Transport (Focal Area 1, 24.6%)* and *Human Development/Health (Focal Area 2, 12.4%)*, combined with *Macro-economic support (general budget support, 48.9%)*. *Non-focal interventions (14.1%)* will concentrate on agriculture-food security, governance, and support to non-state actors and to EPA/ regional integration implementation.

PART 1: STRATEGY PAPER

CHAPTER I: THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND ZAMBIA

I.1.1. General objectives of the EC's external policy

1. In accordance with Article 177 of the Treaty Establishing the European Community, the purpose of Community policy in the sphere of development cooperation is to foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries;
- shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms

Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

2. The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc.).

EU external action, including the Common Foreign and Security Policy, common trade policy and cooperation with third countries provides a framework both for integrating all EU instruments and for gradually developing a set of common actions based on common positions in the broader sphere of political relations.

3. Enlargement has placed upon the EU even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its own neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, thereby contributing to global security and prosperity.

1.1.2 Strategic objectives of cooperation with the partner country

4. The Treaty objectives are confirmed in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the Cotonou Agreement is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Zambia is designed to pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

5. While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted European Consensus on Development sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular reference to the Millennium Development Goals. Human rights and democratic governance are recognised as other important objectives.

6. Better aid effectiveness is essential to achieving poverty eradication. Therefore the EU will foster coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The aim is that all EU non-aid policies make a positive contribution to developing countries' efforts to attain the MDGs.

7. The principle of concentration will guide the Community's country and regional programming. This means selecting a limited number of priority areas of action, through the dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the Community will be primarily active in the following nine areas, taking into account its comparative advantage in a number of them: trade and regional integration; the environment and sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and

food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four cross-cutting issues: democracy, democratic governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

8. In December 2005, the European Council agreed on an EU Strategy for Africa. The Strategy provides a long-term, strategic framework for interaction between Europe and Africa at all levels: with pan-African institutions such as the African Union, regional organisations and national authorities. It defines how the EU can best support Africa's own efforts to promote sustainable development and reach the Millennium Development Goals. The Strategy rests on three pillars: (i) promoting peace, security and democratic governance as central prerequisites for sustainable development; (ii) supporting regional integration, trade and interconnectivity to promote economic development; and (iii) improving access to basic social services (health, education) and protecting the environment to reach MDGs 1 to 6 faster.

I.1.3 Main bilateral agreements

9. Cooperation between Zambia and the EC started in 1975 with the coming into force of the Lome Convention, precursor to the present Cotonou Agreement.

Concerning trade policy and as a least developed country, Zambia has benefited from the EU initiative Everything But Arms (EBA) since 2001, granting free access to Zambian products to the EU markets, with a transitory period for three agricultural products, of which sugar is the only one relevant to Zambia. As of 2009, the transition period will end, and duty free, quota free access will be granted for sugar.

Along with fifteen members of COMESA, Zambia embarked in 2004 on the negotiation of an Economic Partnership Agreement (EPA), with a view to replacing the Cotonou unilateral preferences and creating a WTO-compatible framework for reciprocal preferences and mutual cooperation. The negotiation of a full-fledged EPA is expected to be completed in 2008.

CHAPTER II: COUNTRY DIAGNOSIS

II.1. Analysis of the political, economic, social and environmental situation in the recipient country

II.1.1 Political and institutional situation

10. Return to multi-party politics took place in 1991. Results of the 2001 presidential elections were contested by a range of election observers, including the EU. The latest presidential, parliamentary and local government elections were held in September 2006. Levy Mwanawasa was re-elected as president and his party, the Movement for Multiparty Democracy (MMD), was returned to government. Electoral support for L. Mwanawasa (43% of the national vote) increased from the disputed 2001 result (29%). Michael Sata of the Patriotic Front (PF) secured 29.4% of total ballots cast to emerge second, while Hakainde Hichilema of the United Democratic Alliance (UDA) polled 25.3% of the vote. The MMD has secured a narrow parliamentary majority, after including the eight further members of Parliament whom the President is allowed to appoint.

The 2006 elections were widely considered a major improvement from the previous elections. About 71.4% of eligible citizens registered as voters. Voter turnout was high (70.8%). The polls were keenly watched by several international observers (including EU, SADC and the Commonwealth), who hailed the peaceful conduct of the vote. The EU EOM considered that the elections were generally well-administered by the Electoral Commission of Zambia and marked by increased transparency, in spite of problems noticed in the electoral legal/administrative framework and concerns over an uneven playing field for candidates and parties (use of public media, as well as campaign spending).

The Electoral Commission of Zambia (ECZ) consists of a chair and four members ratified by Parliament but appointed by the President. They lead an administrative structure that has its own separate heading in the national budget, but has to rely, especially in the periphery, on other government departments in order to perform its institutional duties. The current ECZ appears committed to overcoming past shortcomings, and has shown political impartiality so far. Voter registration improved markedly in view of the latest tripartite elections. The voter roll management system has been completely changed, and old voter cards have therefore been invalidated.

11. Separation of powers exists in principle. However, the current Constitution, reviewed in 1996, gives extensive powers to the President, i.e. dissolution of Parliament, appointment of a plethora of other national and local authorities (including the Director of Public Prosecution), and oaths of allegiance are given by the Speaker of Parliament and the Chief of Justice, thus diluting the concept of autonomy among powers. Parliament is inspired by the Westminster model but the main weakness is that Parliament cannot dismiss the executive: neither the Cabinet as a whole nor any individual Minister. Parliament passes the Budget law but the Ministry of Finance still holds wide discretionary powers over the budget and supplementary budgets are often passed ex-post. Military forces as such have traditionally stayed out of politics in Zambia, with the exception of an aborted military coup in 1997. However, key figures from the military have held and still hold important posts in the Cabinet and government at large.

The Government started the constitutional and electoral reform processes in 2003. The final reports of the Constitution Review Commission (CRC) and the Electoral Reform Technical Committee were presented in 2005. A review of the Electoral Act before the September 2006 elections introduced some limited modifications. The most significant changes in the electoral system recommended by the CRC (such as presidential nomination to be won by at least 50% plus one of the national vote) would require amendments to the Constitution. The Government has publicly announced that a new Constitution could not be in place until 2009 (after a long process including a Constituent Assembly), despite the demands by civil society and the opposition parties to speed up the process.

Zambia has registered some cases of threats to freedom of expression, with independent journalists and opposition leaders being arrested and intimidated. Demonstrations by opposition parties and civil society were in some instances banned or repressed by the police. There is nevertheless an increasingly active civil society that is relatively free to assemble and demonstrate.

12. Government effectiveness is the governance area in which Zambia is worst performing, below the Sub-Saharan average. The Government still struggles with accountability for public resources and inability to effectively deliver services. A Public Sector Reform Programme has been running for some years; restructuring of the civil service took place with reduction of the wage bill to a more manageable 8% of GDP. Salaries in the civil service remain uncompetitive and generate serious human resource problems.

The National Decentralisation Policy (adopted in 2004) aims at a fully decentralised and democratically elected system of governance characterised by open, predictable and transparent policy-making and

implementation processes. But the process has been slow, the institutional and financial decentralisation structure remains unclear and in the meantime public services are still delivered by the deconcentrated, local structures of central government ministries/institutions. To facilitate the implementation of the Decentralisation Policy, the Decentralisation Implementation Plan (DIP) has been developed, but it is awaiting Cabinet approval.

13. According to the National Governance Baseline Survey 2004, corruption, both active and passive, is quite common in its many forms, and between 30% and 40% of managers and users were offered/asked for bribes and other forms of petty corruption. It affects, in particular, the areas of public services delivery, permits and licences, and public procurement. Corruption is a pervasive constraint on investment.¹

President Mwanawasa announced a “zero tolerance” corruption policy and installed the Task Force on Corruption (TFC) in 2002 to investigate the alleged plunder of public resources during the Chiluba regime. Thus, the fight against corruption was primarily focused on grand corruption. However, in general, TFC activities and results so far have been limited. Zambia’s score in the 2006 Transparency International Corruption Perceptions Index (TI CPI) remained at a modest 2.6 (rank 111 out of 163 countries), maintaining the same position as in the previous two years. A revised Anti-Corruption Commission Act, which would strengthen the legal framework in the fight against corruption, has been drafted. However, the Government has decided not to table the bill in Parliament until a National Corruption Prevention Policy and its Implementation Strategy are approved, after a consultative process among the stakeholders.

II.1.2 Economic and commercial situation

14. The Zambian economy, a large landlocked country with a population of around 11 million people, is still very much based on agriculture; while its weight in GDP terms is set at 17%, agriculture employs over 70% of the working population. Manufacturing represents 18% of GDP (11% of the working population); services account for nearly 60% and provide the bulk of the non-agricultural employment opportunities. Mining (mostly copper) represents 6% of GDP and provides nearly 70% of export earnings.

15. After the economic stagnation experienced during the 1990s, growth recently accelerated, averaging 4.6% a year between 2000 and 2005 (see Table 1 in Annex 1 for detailed economic data) with reduced inflation in the most recent period (from 18.3% in 2005 to 9.1% in 2006). A main source of growth has been the rapid expansion of mining (at around 9% on average between 2002 and 2005) as a result of recapitalisation and new investments (in the order of USD2 billion a year), following privatisations in 2000, and favourable conditions in world commodity markets. The EIB has been involved in various operations in this sector in the past and is considering doing so in the future, a sector that on the one hand promises high economic viability and on the other hand provides infrastructure improvement and jobs. The construction sector has also recorded rapid growth (18% over the same period) as a result of private construction activities, especially in residential housing around the main urban centres, and by facilitating mining sector investments. Growth in agriculture averaged just 2.6%, owing to negative weather conditions, inadequate infrastructure and poor commercial channels.

16. On the fiscal side, while government revenue performed relatively well (on average at 18.5% between 2000 and 2004), poor control over spending (especially on the wage bill) resulted in large government domestic borrowing (at 2.8% of GDP over the same period, with peaks of 4.5% in 2001 and 5.1% in 2003). This caused interest rates to rise, impacting on the cost of domestic debt (and crowding out potential private investment). In addition, spending on poverty-reducing programmes (PRPs) fell short of budget intentions. Between 2000 and 2003, the fiscal deficit including grants averaged 7% of GDP. By

¹ According to the DTIS (Diagnostic Trade Integration Study, October 2005), available at: <http://www.integratedframework.org/countries/zambia.html>, firms reported spending an average of 1.7 percent of their total revenues on bribes in order to “get things done.” Additionally, business reported that a government contract would typically require an average bribe of 3.7 percent of the value of the contract,

exercising strict discipline on spending, including a cap on the wage bill (8% of GDP), in 2004 and 2005 the government managed to turn this situation around: the domestic borrowing requirement was reduced (1.9% of GDP in 2005), while meeting the expenditure target for the PRPs (releases for health and education moderately exceeded the budget allocations). The fiscal deficit figures improved markedly, averaging 2.2% of GDP for 2004 and 2005.

The lack of fiscal discipline was reflected in high inflation rates, averaging above 20% between 2000 and 2005 (CPI, annual average), but showing a downward trend, and possibly reaching single-digit rates in 2006 for the first time in decades, also due to the steep appreciation of the national currency (Kwacha).

17. Zambia's external position has strengthened in recent years, owing to both volume and price increases in the copper sector (the major source of export earnings), as well as increases in non-traditional exports (such as floricultural and horticultural products, and processed foods), which more than doubled in dollar terms between 2000 and 2005. As a result, the current account deficit (excluding grants) has been reduced sharply from 19% of GDP in 2000 to less than 10% in 2005. International reserves have increased steadily, but still only accounted for 1.6 months of imports at the end of 2005. The debt sustainability outlook has also greatly improved since 2005 (see [Annex 8](#) for a detailed account), thanks to the significant reduction of the external debt burden: the attainment of debt relief under the HIPC Initiative (completion point reached in April 2005) and qualification under the Multilateral Debt Relief Initiative – MDRI (covering cancellation of debts owed to the IMF, IDA and the African Development Bank - ADB) reduced the debt stock to about USD502 million by July 2006 (from USD7.1 billion in December 2004). Particular effort is now necessary to limit contracting new external debt and to strengthen debt management.

18. The significant progress made by Zambia since 2000 in restoring macro-economic stability and increasing growth should now be consolidated, also taking the opportunity afforded by debt relief and rising donor assistance. In this context, in July 2004 the Government agreed with the IMF a three-year PRGF programme (SDR220 million, about USD320 million), which focuses on greater fiscal discipline (including on domestic borrowing), reducing inflation, and some structural reforms (PEMFA, financial sector reform). The programme has so far been on track and disbursements have taken place as scheduled. The fourth review was completed on 12 July 2006, with the Fund releasing SDR5.50 million (about USD8.2 million), which brings the total amount drawn under the arrangement to SDR192.58 million (about USD285.8 million). Progress under the PRGF programme through the December 2005 test date was satisfactory; all performance criteria were met. Most 2006 first-quarter benchmarks were met, though ahead of the general elections some threats to fiscal discipline materialised in the first quarter, when the March benchmark ceiling on domestic borrowing was missed. The Fund will monitor the corrective action taken.

19. Also, to overcome the recent negative trend of domestic revenue over GDP ratio (at 17.4% in 2005 compared to 18.3% in 2004), compounded by the Kwacha appreciation, the IMF will assist the GRZ in initiating a comprehensive tax policy and administration review. A number of measures will be identified and incorporated into the 2007 programme. In the Fifth National Development Plan 2006-2010 (FNDP), domestic revenue is projected to rise only gradually from 16.8% of GDP in 2006 to 18.6% in 2010. More ambitious targets may be set following the tax policy review. The Government is also considering a renegotiation strategy for some contractual agreements in the copper sector, struck with private companies under much less favourable international price conditions. Indeed, companies only pay 0.6% royalties and benefit from between 10 and 20 years of tax holidays.

20. As far as the medium-term challenges are concerned, i.e. beyond the PRGF that has ended in 2007, Zambia will have to ensure that macro-economic and fiscal stability is maintained. On the macro side, under the FNDP baseline real GDP growth is projected to rise from the 2000-05 average of 4.6%, to 6.0% per annum. This assumes a continued strong contribution from the traditional extractive industries

combined with significantly increased contributions from transport and infrastructure. A higher-case scenario envisages average annual growth at 7.0% per annum based on a stronger contribution from the agricultural and tourism sectors. On the fiscal side, the FNDP scenario foresees a continuation of fiscal consolidation, with on average throughout the FNDP period a stabilisation in government domestic borrowing at 1.1% of GDP. Particular attention will also be paid to the payment of domestic arrears, with the MTEF making an explicit allocation for the pension fund.

21. Overall, the projected sustained GDP growth and continued grant donor budget support (projected at around 4.5% of total revenues throughout the FNDP period), combined with reduced debt servicing costs (estimated reduction from HIPC+MDRI at almost USD200 million a year), should allow fiscal consolidation to be achieved, while reorienting expenditure towards FNDP priority areas. The Zambian economy nevertheless remains vulnerable to trade shocks, given the narrow export base and dependence on copper. It will therefore be crucial that structural reforms promoting private sector development and competitiveness of the non-metal exporting sectors are implemented. This, together with reforms that increase the efficiency of public service delivery, should further enhance the prospects of achieving the MDGs.

Trade

22. The past decade has witnessed significant changes in Zambia's trade performance. The share of NTE in total exports increased from 7.5% in 1990-93 to 37.7% in 2000-2003. Only recent recovery of copper production and prices has reduced the relative share of NTE (25% in 2004-2005). Substantial increases have been achieved in primary agricultural commodities, floricultural products, horticultural products and processed foods (see Table 2 in Annex 1). The strong reaction, from the NTE to improvement in the policy environment and progress in creating a dynamic private sector, indicates that the economy is responsive to changes in incentives. But despite the substantial increase in NTE, Zambia's share in world exports declined from 0.038 to 0.014 per cent between 1990 and 2003 (due mainly to the decline in copper prices during this period).

23. Although the EU and other OECD countries remain an important export market, accounting in 2005 for 50 per cent of total exports, regional trade has picked up in recent years, boosted by the dynamism and strong investment capacity of South Africa and implementation of the COMESA and SADC preferential trade agreements. In 2005 regional trade accounted for 41% of Zambia's total exports and 58% of total imports (EU: 19% and 20% respectively). South Africa is the single largest partner country (46% of imports, 18% of exports), importing copper, electricity, tobacco, cotton and sugar, and exporting to Zambia in return a wide range of capital and consumer goods.

24. Although benefiting from a variety of preferential market access initiatives, including the EU Everything-But-Arms initiative (EBA) and the US African Growth and Opportunity Act (AGOA), Zambia suffers both from capacity constraints to ensure compliance with the rules applying to these schemes and from serious domestic supply-side constraints. As a result, the realisation of the full export potential of these initiatives is hampered, and they have generated only negligible additional exports for Zambia compared to the Generalised System of Preferences scheme.

25. Zambia is a member of both SADC and COMESA. The COMESA Free Trade Area (FTA) came into force in October 2000. In 2000, Zambia also signed the SADC Trade Protocol for duty-free access to the regional market for specified products. Implementation of the SADC Trade Protocol commenced in September 2000 with the introduction of tariff preferences leading to an Article XXIV compatible FTA by 2008. Within the FTA of COMESA, it has taken an advanced position concerning autonomous tariff reductions. Currently there are four MFN bands: zero, 5%, 15% and 25%; the modal rate is 15% and applies to around 33% of tariff lines. The highest 25% rate applies to consumer and 'non-essential' goods.

To encourage foreign direct investment, a number of duty and tax concessions have been put in place, producing a direct effect on fiscal revenues. In addition, loss of customs revenue from regional integration is also a reason why Zambia is unlikely to push for faster attainment of COMESA Customs Union (scheduled for 2008), together with its attachment to SADC, its main trading partner. In addition, Zambia is negotiating bilateral trade agreements with Botswana, the Democratic Republic of the Congo, Mozambique, Namibia, Tanzania and Zimbabwe.

Unless both SADC and COMESA share identical common external tariffs, it will not be possible for Zambia to belong to both customs unions. Zambia has decided to discuss the future EPA with the EU in the Eastern and Southern Africa (ESA) grouping in coordination with COMESA. But Zambia has been advised (Diagnostic Trade Integration Study, October 2005) to use its limited negotiation capacity to strengthen SADC's FTA arrangements through improving its very restrictive RoO, removing other barriers to intra-SADC trade, and pushing for harmonisation of SADC and COMESA objectives, so that it can continue membership in both. Zambia must still implement new regional legislation, in particular on safeguards (imports) consistent with COMESA and SADC agreements, and transpose regional COMESA/SADC transport agreements into national legislation.

26. The Government has also embarked on the identification of appropriate trade expansion measures in the context of the Private Sector Development Programme. The Diagnostic Trade Integration Study (DTIS) focuses on specific priority areas for intervention and support; making export incentives work for exporters; improving trade facilitation; and enhancing the capacity to formulate, coordinate and implement trade policy, and negotiate trade agreements. This includes streamlining the duty drawback scheme, the development of a single processing and payment window for all border agencies, and amendment of the Standards Act to separate standard testing from regulatory functions.

II.1.3 Transport infrastructure

27. The Zambian road network has 37,000 km of gazetted roads and 30,671 km of ungazetted roads (classified as feeder, park and estate roads). Of the gazetted roads, 17.5% (6,476 km) have an asphalt surface, 23.0% (8,478 km) are gravel and 59.5% (21,967 km) are earth. The bulk of the formal road network was constructed during the first decade after Independence, and gradually deteriorated owing to the lack of adequate maintenance through to the mid 1990s. Improvement of the road sector was identified in Zambia's Poverty Reduction Strategy Paper (PRSP) in 2002 as the single most important means to address and combat poverty. A core road network of 40,113 km has been identified as being the minimum road network needed to be effective in combating poverty through improved accessibility, connectivity and job creation. Out of the core road network, 7,250 km are unpaved and 32,863 km are paved roads. The density of the core road network is 0.053 in km/square and 0,029 in km/capita. The percentage of international and domestic passenger and freight services carried by road is above 80%, which has also resulted in increased pressure on the roads. The past failure to systematically preserve the road asset through effective axle load control measures has been recently addressed through an enforced axle load control programme. Strategic road network management and programming is guided through the Road Sector Investment Programme (ROADSIP), in its second phase running from 2004 to 2013, with a programmed 10 years' budget of USD1.6 billion. While sector performance on the paved core road network is satisfactory, the unpaved strategic road network is still in a generally poor condition without all-weather access, adversely affecting basic access for the rural poor.

28. The Zambian railway network consists of Zambia Railways Limited (ZRL), which was concessioned to Railway System of Zambia, and the Tanzania-Zambia Railway system (TAZARA). It is important to integrate the two separate rail systems in order to increase speed and reliability. ZRL has a total single track of 1,266 km running from the border with Zimbabwe at Livingstone to the border with DRC, with branch lines to the Copperbelt, and has granted a concession to Railways Systems of Zambia (RSZ) for 20

years at USD1.5 million per annum. ZRL is committed to rehabilitating the existing network and rolling stock: once completed, the average speed will increase by 67 per cent to 70-80 km/hour. TAZARA, owned jointly by both Governments, is 1,700 km and runs from Dar-es-Salaam to Kapiri-Mposhi where it connects to the ZRL system.

29. The air transport sector is not well developed although there are some local private airlines. After the demise of Zambia Airways in 1995, the air transport industry was liberalised to encourage private sector participation in the air transport industry. Most of the fresh vegetables and cut flowers are air freighted to international markets. But there is a lack of guaranteed and reliable air cargo capacity. The volume of air cargo handled through Lusaka airport has been stagnant at around 15,000 tons per annum since 1997. Air freight rates are extremely high at USD1.55 -1.60 kg for vegetables and USD1.70 for flower exports during the high season (October-April). There has been a noticeable increase in commuter and air charter operations, which has resulted in development of tourism activities particularly in the Livingstone area. This has created job opportunities and widened the revenue base for the country.

II.1.4 Social situation, including decent work and employment

Education and health

30. Access to education has improved since the adoption of the Free Basic Education policy in 2002. Net enrolment ratio for the entire basic cycle (grades 1 to 9) rose from 64.89% in 2001 to 92.6% in 2005. It is expected to be even higher in 2006. The gender gap also narrowed: NER for girls was 62.7% in 2001 and 92.04% in 2005. However, this expansion has affected quality, as it was not initially accompanied by recruitment of teachers, due to the public service wage bill ceiling: the Pupil/Teacher ratio for grades 1-9 worsened, from 46.5 in 2001 to 53.6 in 2005. As far as the need to match the effort on access with improved quality is concerned, there appear to be major problems in scaling up infrastructure, procurement of educational materials, and human resources management (e.g. double shifts and high pupil/teacher ratios are more common in lower basic than in upper basic classes). Educational materials are scarce, under-utilised, and often not pertinent; school nutrition programmes are very limited and support to orphans, vulnerable children² and incapacitated households is poorly managed.

However, efforts have been boosted by increased government funding of education in 2005 and 2006, which is leading to an increased number of teachers. However, Zambia's public funding for education is still below the regional average. The rural/urban divide also compromises quality for children in remote areas, where the PTR is worse, and gender equity, with fewer girls able to complete the basic school cycle. Secondary education and technical and vocational education are severely under-funded, and inadequately equipped to cope with the flow of grade 9 leavers. Their curricula are unsuited to the labour market in contemporary Zambia. The Government adopts a policy of no access to condoms in schools. Tertiary education is very costly to the Government budget (20% of education budget for fewer than 10,000 students) as it is heavily subsidised and largely unaccountable.

² Zambia is a youthful country, with young people aged 25 years and below accounting for 68 per cent of the country's population. The 2004 *Orphans and Vulnerable Children in Zambia Situation Analysis* (OVCSA), the National Child Policy and the Medium-Term Strategic Plan (MTP) (2005-2007) on OVC indicate that the majority of Zambian children suffer from numerous socio-economic problems that negatively affect their growth and development. The children mostly suffer from poverty, hunger, lack of access to safe drinking water and proper sanitation, lack of decent shelter and destitution, and exposure to numerous epidemics and illiteracy. The situation of children in Zambia has been aggravated by the adverse social impact of economic restructuring and the HIV and AIDS pandemic. Nearly 90,000 children in Zambia are infected with HIV. The link between HIV and AIDS and poverty has worsened the problem, especially in relation to orphans. It is estimated that over one million children in Zambia are in the category of orphans, disadvantaged and vulnerable children. These children are extremely vulnerable. Many suffer severe deprivation, quit school, fail to access training, fall prey to abuse or exploitation, and risk HIV infection more than other children. This is especially the case among street children. There are over 75,000 street children in Zambia, while child-headed households account for an estimated 1-2 per cent (about 20,000) of all households in the country.

31. During the past five years, the health sector has remained under significant pressure. Long-term features of the burden of disease in Zambia do not change, like malaria and respiratory infections, and indeed have continued to deteriorate, except for the malaria incidence rate, which dropped between 2003 and 2005 from 383 to 373 per 1,000 population.

Even though the trends for selected healthcare delivery indicators point to some improvements (Percentage of fully immunised under-1 children, Health Centre Outpatient Per Capita Attendance, First Antenatal Coverage, Underweight Prevalence and Drug Kits Opened Per 1,000 Patients), this has not helped to control the disease burden. Under-five mortality was 197 deaths per 1,000 live births in 1996 but fell to 168 deaths per 1,000 live births in 2001-2002 (a result generally ascribed to food fortification programmes). Despite improved antenatal attendance rates, estimated at 93% in 2005, Maternal Mortality has continued to increase, from 649 per 100,000 live births in 1996 to 729 in 2002.

This is compounded by critical shortages of appropriate health workers; erratic supply of essential drugs and medical supplies; and the deteriorating state of infrastructure. However, the Government recently strengthened its political will and commitment to resolving the human resource crisis in the health sector. A Human Resource Strategic Plan (HRSP) was developed in 2005 and presented in 2006.

Adult HIV/AIDS prevalence in urban areas remains twice as high as in rural areas, and women are 40 per cent more likely to become infected than men. There are some positive trends (in 2005, the overall percentage of women attending ANC who were counselled, tested and received their test result, increased to 14.3%, up from 5.7% in 2003), but, with 25% of adults having sexual relations with non-regular partners in a year, only 5% being tested in that year, and only 4% using condoms with regular partners, the epidemic will continue to grow in rural areas and the abstinence message, especially in this group, can be very dangerous. Even with non-regular partners, the use of condoms has decreased from 26% to 16%. The 2004 Sentinel Surveillance Report, released in 2005, shows that among women attending antenatal services, the prevalence of HIV has remained stable since 2002. A small improvement, of less than 1 percentage point, is noted among younger women. HIV/AIDS is having significant demographic consequences in Zambia: the annual crude death rate increased from 1.47% (average 1975-1980) to 2.28% (average 2000-2005)³; the difference (+ 0.8%) is just the crude death rate attributed to HIV/AIDS in 2003.⁴ HIV/AIDS received significant targeted financial support from the Global Fund, World Bank/ZANARA Project, USA President's Emergency Plan for AIDS Relief (PEPFAR), and other partners. Provision of ART was scaled up from 16,000 in 2004 to 44,000 by the end of 2005. VCT and PMTCT services have also been expanded considerably.

32. Overall, 50 per cent of children aged 3–59 months are stunted in Zambia. Urban children have better nutritional status than children in rural areas. Only 42% of children in urban areas are stunted, compared to 53% of children in rural areas. Although some progress is being made, a high proportion of the Zambian population has no access to safe drinking water, especially in the rural and peri-urban areas. The majority of the rural population access their water from lakes/rivers and unprotected wells, which are not safe.

Human Development Index

33. The UNDP-Human Development Report 2007/2008⁵ places Zambia in position 165 out of 177 countries according to their Human Development Index (HDI) in 2005. Zambia's index stood at 0.434 and represented a lower level than the average index of the Sub-Saharan African zone (0.493). The positive development recorded for some social indicators was not sufficient for Zambia to improve significantly its HDI rank. In fact Zambia's HDI has only slightly increased since 2000 (0.389). The GDP per capita(PPP),

3 "World Population Prospects : the 2004 revision"; Population Division of the Department of Economic and Social Affairs of the UN Secretariat

4 "HIV/AIDS : The impact on Poverty and Inequality", G.Salinas and M.Haacker, IMF Working Paper 06/126

5 Source: "Human Development Report 2007/2008", United Nations Development Programme

as a very broad measure of poverty, was USD1,023 in Zambia in 2005, which is almost half of the GDP per capita average in the Sub-Saharan African zone (PPP USD1,998) for the same year.

Labour conditions

34. Zambia has ratified forty-one ILO Conventions, including the seven core ILO Conventions (see Annex 7). The “Industrial and Labour Relations Act” provides for the right to join a trade union and perform union-related activities, and protection from dismissal due to participation in trade union activities, and the “Minimum Wages and Conditions of Employment Act” lays down minimum wages for different categories of workers, establishes that the normal weekly hours of work for any employee shall not exceed forty-eight hours and provides for overtime, annual leave, paid sick leave, maternity leave, retirement benefits, early retirement, medical discharge, redundancy benefits, repatriation benefits, funeral assistance, and lunch allowance. This Act applies to all employees except those of the Government, those engaged in domestic service, those of district councils, and those in occupations where wages and conditions of employment are regulated through the process of collective bargaining.

35. As per the terms of Convention 182, the Government has identified a list of occupations considered as the worst forms of child labour. The laws against child labour in Zambia are spread across various parts of the Constitution. The Constitution also prohibits trafficking of children under 15 years old and the Penal Code prohibits the trafficking of girls and women for sexual purposes.

The Employment of Women, Young Persons and Children Act (Chapter 505 of the Laws of Zambia) is the most explicit legal act about working children. This Act makes it an offence for any person under the age of 14 to be employed in any industrial concern except where all employees in the enterprise are members of the same family. The Act also seeks to prevent the exposure of children to harsh working conditions. Under the Act, violators of the law can be fined and/or imprisoned for up to three months. The Ministry of Labour and Social Security, which is responsible for enforcing labour laws, established a Child Labour Unit to specifically address issues relating to child labour. Nevertheless, according to the Government of Zambia, there are some 595,000 child workers in Zambia. Of these, 58% are 14 or younger and, thus, ineligible for any form of employment under the Employment of Young Persons Act. The vast majority (about 90%) of working children are employed in agricultural occupations, most of them in rural areas. Occupations relating to trading account for most of the employment in urban areas. Street vending or hawking is predominantly an urban phenomenon.

Migration. Brain drain. Refugees

36. Although Zambia has never counted among the major countries of emigration in the region, the country has experienced a very critical brain drain, especially during the last decade. Zambia used to be an important destination for labour migrants from the region who sought employment in the mines. But immigration has declined in the wake of the mining sector crisis. Migration in Zambia mostly takes place within its national borders, as shown by census data. Internal migration grew rapidly in the period from 1969 to 1980 due to the lifting of restrictions on free movement. Natural disasters, such as droughts and floods, reinforced this trend. In the 1980s rural to urban migration streams were primarily directed to small developing towns. Then, during the 1990s, Zambia started to experience net emigration from urban areas as a result of increasing unemployment levels. In spite of this tendency, Zambia remains one of the most urbanised countries in the region. In 2003 the urban population represented 36 per cent of the total population.

37. The problem of the brain drain is particularly acute in Zambia. The retention of qualified and skilled nationals is a very serious problem, in particular in the health sector. The country’s shortage of doctors is the most severe: between 1999 and 2002, the number of doctors in the public health system in the country actually *decreased* from 1,283 to 559. The physician-to-population ratio has declined dramatically over the

past few decades, from 1:10,000 in 1975 to 1:19,000 today, far below the WHO recommended minimum standard of 1:10,000. With an annual attrition rate of 9.8 per cent for doctors, this trend seems likely to worsen over the next few years. The shortage of qualified health workers is particularly serious in the most remote regions of the country, registering annual attrition rates of more than 20 per cent for doctors. The Ministry of Health formulated and presented in October 2005 a Human Resources for Health Strategic Plan, which is currently being endorsed by the Cabinet.

38. Zambia has continued to host refugees from the Great Lakes Region (GLR) and beyond. About 80,000 refugees (the total number of refugees in Zambia being approximately 155 000-160 000) still remain in the designated camps/settlements, and of these more than 70,000 are currently receiving food assistance from WFP. A tripartite exercise by Zambia (Ministry of Home Affairs), the United Nations High Commissioner for Refugees (UNHCR) and Angola has been in progress since 2005, seeking to repatriate Angolan refugees. A first phase of repatriation of Congolese refugees is planned to start in 2007. In collaboration with UNHCR, the Zambian Government has implemented since 2004 a programme called Zambia Initiative promoting, among other things, local integration and self-reliance of refugees.

II.1.5 Environmental situation (see Annex 3)

39. Zambia is a large country (752,612 km²) with a highly urbanised population concentrated in two principal conurbations: Lusaka/Kafue and the Copperbelt, which hold 69% of the urban population.⁶ Outside these cores, the population is mostly distributed in clusters around other urban centres and in linear settlements along major roads. The average rural population density is low (approximately 9/km²). Human impact on the environment largely matches the population footprint, with major negative influences resulting from localised but intensive mining, industrial, agricultural and urban activities. The deforestation rate is high by world standards and its effects are widespread. The UN Intergovernmental Panel on Climate Change has warned that climate change will likely lead to an increase in poverty and pandemics in Africa, such as malaria and cholera as well as the spread of arid and semi-arid lands, which affects food production. Zambia is one of many countries threatened by this impact. Unsustainable wildlife and fisheries practices also contribute to the loss of biodiversity. Policies, legislative structures and development strategies are available to facilitate the mitigation of existing negative environmental effects and constrain new ones. But institutional capacities at all levels (government, private sector, civil society and the community) are weak. And although the economy is growing, financial resources for environmental management and controls are limited. Recommended priority action areas to reverse accumulating impacts include: the expanded dissemination of environmental information; increased contributions to natural resources and protected area management; capacity-building in the civil service to improve the consistent and effective delivery of environmental policies and regulations; and increased support for environmental research and monitoring contributions from non-state actors.

II.1.6 The country in the international context

40. Zambia has never been involved in an external conflict or war and there is a sense of national pride about this. Zambia has eight neighbours and enjoys good relations with all of them. Zambia is frequently engaged in border demarcation. Currently, it is working on clearly demarcating the Zambia/Malawi border. Zambia has continued to host large numbers of refugees from the Great Lakes Region and Angola.

The Government supports the peace and security agenda. In recent years, Zambia played a significant role in facilitating the signing of a ceasefire agreement between the Angolan Government and UNITA in April 2002. Zambia has also contributed to the process of finding a peaceful settlement in the Democratic Republic of Congo (DRC). In the Great Lakes Region, Zambia was an active participant in efforts to broker peace in Burundi by, inter alia, providing office facilities for coordination of the peace efforts.

⁶ The 2000 Migration and Urbanisation Report recorded 34.7% urbanisation in Zambia, down from 39.9% in 1980.

Zambia has also played an important role in many other peace efforts by sending peace-keeping troops, under the auspices of the UN, to countries such as Sierra Leone, DRC and Sudan.

41. Zambia is a member of both SADC and COMESA. As a member of the regional COMESA, Zambia participates in the discussions on the establishment of the Customs Union. Zambia is also participating in the SADC Preferential Trade Agreement. Zambia is increasingly considering the opportunities being offered by SADC and COMESA as important determinants of her emerging external relations as the Government reorients its foreign policy imperatives more towards economic growth and developmental issues. At the multilateral level (WTO) Zambia has been coordinating the LDC Group in Geneva since January 2005, until July 2006 when Bangladesh took over.

Zambia is a member of the SADC Defence Joint Cooperation and has signed the following SADC protocols:

- (1) Protocol on Politics, Defence and Security Cooperation.
- (2) Protocol on the Control of Firearms, Ammunition and other related materials.
- (3) SADC Defence Pact.

Zambia only acceded officially to the NEPAD/APRM in 2006, but it has not been reviewed for the moment. The country is actively participating in regional initiatives on governance, in particular under the SADC institutional framework: Parliamentary Forum, Media Institute of Southern Africa, Protocol on Gender...

42. Zambia's commitment in the fight against terrorism has been made clear on a number of occasions but its capacity remains limited. The EU troika conducted a demarche on the BTWC in March 2006. The troika was received by the Minister of Foreign Affairs, who stated that Zambia has no difficulties in adopting the Convention and will do everything possible in order to speed up the process which would lead to its signing. Zambia complies with international and regional agreements related to small arms and landmines.

II.2. Poverty reduction analysis. MDGs

43. Despite the overall good performance of the economy in recent years, the aforementioned structure of GDP growth (concentrated in capital-intensive sectors) has not translated into any significant drop in poverty. The number of people living in absolute poverty remains high in Zambia. According to the Living Conditions Monitoring Survey (LCMS) IV of 2004, 68 per cent of the population fell below the national poverty line. This is a slight decline from 73 per cent in 1998. The level of poverty also remains high, although it has slightly declined since 1998. At the national level, the poverty gap dropped to 36 per cent from 40 per cent in 1998⁷. Extreme poverty also fell from 58 per cent in 1998 to 53 per cent in 2004.⁸ The fall in poverty was driven primarily by rising per capita consumption amongst the poorest non-farm households. This represents a departure from the experiences of 1991-1998, during which time non-farm poverty rose rapidly.

Changes in poverty during 1998-2004 were evenly distributed across rural and urban areas. The incidence of poverty in rural areas fell from 83 per cent in 1998 to 78 per cent in 2004, while poverty in urban areas declined to 53 per cent from 56 per cent in 1998. Rural incidence of extreme poverty fell from 71 per cent in 1998 to 65 per cent in 2004. In urban areas, however, the incidence of extreme poverty declined by 5.6 per cent, from 36 per cent to 34 per cent of the total population

⁷ That implies that the incomes of the poor population are on average 64% of the poverty line

⁸ Extreme poverty is measured by taking a lower poverty line that reflects the minimum requirements of food spending and excludes some of the items included in the national 'basic' poverty line.

Income is very unevenly distributed in Zambia. According to the LCMS IV, the Gini coefficient for Zambia was 0.55 in 2004, which is among the highest levels of income disparities in Sub-Saharan Africa. This level of inequality can easily distort the effects of economic growth, especially during the earlier stages of sustained economic growth.

44. According to the “Zambia Millennium Development Goals Status Report 2005”, five MDG targets can be met by 2015 (see Table 3 in [Annex 1](#)). These are: halving poverty and hunger, ensuring that boys and girls alike complete a full course of primary schooling, eliminating gender disparity in primary and secondary schools, and reversing and halting the spread of HIV/AIDS. In addition, three more targets – reducing child mortality by one-third, halting and reversing the spread of malaria and other major diseases, and halving the proportion of people living without access to safe drinking water and sanitation – may possibly be achieved by 2015. However, reducing maternal mortality, integrating principles of sustainable development into country policies and programmes, and the reversal of loss of environmental resources will not be met, if the current trend prevails. It is obvious that the formulation and implementation of the Fifth National Development Plan 2006-2010 (FNDP) should incorporate the achievement of MDG targets as an essential priority and the necessary funds should be allocated for that purpose.

II.3. Zambia development strategy

45. In October 2002, the Government adopted the Transitional National Development Plan (TNDP) for the period 2002-2005 incorporating and expanding the scope of its first Poverty Reduction Strategy Paper. The TNDP encompassed all the areas in the PRSP and includes other areas such as the Judiciary, Law and Order, and Defence and Security. The two companion documents PRSP/TNDP captured the core elements of the Government's poverty reduction strategy.

46. The Government prepared the Fifth National Development Plan (FNDP) in consultation with all the relevant stakeholders. The FNDP is a medium-term planning instrument intended to focus the Government's policy and programming for the period 2006-2010. The five-year planning period of the FNDP has been adopted to complement the three-year rolling budgeting cycle of the Medium-Term Expenditure Framework (MTEF). Therefore, the instrument is designed to ensure that it is result-based, formulating national development strategies within a realistic annual and medium-term budget process. The planning and the subsequent budgeting process will be extended to the provincial and district level.

The theme of the FNDP is “Broad Based Wealth and Job Creation through Citizenry Participation and Technological Advancement”. Its focus will be on 1) pro-poor growth-oriented sectors that create employment and income opportunities for the poor, including in particular rural development, agriculture and manufacturing, and 2) provision of accessible quality social services (education, health, social protection) and well-maintained economic and social infrastructure.

47. The FNDP 2006-2010 structural reform agenda will focus on (i) improving the business and investment climate (***Private Sector Development Programme***); (ii) providing for the delivery of basic services (***Public Service Reform Programme***); (iii) strengthening expenditure and financial accountability systems (***Public Expenditure Management and Financial Accountability Programme***); and (iv) developing the financial system (***Financial Sector Development Programme***). Reforms in most of these areas have already started and will be accelerated.

48. On the financing side, the FNDP total estimated cost stands at ZMK63.2 trillion, to be financed from domestic funding (ZMK48.3 trillion) and cooperating partners (ZMK12.1 trillion), with a residual gap of over ZMK2.7 trillion.

II.4. Analysis of the challenges and risks of current and medium-term policies (see Annex 11)

49. Growth under the FNDP accelerated scenario is expected to average 7 per cent per annum during the period 2006-2010, compared to 4.6 per cent for the previous period 2000-2005. In line with the strategic focus on strengthening rural development so as to achieve broad-based wealth and job creation, the higher economic growth is expected to be driven by stronger performance of agriculture and agro-related manufacturing. Tourism is also expected to register stronger growth, reflecting recent large private investments. Although the FNDP does not focus on achieving pro-poor growth through mining and construction, these two sectors will continue to be important for maintaining high overall growth in the country and in terms of foreign exchange earnings. In addition, more investments in the energy sector are required to add capacity to the existing energy sources, especially in the light of a looming power shortfall in the region by 2008.

50. Nevertheless, Zambia remains vulnerable to external shocks: droughts, increase in international oil prices, reduction in international copper prices...that could perturb the expected growth. More attention should be devoted to improving the competitiveness of the economy, strengthening the investment climate and promoting diversification. The investment and business climate should be enhanced through implementation of the Private Sector Development (PSD) Programme and the Financial Sector Development Plan (FSDP). Other priority policy measures will include supporting trade logistics and facilitation, strengthening transport infrastructure, and further reforming policies that create anti-export bias, including corruption. The Government recognises that accelerating growth and diversification in agriculture will also require adequate policy instruments and concerted resources to tackle the key impediments such as recurring droughts, low productivity and generally poor infrastructure.

The implementation of the FNDP could also be affected by generally weak public-service capacities, including in the area of budget planning and execution. Efficient implementation of reforms under the Public Expenditure Management and Financial Accountability programme and capacity-building efforts, linked in particular to the Public Service Reform programme, are imperative to address such constraints. Besides, the intended FNDP growth targets will also require continued implementation of prudent fiscal and monetary policies so as to further enhance macro-economic stability. The reduction of inflation to single-digit levels (achieved in December 2006) will be a key target of the Plan. The necessary additional domestic revenue presupposes the adoption of tax reforms (tax policy, tax administration and mining fiscal regime). Another FNDP target is the reduction of domestic debt to sustainable levels (below 10 per cent of GDP).

CHAPTER III: OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

III. 1.1 Focal sectors (and macro-economic support)

Macro-economic support

51. The EC provided substantial adjustment financing to Zambia between 1992 and 2003 through the Structural Adjustment Facility and SYSMIN funds. Evaluations during the 1990s confirmed the relevance of this support, and pointed to the need for close monitoring of, and continued support for, improvements in public finances.

The previous 9th EDF Poverty Reduction Budget Support operation (PRBS 1 2004-2006, USD117 million) took these lessons into account and was designed accordingly. It aimed to support the implementation of the PRSP, whilst contributing to improved macro-economic stability and focusing on Public Finance Management (PFM) reform. To mitigate the perceived (fiduciary) risk associated with a low starting point

on PFM, the programme was based on a very large variable component (over 90% of total), with 60% linked to PFM indicators. Performance under the PRBS 1 shows that this approach was effective in providing an appropriate incentive mechanism, with the amounts disbursed generally increasing for successive tranches. This reflected continued respect of eligibility conditions and progress on PFM.

The PRBS 1 also fostered dialogue between line ministries (especially Health and Education) and the Ministry of Finance and National Planning (MFNP) on inter-sectoral allocations. In addition, the EC operation has been instrumental in providing sufficient confidence to other donors for their own budget support operations, which started in 2005. As a result of this greater donor involvement, a Memorandum of Understanding (MoU) on PRBS was signed in April 2005, including by the EC. The MoU explicitly provides that the EC will gradually adjust its budget support operations in order to be consistent with the spirit and provisions of the MoU (including a common Performance Assessment Framework, PAF). This has already started under the 9th EDF PRBS 2 (EUR 62 million, 2007-2008), and will continue under the 10th EDF budget support.

52. Lessons learnt from the PRBS 1 and recommendations from the 9th EDF country-strategy evaluation point to the following issues: (i) the need to ensure that regular monitoring and updated targeting of outcome indicators is in place under the national annual reporting system (initially not the case under the PRSP); (ii) the need to ensure appropriate selection of indicators, especially on social sectors (under PRBS 1, a rider to the Financing Agreement was necessary in 2005 in order to remove non-available indicators on HIV/AIDS); (iii) the need to support the Government in managing the macro-economic impact of large donor inflows, e.g. by ensuring enhanced predictability (PRBS 1 disbursements mostly took place *in-year*). The recent FNDP recognises that under the previous PRSP, aid management was weak despite better than expected aid inflows. This reflects problems of planning, coordination and monitoring systems within government. These are being addressed through a new Aid Policy and Strategy that has been submitted to Cabinet.

Focal sector 1: Transport infrastructure

53. EDF support for Zambia's infrastructure development has been considerable (approximately €170 million in EDF 8 and 9) and applied in most sub-sectors (roads, aviation, port development). Until EDF 9 this was always in the form of project aid, but in the process of implementing EDF 9 and taking into account the conclusions of the general evaluation of EC interventions in the transport sector (May 2004), it became apparent that the new transport sector policy, new institutional structures and improved functional arrangements suggested that a sector approach was warranted. A Sector Policy Support Programme (SPSP) has been piloted since 2005 in support of ROADSIP II with the specific intention of supporting public expenditure in road rehabilitation and maintenance. The programme contains three budget support annual variable tranches and a capacity-building component through technical assistance to the three new public agencies in the road sector (NRFA, RDA and RTSA, see Annex 12). Axle Load Control is another component supported by the programme. The performance indicators taken are those from ROADSIP II and include (i) network performance (rehabilitation and maintenance of both paved and unpaved roads), (ii) implementation of institutional reforms and (iii) sector financing and audits. A new specific component for rural roads will be incorporated from 2007 (until 2009). The particular focus on the rehabilitation of unpaved rural roads derives from the need to meet basic access criteria for the rural poor concerning unpaved rural roads with agricultural potential.

Moreover, the 9th EDF infrastructure programme was increased by including the funding of the Zimba – Livingstone road project. This road remains the only section of the entire corridor connecting Zambia with Tanzania at Nakonde and with Zimbabwe at Victoria Falls which is still in poor condition.

54. Although the Government's commitment to its statutory road sector fee contributions to the NRFA in 2006 has declined from 2005, this has been explained by the overrun on costs on the tripartite elections. A return to commitment is expected in 2007. Performance of the ROADSIP II programme has also fallen behind schedule (see Annex 12), but the establishment of the NRFA, RDA and RTSA was only achieved in 2006. With this condition achieved, overall management capacity in the sector will be significantly improved. The creation of a National Corridors Committee at Permanent Secretary level is a recent development reflecting the increasing importance of developing alternative import/export routes for Zambia. Initiatives are also under way to strengthen the private sector's contractual capacity (through the National Council for Construction). Certain ongoing legislative actions seek to domesticate regional policies and the momentum achieved in the planning, budgeting and management of funds supplied under the 9th EDF warrants continued support to achieve the overall sector goals of: an affordable, maintainable and safe core road network; a fully operational suite of road management agencies; and consistent and predictable contributions to both sector capital investments and recurrent management costs.

Focal sector 2: Capacity-building

Public finance management

55. Overall, public financial management in Zambia has been weak in the past, due to a lack of both fiscal discipline and efficient systems, as well as limited capacities. The main positive turnaround has been the commitment by the Government to embark on a comprehensive and ambitious PFM reform programme, the Public Expenditure Management and Financial Accountability (PEMFA) programme.

The Government officially launched the PEMFA in June 2005. PEMFA comprises reforms in all the main areas of public finance management from budget and planning to execution, procurement, reporting, audit and oversight. The benefits of each programme's component are expected to be obtained with a moderated budget (USD74million for 5 years) completely financed by cooperating partners. PEMFA funding is essentially composed of bilateral or multilateral grants and only the contribution of the World Bank has been achieved through a non-rigid loan. The main contributors to the PEMFA budget are the UK (with USD21million) and the 9th EDF (with USD20million).

PEMFA is still a relatively young programme, and substantial progress still has to materialise (as experience in other developing countries shows, PFM reforms take time to take off). Since the official launch in June 2005, most progress has been made on the initial more administrative phases. Ironically, looking back it appears that most reforms have taken place in the run-up to the creation and negotiation of the programme itself (2004 and early 2005). The main achievements include: introduction of an Activity-Based Budget (ABB) in 2004, which led to a more effective framework for the translation of policy priorities into the budget; preparation of a rolling MTEF, with a macro-economic and fiscal framework in line with PRGF-projections; introduction of quarterly cash allocation plans and cash-flow frameworks; adoption of a new Finance Act, and drafting of new Financial Regulations and Procurement Act; computerisation of the Financial Management System; more frequent and publicly available reporting on expenditure, and timely delivery of audit reports to Parliament.

56. The PEMFA evaluation report of December 2005 (based on PEFA methodology) established a baseline against which performance under the PEMFA programme will be assessed. In the light of existing capacity constraints, the Report provided recommendations for the sequencing of the reform process, and identified a number of priorities, notably on strengthening expenditure controls (including on public procurement) and ensuring better information flows throughout the system. Other strategic issues must be highlighted: the need for PEMFA to be more forcefully managed and overseen by the Government, rather than micro-managed by cooperating partners. PEMFA should gradually be fully internalised and integrated into the regular plans, strategies, and budgets of the Ministry of Finance.

Private sector

57. In 2004, the Government embarked on a Private Sector Development (PSD) Reform Programme with the aim of accelerating private-sector-led economic growth. A PSD Action Plan was developed, grouping actions under six main reform areas: Policy Environment and Institutions; Trade Expansion; Infrastructure; Citizens' Empowerment; Business Facilitation and Economic Diversification; and Laws and Regulation. The Plan sets out no fewer than 85 reform actions. In December 2005, a MoU was signed between the Government and donors supporting this programme. The cost of implementing the reforms amounts to USD 20million for the period 2006-2011. Some donors (Sweden, Finland, DFID and the Netherlands) will pool their funds using a joint financing mechanism, while others will channel their support for capacity-building and technical assistance to Ministries, private sector organisations and public-private partnerships through the traditional project approach. The latter includes the EC through its 9th EDF Capacity Building for Private Sector Development project under the Ministry of Commerce, Trade, and Industry (MCTI).

58. The 9th EDF project implementation started in 2006 (to 2009) and is focused on the meso level i.e. on the policies and regulatory framework in which the private sector operates, after considering recommendations from the evaluations of the previous 8th EDF project in this sector (including the multi-country evaluation, December 2005). The project is based in the Department of Domestic Trade within the MCTI and will provide support to the Department of Trade and Department of Industry in charge of Small and Medium-sized Enterprises. Support will also be provided to statutory bodies such as the Export Board of Zambia, Zambia Investment Centre, Zambia Bureau of Standards, and Zambia Competition Commission. Civil Society and Private Sector intermediary organisations will benefit through two specific grant facilities. There is some disappointment that the new project does not provide any credit facilities under the new guidelines in this regard as laid down in COM(2003) 267. Opportunities to obtain finance through other means, such as the Investment Facility and the various credit lines of the EIB, must be actively explored.

Agriculture

59. At the mid-term review of the CSP/NIP it was decided to transfer EUR15 million from the B-envelope to the A-envelope in favour of a new 9th EDF food security/agriculture project. It was agreed to integrate this new support under the existing focal sectors of capacity-building and support to non-state actors. This project, to be implemented during the period 2006-2010, contains two main components: 1) technical support to devise a coordinated national food security strategy; and 2) pilot integrated plans to implement that strategy, promoting *smallholder* agricultural production, diversification, marketing and local-value addition in two provinces of the country (Western and North-Western), with involvement of public extension services, NSAs and the private sector. After an evaluation of the current short 9th EDF "conservation farming" project (EUR 1.97 million, 2005-2007), the extension of this line of activities could also be considered.

60. The agriculture sector is now incorporated into the new performance assessment framework (PAF, see para 56) for budget support agreed with the Government, with indicators related to both budget execution and outputs/outcomes in the sector. So far, the main instruments of the sector agriculture policy, in particular in terms of public expenditure, have been input subsidies (mainly the FSP, Fertiliser Support Programme) and public intervention in the maize market through the Food Reserve Agency (FRA). There is a strong case for a policy change and the phasing out of these instruments, but the FNDP agriculture chapter fails to clarify these issues and does not specify alternative policy instruments to increase resource allocation for productive investments in agriculture. These fundamental problems must be addressed at the level of both sector policy dialogue and budget support dialogue. With respect to food security, on the basis of a proposal by FAO and taking into account the objectives of the 9th EDF agriculture project, the

Government has created an ad hoc Task Force with the purpose of developing a cross-sectoral strategic framework and monitoring matrix for food security within the context of the FNDP.

NAO support

61. The support to the NAO has been radically revised since February 2004: a smaller team of consultants started work within Ministry of Finance premises and within the Economic and Technical Cooperation (ETC) Department. Thus, the degree of Government ownership has been significantly increased. However, the Ministry of Finance failed to second counterparts for all members of the team, as initially agreed upon. Moreover, with new, important challenges for the ETC Department, the TA to the NAO have found themselves more and more involved in non-traditional NAO tasks, such as the development of joint Poverty Reduction Budget Support (PRBS) operations, as well as donor harmonisation processes. A new support project (2006-2009) takes into account the developments in the role and functions of the NAO support mentioned above.

III.1.2 Projects and programmes outside focal sectors

Health

62. The Ministry of Health (MoH) has completed the formulation of a new five-year National Health Strategic Plan (NHSP), for the period 2006-2011, alongside the health chapter of the National Development Plan. This builds on the successes of the health reform processes in Zambia since the early 1990s, mainly decentralisation to the district level and the creation of the Boards. Another recent policy change took place in 2005 with the announcement of free basic healthcare services in rural areas. This is expected to significantly improve access, but is also raising a number of challenges.

63. The implementation of the 9th EDF Poverty Reduction Budgetary Support (PRBS 1) continued in 2005 with the assessment of health indicators against set targets linked to variable disbursements to the budget. This approach, quite new to both the Government and other donors, has brought new meaning and importance to planning and the use of indicators and targets as tools to drive resources and agenda. Releases from Treasury to MoH and specifically to district level, as well as expenditure performance, have improved. Implementation capacity, however, has not matched budget execution performance. Drugs procurement has been insufficient and drugs shortages have loomed over Zambian health facilities.

64. In 2005 the development of the Health Human Resources Strategic Plan led to the identification of a 9th EDF sector budget support (EUR 10 million) operation specifically intended to finance the HR plan in support of human resources retention. It is expected that the first disbursement will take place by the end of 2006. The Commission also launched an assessment of the Health Management Information System (HMIS) in 2005 and an action plan has now been implemented, amounting to EUR 3.3 million. An additional contribution has been earmarked for the 2006 Demographic Health Survey (DHS), done every five years. This support (EUR 0.4 million), is channelled through a contribution agreement with UNFPA.

Education

65. In 2005, the Ministry of Education continued implementing the Education Strategic Plan 2003-2007. A MTR of the Plan in 2006 will lead to some re-adjustment, having regard also to the introduction of the Education chapter of the National Development Plan. The SP is funded by a number of donors mostly through a pool-funding mechanism. Several EU Member States (Denmark, Ireland, Netherlands, Finland and the UK) have signed the MoU, although Finland withdrew from the sector in 2006.

66. The EC signed the MoU on 17 June 2004, following the signature of the FA for 9th EDF support to education (EUR 10 million), and joined the pooled funding mechanism. In 2005 and 2006 funding continued quite regularly. Also, in 2005 the Commission led and supported the identification of new modalities of decentralised textbooks procurement, which have been adopted by MoE management and will be implemented from 2006 onwards.

Mirroring the support for the HMIS, and in the context of strengthening poverty reduction monitoring (now under the FNDP), the Commission identified in 2005 support to be given to the Education Management Information System (EMIS), in complementarity with USAID funding. The EC funding, implemented since 2006, is focused on upgrading IT facilities, training, data quality control, promoting data utilisation and inclusion of Community Schools in EMIS. This support amounts to EUR 1 million. The assessment of output/outcome indicators under the 9th EDF PRBS1 has had a significant impact on quality monitoring in education and has led to more meaningful discussions over definition of core indicators and strategic targets, in view of the definition of the joint Performance Assessment Framework for future general budget support operations.

67. **Non-state actors'** involvement in EC cooperation in Zambia is at an early stage of development. Nevertheless some initiatives have hitherto been taken at the level of dialogue/consultation. Also at the level of implementation, different approaches have been considered, with some sector projects (mainly in agricultural and private sector development) addressing the capacity-building needs of NSA. A mapping study of the NSAs in Zambia started at the end of 2005. On the basis of the mapping study, a 9th EDF project (EUR 5 million) to support NSA capacities has been formulated and proposed. In parallel, a specific small project was started in 2006 (funding under the PRBS 1, to be continued under the PRBS 2) to involve civil society organisations in the monitoring and assessment of the national budget process and the impact of budget support on poverty reduction from a grassroots perspective.

III.1.3 Utilisation of Envelope B

68. EUR 11.49 million were drawn under the FLEX window and used for additional budget support in 2004. The main focus of humanitarian assistance (with an allocation of 7% of the overall portfolio) in 2005 was the ECHO-funded repatriation of Angolan refugees (EUR 5.5 million). Disappointingly, a much lower number of Angolan refugees than planned for by IOM decided to return, in particular in 2005. After the partial 2005 harvest failure, ECHO carried out a mission early in 2006 to assess the situation in the most affected areas. The remaining ECHO budget of EUR 2.2 million under the B-envelope is already committed in different emergency projects with NGOs and other organisations.

III.1.4 Other instruments

Budget lines

69. After devolution, the current budget lines project portfolio managed by the Delegation comprises 14 NGO projects for a total amount of EUR 10 million in the following sectors: Food aid/Food Security, Water supply and Sanitation, Basic Health, Social Services and Rural Development. As much as possible, these projects are coordinated with 9th EDF activities in the respective areas. But it has to be emphasised that only the follow-up of the funded projects has been devolved. The selection is still centralised in EuropeAid Brussels, except for the NGO component of the Food Aid and Food Security budget lines.

Food Aid

70. At the end of 2004, EUR 1 million under the Food Security budget line was allocated to Zambia, with 60% of this amount earmarked for food aid. A Call for Proposals was launched by the Delegation in mid-2005, mainly targeting food-insecure HIV/AIDS-affected persons and their families. Contracts were eventually awarded to three NGOs. The 2005 allocation for Zambia was EUR 2 million. A Call for Proposals was launched at the end of 2005 (and partially relaunched in August 2006) with the aim of providing continued support to food-insecure HIV/AIDS-affected persons, but enlarged to include other food-insecure households. The new allocation of EUR 2 million for Zambia (2006 budget) will be linked to the 9th EDF food security project.

Water and Energy Facilities

71. Under the first and second Call for Proposals for the ACP-EU **Water Facility**, 6 projects of a total amount of EUR 14 million were selected. So far, three grant contracts with NGOs and one contribution agreement (Red Cross) have been signed. As regards the two Financing Agreements with public entities (Ministry of Energy and Water Development, National Water Supply and Sanitation Council), one has already been signed and the other is due for signature before end 2007.

Under the **Energy Facility** two proposals were selected in the 1st semester of 2007 for a total EC contribution of EUR 20 million comprising. One of them (€ 10 M with the World Bank) will not materialise because the parallel co-funding by a WB loan has not been confirmed. The other project (to be implemented by the Rural Electrification Authority) aims at increasing access to electricity for rural population, through promotion and financing of grid extension in a number of priority areas.

EU Sugar reform accompanying actions for ACP countries

72. A study was commissioned in October 2005 to assess the impact of the EU sugar reforms on the Zambian sugar sector and to propose strategies to adapt the sector to this new environment. On the basis of this study, an EC multi-annual support strategy was adopted in 2006. The resultant strategic plan is compatible with the Government of Zambia's National Development Plan (FNDP 2006-2010) and will be the framework for EU assistance. The Financing Agreement for the intervention under the 2006 budget and the Multi-annual Indicative Plan for the period 2008-2010 have also already been adopted. This assistance strategy indicates the priorities of expanding sugar production by means of out-grower schemes, the improvement of the transport network and services, the diversification of production by supporting government initiatives on biofuel and cogeneration of electricity and the development of a national sugar trade policy. Linkages are possible with planned projects or sector support under the 10th EDF Zambia CSP-NIP (transport sector and agriculture sector); commercial or concessionary loan financing from different sources, including the European Investment Bank, is being explored; the EDF-funded Energy Facility could also be approached.

Centre for the Development of Enterprise

73. Support to the private sector will be complemented through the activities of **CDE** (Centre for the Development of Enterprise). Currently CDE is supporting five individual enterprises in Zambia, mainly in the sectors of agriculture and gemstones, with a total contribution of about EUR 60,000 to finance start-up assistance and technical studies. This amount represents only 7% of the support provided by CDE to the Southern Africa countries. Therefore emphasis will be placed on increasing awareness among private sector actors regarding the possibilities offered by CDE, including the ProInvest facility also managed by CDE.

The European Investment Bank

74. As of May 2006, the EIB's active portfolio (not reimbursed) in Zambia included 34 loan and three equity operations for a total amount of €428m including the Commission's special loans of EUR 143m and EUR 16.5m under the Small Scale Mining facility stemming from the SYSMIN programme with the Commission. From this a total of EUR 90m was signed under the Investment Facility, composed of two major loans (EUR 34m for Kansanshi and EUR 48m for Mopani) in the copper sector and one loan (EUR 7.6m) in the power sector (ZESCO). The remaining active portfolio (see Annex 13) was signed under the various Lomé conventions and was financed from risk capital.

III.2 Coordination/harmonisation government-cooperating partners. The JASZ

75. The Government and most of its cooperating partners signed in 2004 or 2005 the Harmonisation in Practice (HIP) Memorandum of Understanding. This agreement provided the basis for greater coordination and harmonisation (programming, aid modalities, capacity development...), with technical leadership to be assumed by the Government. A plan for the Division of Labour (sectors) between cooperating partners was

agreed in 2006, based on the FNDP 2006-2010 framework and priorities. At the same time, the terms of reference for lead and active cooperating partners in each sector have been developed.

The Joint Assistance Strategy for Zambia (JASZ) was prepared from mid-2006 and signed in May 2007 by most of the bilateral and multilateral cooperating partners active in Zambia (see annex 6). The purpose of the JASZ is to focus and organise development assistance provided by cooperating partners to support the implementation of Zambia's national development goals as defined in the FNDP 2006-2010. This is in line with the Paris Declaration 2005, to which Zambia and its cooperating partners are signatory. The JASZ is intended to harmonise and align the many individual country strategies that cooperating partners in Zambia are currently using. The JASZ must also ensure result-based approaches, enhance overview and predictability of the aid flows, as well as mutual accountability by the Government and cooperating partners.

The JASZ should be the appropriate instrument through which progress can be made towards further coordination and harmonisation in accordance with the requirements of the Cotonou Agreement and the EU development strategy. The EU joint programming can be fully compatible with this wider JASZ agreement. Coordination between EU partners must be consistent with this wider agreement⁹.

76. More operational coordination between the Government and development partners should also be stepped up in specific areas like public finance management and reform (PEMFA), budget support and macro-economic issues (PRBS group), social sectors, roads, private sector, water and sanitation, energy, agriculture/food security...in order to extend/develop programme-based approaches. The role of the SAGs (Sector Advisory Groups, involving the public administration, cooperating partners, civil society and other national partners) in planning/reviewing the implementation of the national strategies/programmes, should be crucial.

III.3 Other EC policies

77. Zambia is currently negotiating for an EPA as part of the Eastern and Southern Africa (ESA) group of 15 COMESA member countries. This could have a profound positive impact on trade and growth in Zambia. In particular, a development-friendly EPA could be a catalyst for Zambia to accelerate implementation of the border and behind-the-border policies and remove the barriers to trade expansion and diversification, thereby strengthening its regional and global integration. The improvement of functional transport links at the regional level to support the movement of goods, services and people is an issue under serious consideration by COMESA and EAC. Lack of compliance with sanitary and phytosanitary (SPS) barriers is another important issue to address, because it still represents a major obstacle to expanding agricultural exports to the EU markets.

78. The combined effects of EBA and the CAP sugar regime reform are likely to have a significant impact on the agricultural sector. On the one hand, producers will face an important, although gradual, reduction in the EU raw sugar reference price. On the other hand, the EBA process, culminating in duty-free and quota-free access from October 2009, will open up opportunities to expand export volumes and broaden the range of products supplied.

79. In the context of the European Commission's commitment to the Millennium Development Goals, the European consensus on development seeks specifically *"to address the exceptional human resource crisis of health providers"*. Indeed, the EU Strategy for Action on the Crisis in Human Resources for Health in

⁹ The cooperation scene in Zambia coincides with the situation outlined in Point 48 of the Conclusions of the GAERC of 11 April 2006 on Financing for Development and Aid Effectiveness, which states that the Joint EU Programming process should be *"flexible, gradual and open, building upon existing analyses, processes and arrangements and, to the maximum extent possible include donor-wide participation. Whenever the development of common strategies is already under way, such as Joint Assistance Strategies or similar processes, joint programming should complement, strengthen, and whenever possible be part of these existing processes, in order to avoid unnecessary parallel processes"*.

Developing Countries was approved in December 2005, as a Commission-specific response to the planned decade of action on human resources proposed by the 57th World Health Assembly. In April 2006, the EU Consensus Statement on the Crisis in Human Resources for Health re-affirmed that Europe is committed to supporting international action to address the global shortage of health workers and the crisis in human resources for health in developing countries. The problem of the brain drain is particularly acute in Zambia. The retention of qualified and skilled nationals is a very serious problem, in particular in the health sector. The Ministry of Health formulated and presented in October 2005 a Human Resources for Health Strategic Plan that will be supported from 2007 by a 9th EDF programme.

III.4 Description of the political dialogue with the partner country

80. A certain lack of continuity has been noted in the progress of Zambia-EU political dialogue since 2003. But this dialogue has gained some momentum since 2006, with more frequent meetings between the EU HoMs and Zambian Ministers, to discuss national and regional key issues. The EU HOMs have proposed extending the dialogue to wider circles both inside and outside the Administration, including the National Assembly. The Cotonou Article 8 political dialogue was regrettably not fully understood in Zambia in the past, and it was most probably associated with opening doors to Art. 96 and 97 consultations.

CHAPTER IV: RESPONSE STRATEGY

81. The basic criteria considered for the selection of the sectors/areas and support modalities to be proposed under the 10th EDF CSP-NIP are as follows:

- 1 The main objectives and priorities assumed by the FNDP 2006-2010: broader growth through agricultural production, marketing and processing, human development in relation to the MDG targets, provision of adequate infrastructures for economic activities and social needs;
- 2 The FNDP 2006-2010 available estimates of needs/expenditure, projected internal/external resources and derived financial gaps, for the different sectors included in that national development strategy and plan;
- 3 The comparative advantage of the EC, as defined in the new EU development policy (European Consensus) and previous experiences in EC-Zambia cooperation;
- 4 The division of labour between cooperating partners in supporting the FNDP 2006-2010, according to the agreements under the JASZ process;
- 5 The aid implementing methods recommended by both the EU development policy and the FNDP.

The 10th EDF can globally support the FNDP strategy and priorities through general budget support, as preferred instrument, but also through specific sector programmes (if possible through sector budget support). The main support interventions at this sector level will be in the areas of transport infrastructure/roads, health and agriculture, which are, with education, the FNDP priority sectors (core FNDP) requiring greater financial resources (almost half of the total core FNDP).

These sector interventions will be founded on FNDP policies and purposes. Improving internal-external transport conditions is key for promoting the expansion and competitiveness of private activities. Upgrading rural transport is indispensable not only for increased agriculture production and marketing, but also for accessible social services. Specific actions to promote agriculture diversification (food security and cash crops) and value added chains are essential to contribute to the intended rural growth. Increased support for these actions could be contemplated during the 10th EDF, according to progress in agriculture policy instruments, sector programming and budgeting. Other more horizontal actions to improve the environment for private initiatives, under the Private Sector Development (PSD) programme and in coordination with other cooperating partners (Netherlands, World Bank and USAID), will be supported

under the 8-9th EDF existing funding and complemented, if necessary, with 10th EDF resources linked to EPA implementation.

Support for human and social development will be focused on the health sector, taking into account the persisting difficulties in progressing towards some of the health MDGs, the critical situation of the health human resources (brain drain) and the synergies to be achieved between the anti-HIV/AIDS activities, crucial in Zambia, the nutrition programmes (Ministry of Health) and the aforementioned food security actions. Direct support to the education sector is not envisaged, taking into account the division of labour under the JASZ (with agreed decongestion in that sector and expected significant contributions from other cooperating partners). Support to public expenditure and improved service delivery in the education sector will be ensured through the general budget support programme and its performance assessment framework.

The response strategy is fully based on the FNDP assumptions in terms of macro-economic and sector policies, as well as of structural reforms. Challenges and risks related to these policies and reforms have been previously explained (paragraph 50). Therefore, the strategy or some of its components could be subject to reconsideration or review if certain of the assumptions in question are not confirmed. Of particular importance to sustain the budget support components will be the public finance management reforms ensuring more effective, efficient and transparent budget planning and execution, responding to the national development priorities.

In accordance with the said criteria, policies and assumptions, the focal areas/modalities of cooperation under the 10th EDF CSP-NIP will be approached in the following manner:

IV.1 Support for macro-economic and national development policy through general budget support

82. *Objectives:* support for the national strategy to promote broader/stable growth and reduce poverty through policies and programmes funded by the public budget; the EC macro-economic support aims at contributing to macro-economic stability by closing the potential fiscal financing gaps, supporting service delivery for poverty reduction, through the strengthening of domestic funding levels, and private agents (e.g. creation of a business-friendly environment), and continued strengthening of PFM systems.

Modalities: the two planned (2009-2011 and 2012-2014) PRBS programmes will be a natural continuation of PRBS 1 (2004-2006) and PRBS 2 (2007-2008) under the 9th EDF. They will make use of both fixed and variable tranches, the latter linked to results/outcome-based indicators¹⁰. In accordance with the existing Memorandum of Understanding on PRBS (also signed by the EC), indicators to be used to assess progress under the programmes will be a sub-set extracted from the Performance Assessment Framework (PAF), jointly agreed between the Government and cooperating partners. The new agreed PAF 2006-2008 reflects some of the main FNDP 2006-2010 objectives, targets and structural reforms in different sectors (PFM/macro, social sectors, agriculture, private sector, infrastructures...). The PAF should, on a rolling basis, be refined and adapted during the implementation of the FNDP 2006-2010, and could in the future include further areas of economic reform (trade policy related to regional integration).

As complementary actions, capacity-building interventions will accompany the PRBS operations, and will focus on strengthening data quality (results-based indicators), improving capacity of line ministries, as well as involving civil society in assessing the impact of PRBS operations.

¹⁰ This scheme could be adapted to the one envisaged under the 'MDG Contract', once formally finalised. Notably, instead of two successive programmes of 3 years each, a 6-year programme could be designed.

IV.2 First focal sector: Regional integration. Transport infrastructure

83. Objectives:

The interventions proposed in transport infrastructure under the 10th EDF will build on cumulative EC cooperation with Zambia in the sector over many years. They will focus more specifically on support in the road sector, where an innovative new sector budget support approach was piloted under the 9th EDF placing greater emphasis on an emphatically domestically-driven process towards the objective of a viable and sustainable national and regional road network. To continue the support to the aviation sector (rehabilitation of the two international airports Lusaka and Livingstone and a comprehensive Master Plan Study, under the 8th and 9th EDF), the 10th EDF will focus on regulatory and operational know-how, technology transfer in the domain of air safety, security and traffic management.

In the context of national road transport helping to boost economic development and poverty reduction, EDF contributions will be made towards the financial, institutional and technical inputs contributing to an affordable, improved, maintainable and safe national and regional road network. Specific anticipated results include:

- i) measurable progress towards an affordable, improved, maintainable and safe national and regional road network through support to the road sector programme (ROADSIP II);
- ii) measurable progress towards a goal of predictable, regular and economically viable government contributions to road sector financing;
- iii) integration with sub-regional transport infrastructure objectives, by supporting transport corridor development and reducing transport costs for exported/imported goods;
- iv) integration with the other components of the 10th EDF CSP-NIP, in particular with the food security-agriculture sector, improving access to local and regional markets and to social services (rural roads), as a condition for poverty reduction in rural areas.

Modalities: the largest support element will be in the form of sector budget support, with the programme maintaining a performance-based approach, using current sector targets established by ROADSIP II (now incorporated into the FNDP 2006-2010 and the PAF 2006-2008). A review of the performance criteria is planned with a view to capturing the impact of public road works on poverty, regional integration and other cross-sector issues (environment, gender, HIV/AIDS) – leading to a possible re-definition and/or extension of targets.

Support for rehabilitation of the national road network will also continue under project-aid modalities; specifically for the rehabilitation of critical parts of the regionally important Great East Road (Lusaka to Chipata), that forms a key element of the Nacala Corridor through Zambia, Malawi and Mozambique, which is now considered as a priority by the Government.

Concerning the aviation sector, project support could be possible in form of TA services shall be given in response to aviation safety and regulatory issues.

In the framework of the EU-Africa Infrastructure Partnership, the European Investment Bank will consider trans-border infrastructure projects in the energy, water, transport and communication sectors that could be eligible for Trust Fund support.

IV.3 Second focal sector: Health

84. Objectives: support the significant expansion of health expenditure and the drive to attain the MDGs as planned in the FNDP 2006-2010, and detailed in the health sector strategic plans. To be effective, current policies aimed at improving access (free basic services) and quality of service delivery will need to be significantly scaled up in terms of financial resources and human capacities in the coming years.

Modalities: in supporting the health sector, the 10th EDF programme will respect the broad preference for

alignment and budget support, specifically seeking complementarity and coherence with general budget support, and will strive to shift the focus of sector dialogue to the following essential issues: levels of resources allocation; effectiveness, efficiency and accountability in budget execution; performance monitoring and assessment.

Notwithstanding the above, different modalities of Sector-Wide Approach (SWAp) have developed and currently exist, determined by the context of the specific sectors and existing donor policies. Within a SWAp, the EC will support a single sector policy backed by a single financing framework, under firm government leadership, adopting common approaches across the sector, relying on government financial procedures for the funds provided and guided by MDGs and FNDP-related indicators and targets agreed.

Links with other international or regional initiatives funded or co-funded by EDF resources (Global Fund in particular), as well as with projects funded by the EC thematic instruments (Budget lines) in the area of health (in particular the Poverty Related Diseases budget line), will be strengthened. In this respect, an analysis of the current resource envelope available to the specific HIV-AIDS cross-cutting sector from external sources (largely exceeding the domestic budget for health), indicates that the effort to fund essential needs is currently focused on a comprehensive range of services for people with HIV/AIDS, creating an imbalance with insufficient support given to the essential needs of the basic health care package as a whole.

In order to address some of the root causes of the HIV/AIDS pandemic, support is also envisaged for nutrition programmes, which are under Ministry of Health responsibility, in connection with the cross-sectoral food security strategy to be developed under the FNDP 2006-2010 and with specific attention to the gender dimension and the need to focus on OVC.

IV.4 Main non-focal sector: food security and agriculture diversification

85. *Objective:* support for implementation of the cross-sectoral food security strategy and wider agriculture growth, as major vehicles for rural poverty reduction under the FNDP 2006-2010.

Modalities: continuation/geographical extension of the food security-agriculture diversification local plans (project-aid) supported under the 9th EDF, while also introducing in the areas concerned new public initiatives and investments to be defined under the FNDP 2006-2010 to promote agriculture production, diversification, marketing and local-value addition; support to social protection schemes for the more vulnerable groups could also be considered; planning and coordination at local level (in particular districts) will involve decentralised authorities; possible evolution towards a SWAp or sector budget support could be contemplated according to progress in sector policies and instruments, sector programming and budgeting at different levels (including provinces and districts).

Synergy and complementarity will be sought with the Feeder Roads component of the Regional Integration in infrastructure/transport programme (first focal sector), as well with projects funded by the current EC Food Security budget line or the future new framework (ECHO).

The EC accompanying measures for ACP Sugar Protocol countries will fund (2006-2013) different components of Zambia's strategy to enhance capacities, diversification and competitiveness of sugar production; one of the main strategic areas to be supported is the expansion of sugar production through outgrower schemes that will tie in with the criteria for the agriculture sector.

IV.5 Other non-focal sectors

86. Other non-focal sectors

Governance: with special attention to some of the weakest “Government Effectiveness” areas assessed in the Governance Profile: Institutional Capacity (in particular for capacity-building support to implement the National Decentralisation Policy contributing to more effective government especially in rural areas) and Public Finance Management (to maintain if necessary some external support after the implementation of the PEMFA programme); support for electoral processes and constitutional democracy (“Political/Democratic Governance” area) is also envisaged.

Non-State Actors: support in a holistic context i.e. including human development (transfer of knowledge, experience, skills, values, etc.), organisation strengthening (establishment of management systems, development of an organisational culture, improvement of work processes, etc.) and institutions and policies (improvement of the legal and administrative framework, promotion of cooperation between state, private sector and civil society).

EPA/Trade related support (capacity-building): EPA and the regional integration process could be a catalyst for Zambia to accelerate implementation of the border and behind-the-border policies and remove the barriers to trade expansion and diversification, thereby strengthening its regional and global integration. Apart from improving regional transport links (first focal sector), trade-related assistance to public services responsible for trade liberalisation and regional integration, private sector intermediary organisations and NSA will be maintained in close coordination with regional ESA-IO activities. Current projects under 8th and 9th EDF are already addressing the issues of institutional support for growth through regional integration and trade. These projects will bridge the gap to 10th EDF interventions:

- the ongoing 9th EDF capacity-building project will support the Department of Foreign Trade in developing a good base of analytical and negotiating skills to improve the formulation of national trade policy and negotiating positions. Particular needs have been identified for improving analytical capacity in the Department by: (i) developing an in-house training package (which would also provide non-salary incentives to staff and hence ensure sustainability); (ii) making use of specific technical expertise to assess the impact of EPAs on the Zambian economy/specific sectors and to assess and develop the legal aspects related to trade negotiations (legal obligations and domestication); (iii) carrying out further studies on value chains analysis and identifying operational follow-up; (iv) sensitisation and involvement of the private sector. This project also supports legal and regulatory trade reforms and the capacity-building of administrative services.
- the 8th EDF Export Development Programme II may facilitate the setting up of national offices of the African Trade Insurance Agency (ATI) to expand its operations in Zambia. The ATI is dedicated to providing insurance, co-insurance, reinsurance and other financial services to foster trade with and investments in its African Member States.

Additionally, specific policy, regulatory and marketing interventions are envisaged under this 10th EDF EPA/Trade related support component that will enhance sanitary and phyto-sanitary standards, certification and marketing conditions, thereby improving product quality, health standards, branding opportunities, and market awareness and penetration.

Regarding institutional support, the 8th EDF Export Development Programme II is already financing the functioning of the National Working Group on Trade (NWGT), a committee of government, private sector and civil society representatives responsible for examining Zambia’s international trade relations including EPA and regional agreements. 10th EDF funding could continue to provide such support during the early implementation phases of EPAs.

IV.6 EIB response strategy

87. Considering the specificities of Zambia's economic situation as well as the Bank's past experience in the country, the following main areas of possible intervention for the Bank have been identified:

- close cooperation with local financial intermediaries to support small and medium-scale enterprises through global loans or equity funds *or* to support the transformation of the financial sector in Zambia and help the development of the private sector,
- financing infrastructure projects in the power, water and sewerage, transport and telecommunications sectors, where the main aim will be to help increase the efficiency of public utilities and to encourage private sector participation if appropriate,
- direct funding of large individual projects where the Bank can contribute value added in the technical and/or financial structuring of the investment.

PART 2: INDICATIVE PROGRAMME 2008-2013

1. INDICATIVE PROGRAMME

1.1 INTRODUCTION

On the basis of the cooperation strategy presented in Part One and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable and a detailed schedule of activities for all listed programmes over a rolling three-year period (Annexes 1.6, 1.7 and 1.8).

Amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sector(s), macro-economic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or ad hoc reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

1.2 FINANCIAL INSTRUMENTS

The implementation of the EC's cooperation strategy with Zambia will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

1.2.1. 10th EDF, A envelope, EUR 475 million: this envelope will cover long-term programmable development operations under the strategy, and in particular:

Focal sector 1: Regional integration. Transport Infrastructure, EUR 117 million, 24.6% of total

Focal sector 2: Health, EUR 59 million, 12.4% of total

General budget support: EUR 232 million, 48.9% of total

Other programmes: EUR 67 million, 14.1% of total:

- Food security and agriculture diversification, EUR 30 million
- Governance, EUR 25 million
- Support to initiatives of non-state actors, EUR 5.5 million
- EPA/Trade related support (capacity-building), EUR 2 million
- Technical Cooperation Facility, EUR 3 million
- Others, EUR 1.5 million

1.2.2. 10th EDF, initial B envelope, EUR 14.8 million: this envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

In accordance with Article 3.2(b) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or ad hoc reviews.

1.2.3. Investment Facility: in addition to the financial instruments mentioned above, of which the A envelope is the main programmable basis for the NIP, the 10th EDF includes an Investment

Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP.

Some specific activities may be supported by the *Centre for the Development of Enterprise* (CDE) and the *Centre for the Development of Agriculture* (CTA).

1.2.4. 10th EDF regional indicative programme, EUR 465,247,266 as initial allocation: this allocation will cover long-term programmable development operations under the regional strategy for the Eastern and Southern Africa-Indian Ocean (ESA-IO) Region. The allocation is not part of the Indicative Programme but may have repercussions at national level depending on the participation of Zambia in the programmes proposed under the regional framework. For ease of reference, Annex 10 provides an executive summary of the regional strategy and related indicative programme.

1.2.5 Other financial instruments: specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security" and the programme for accompanying measures for ACP Sugar protocol countries, as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance. For the Sugar Protocol countries benefiting from accompanying measures, the actions envisaged in that context shall be complementary to above financial instruments.

1.2.6 Monitoring and Evaluation : monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community's cooperation with Zambia implemented through the NIP and through other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

1.3 FOCAL SECTORS

1.3.1 Regional integration. Transport Infrastructure

At the funding level 10th EDF support to the Transport Infrastructure sector is based on an overall objective of contributing to economic development and poverty reduction through enhanced national and regional transport sector performance. The purpose is to develop, for the road transport sector, an improved, maintainable, sustainable and safe national and regional road network and connectivity. There are four anticipated results:

- i) full implementation of the ROADSIP II core national paved and unpaved road network improvement and maintenance programme;
- ii) enhanced road sector funding mechanisms and institutional management, including consistent empowerment of District councils appointed as Road authorities;
- iii) the Great East Road meeting national and regional transport corridor quality requirements;
- iv) rural road access for agricultural marketing, social services delivery, tourism and settlement areas improved.

Ancillary outcomes that are anticipated include:

- closer integration of cooperating partners in the transport infrastructure sector under the direction of the JASZ process;
- complementarity with other sector initiatives under the 10th EDF NIP;
- minor support to other transport sector initiatives.

For the aviation sector, the purpose is to develop an enhanced regulatory and operational know-how, and technology transfer with results in the specific areas of air safety, security and traffic management

As an indicative amount from the total A envelope, **EUR 117 million** will be set aside for this focal area.

The main actions proposed are:

- a) continuation of institutional and technical reforms in the road sector and associated support for rehabilitation and maintenance of the paved and unpaved road networks – particularly applying an SBS approach and incorporating lessons learned and generating synergies with other investment initiatives of the Government, the EC and other cooperating partners;
- b) continuing dialogue with the Government in the context of sector budget support and the PAF, plus technical and financial support towards improved sector performance and the achievement of manageable and sustainable road sector funding;
- c) specific project-aid support for remedial work on the Great East Road (T4) and its extension to the Malawi border at Mwami (this may include consideration of a spur in Chipata to the planned dry port at the terminus of the Mchinji-Chipata railway);
- d) continuing dialogue with the Government in the context of the aviation sector, with potential project-aid support in the area of safety, security, air traffic management and regulatory issues; other transport sector technical needs could also be considered.

At present it is intended that the main implementing instruments will be a combination of sector budget support, and classic project support (combined with possible Sugar Programme resources for the Great East Road/Nacala Corridor enhancement actions (preparatory studies)).¹¹

- In the case of continuing support to ROADSIP II, it is intended that this will be applied through a Sector Policy Support Programme (SPSP) via performance-based sector budget support or other appropriate mechanisms. This input is intended to contribute to sector priorities including: the maintenance and rehabilitation targets of the paved and unpaved core road network, involving national and local authorities; enhanced access at the rural level, particularly in agricultural areas; and support to ancillary needs and functions (e.g. regulatory frameworks, safety, bridges, axle load controls, road safety).
- The proposed works on the Great East Road will support ROADSIP II core paved road network targets and complement Zambia's intention to strengthen its regional links – specifically the Nacala Corridor to the Mozambique seaport. As this route has also been identified as central to enhanced sugar exports under the National Sugar Strategy, it could benefit from support to preparatory studies (feasibility, design, and cost updates) under the Sugar Programme leading to prioritisation of critical sections that could possibly be supported under a 10th EDF project.
- The support to the aviation sector shall be implemented through a project approach focusing on soft components such as TA services/studies rather than physical infrastructure in

¹¹ Sector budget support will depend on the outcome of an evaluation process in 2008. Should sector budget support not be feasible, classic project and/or pool funding support mechanisms could be applied.

specific areas such as aviation safety, air traffic management, regulatory issues etc; other transport sector technical needs could also be addressed through the same modalities..

The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field are:

- I) continuation of road sector institutional reform processes in the NFRA, RDA and RTSA towards full operational status;
- II) a continuation of fuel levy, other road user charges and government budgetary contributions to the NRFA and onwards to the RDA, with additional efforts to bring statutory contributions onto a more predictable and systematic basis and budgeted funds up to programmed levels;
- III) rationalisation of the rural road planning and implementation process and the establishment of functional decentralised Roads Authorities endowed with sufficient capacities and resources;
- IV) coherence in the implementation of the public-private investment in the Mchinji-Chipata rail extension and the associated terminus works and dry port;
- V) increasing integration of national and regional transport infrastructure linkages through contributions to the transport objectives of African regional institutions;
- VI) harmonisation of inter-modal transport planning, linked to demand-based investments.

The main efforts by the Government to ensure effective application of 10th EDF sector support and the mainstreaming of crosscutting issues(gender, HIV/AIDS...) will include support for a mid-term review of the ROADSIP II programme and the timely conclusion of socio-economic impact studies of road interventions financed under 9th EDF sector budget support on poverty alleviation - particularly in rural areas. The results of these assessments will provide useful guidance on the detailing of future EC road sector interventions under the 10th EDF and beyond.

The Government will also monitor its FNDP and ROADSIP II M&E framework transport indicators in support of sector investment strategies.

In the environmental arena it has been pointed out that frequently EIAs are carried out once major investment location decisions have already been made. EIAs are a standard component in the appraisal of infrastructure projects under the sector programme ROADSIP II and are subject to EDF10 funded infrastructure project formulation. An expanded role for Strategic Environmental Assessments (SEAs) is envisaged in the sector dialogue between Cooperating Partners and the Government under the framework of providing support to the achievements of objectives of the sector programme. In the spirit of the sector approach, the SEA should thus be considered as a joint GRZ/CP exercise in support of ROADSIP II and shall be executed prior to the execution of EDF civil works at formulation stage. The latter is considered as a mechanism for streamlining environmental assessment into investments, particularly for those with extensive footprints.

1.3.2 Health

The following specific objective will be pursued: Enhance human development in Zambia through secure, improved access to good quality basic health services, guided by Government policies.

As an indicative amount from the total A envelope, **EUR 59 million** will be set aside for this field. The main actions proposed consist of direct sector support for significant expansion of social services. Support will focus mainly on the health sector, assisting attainment of the MDGs and other priority interventions in the FNDP. Sector foci will be as follows:

- a) Improvement of equitable access to health services in the context of the Government's policy on free basic health (especially for children, women, disadvantaged localities) and in collaboration with local authorities.
- b) Funding and support for the Basic Health Care Package (BHCP)¹², targeting assistance to the following:
 - Systems development for the effective and efficient distribution of standards, guidelines, logistics and supplies for the implementation and coordination of essential clinical services in the context of BHCP.
 - Strengthening the provision of the essential package of care especially at district level, including an integrated approach to fighting HIV/AIDS.
 - Strengthening the referral system.
- c) Support towards addressing the human resource crisis, focusing on the following:
 - Recruitment of core health workers and their retention also through improvement of their conditions of service (working environment, housing, access to transport, electricity, etc.).
 - Addressing the systemic challenges related to the operationalisation of the Human Resources Strategic Plan.
 - Development of the capacity of health providers through pre-service and in-service training of health workers in essential clinical services.
 - Capacity-building in training institutions, focusing on the development of additional health personnel that is required in the expanded health system.
- d) Development of nutrition programmes in the context of the cross-sectoral food security strategy, specifically through support to social protection schemes for the most vulnerable and food-insecure groups

Implementation Modalities

A three-year initial direct sector support programme, followed by a subsequent two-year programme. Following the assessment provided by the identification process, the use of sector budget support modalities will be considered. In this case, the programmes will be labelled to support specific policy measures as per national planning priorities. This labelling, in combination with the existence of separate legal financing agreements, will empower the line Ministry in the resource allocation dialogue with the Ministry of Finance and National Planning, and ensure some degree of additionality. Alternatively, direct sector support to health could be in the form of support to the Health Basket managed by the line Ministry, on-budget through inclusion of the committed resources into the government budget and MTEF and through inclusion into Government budget execution reports..

A nutrition programme targeting the most vulnerable (especially OVCs in schools), seeking to address root causes of HIV/AIDS, might be developed through an EDF project that will build decentralised implementation modalities within existing public service delivery systems and in collaboration with local authorities.

Main sector policy measures to be taken by the Government as a contribution to implementation of the response strategy

The Government has launched the FNDP 2006-2010 in January 2007. This provides the overall policy framework, as well as the basis of sector MTEFs. The new National Health Strategic Plan was developed and adopted in 2005 in parallel with the FNDP, of which it basically represents an expansion. The Ministry

¹² This is a set of carefully selected high impact interventions that is offered through the public health system freely or on a cost-sharing basis at different levels of the health care delivery system. Currently, ten priority areas for health services have been identified for inclusion in the BHCP, namely: Child health and nutrition; Integrated reproductive health; HIV/AIDS, TB and STIs; Malaria; Epidemics; Hygiene, sanitation and safer water; Human resources; Essential drugs and medical supplies; Infrastructure and equipment; and Systems strengthening.

of Health also presented in 2006 a Human Resources for Health Strategic Plan, which is addressing what is considered as the single most important issue in the health sector. The National AIDS Council launched the *Zambian National HIV/AIDS Strategic Framework* in 2006.

Main commitments by the Government to ensure mainstreaming of the cross-cutting issues

Gender occupies a full chapter of the FNDP (with the goal of eliminating gender imbalances and attaining gender equality), but it appears also as a specific focal area under the Health chapter. Full integration of the gender dimension in the monitoring and evaluation system is part of government plans in the human development area, aiming particularly to address the poor performance in terms of reduction of maternal mortality and the more general recognition of discrimination against women in terms of access to health care including family planning.

Health has an indirect yet important impact on the environment. High morbidity and mortality rates undermine the capacity of a society to preserve and transmit capacity and skills on how to interact with the environment. Know-how is lost, short-term thinking replaces more sustainable patterns of use of natural resources. In a country with high HIV prevalence such as Zambia this may be a relatively fast process, and not merely a long-term trend. The FNDP seeks to raise the profile of environmental issues by mainstreaming environment into national development programmes and through the enforcement of existing policies and laws aimed at protecting the environment.

1.4 GENERAL BUDGET SUPPORT

The following specific objective will be pursued: support for the national strategy to promote broad-based and stable growth and poverty reduction, through policies and programmes funded by the public budget. In particular, EC macro-economic support aims at contributing to macro-economic stability by closing the potential fiscal financing gaps, supporting service delivery both for poverty reduction, through the strengthening of domestic funding levels, and private agents (e.g. creation of a business-friendly environment), and continued strengthening of Public Finance Management (PFM) systems.

As an indicative amount from the total A envelope, **EUR 232 million** will be set aside for support through general budget support modalities.

The main actions proposed are: preparation of two successive Poverty Reduction Budget Support (PRBS) programmes, in principle of three years each, to cover the periods 2009-2011 and 2012-2014. The PRBS programmes will be a natural continuation of PRBS 1 (2004-2006) and PRBS 2 (2007-2008)¹³.

More specifically, the programmes will make use of both fixed and variable tranches, the latter linked to results/outcome-based indicators. In accordance with the existing Memorandum of Understanding on PRBS (also signed by the EC), indicators to be used to assess progress under the programmes will be a sub-set extracted from the Performance Assessment Framework (PAF), jointly agreed between the Government and cooperating partners. The current PAF (2006-2008) includes indicators in the following areas: macro-economic stability; PFM; infrastructure; agriculture; private sector development; health; education; HIV/AIDS. The PAF, however, can be seen as a 'rolling' document which is updated and revised regularly, and in the future it could include indicators related to other essential economic and institutional reforms, such as trade and regional integration, and decentralisation.

¹³ This scheme could be adapted to the one envisaged under the 'MDG Contract', once formally finalised. Notably, instead of two successive programmes of 3 years each, a 6-year programme could be designed. The national context will have to be taken into account in the final design.

Moreover, the MoU emphasises the need to ensure predictability in disbursements; this is achieved by adopting the n-1/n/n+1 scheme: performance assessments are made in year n (June Review), based on performance of year n-1, for a disbursement in year n+1. The indicative commitments made after the June Review are subsequently confirmed at the October Review, so that they can be fully and predictably included in the Government budget preparation calendar (August to December, for presentation of the budget in January for Parliament approval). In so doing, the PRBS Group seeks to align the PRBS review processes around the budget cycle.

As complementary actions, capacity-building interventions will accompany the PRBS operations, and will focus on strengthening data quality (especially to support the use of results-based indicators), improving the capacity of line ministries, and involving civil society in assessing the impact of PRBS operations.

The main implementing instrument will be macro-economic support in the form of direct untargeted budget support to the National Treasury. The Zambian currency, the Kwacha, is convertible and freely transferable, and complies with article VIII of the IMF's Articles of Agreement with respect to transactions on the current account. There is therefore no need to resort to mechanisms of indirect support. Following a NAO request, EC funds will be transferred to a GRZ bank account with the Bank of Zambia.

In order to ensure continued eligibility and effectiveness of budget support interventions, the Government will maintain macro-economic stability and fiscal discipline, and continue reforms under the key PEMFA programme (or any successor programme), so that the budget can accurately respond to the national development strategy. In addition to the PAF, the Monitoring & Evaluation set of Key Performance Indicators of the FNDP will provide the agreed framework for overall assessment of FNDP implementation, which will be done at regular intervals throughout the year. In order to support the significant efforts towards attaining MDGs undertaken under the FNDP 2006-2010, the fulfilment of specific commitments by the government is assumed in relation to public expenditure and service delivery in social sectors:

- a) as expressed in the FNDP, the budgetary expenditure on education and health services during the 2006-2010 period should be at least 25 per cent and 15 per cent, respectively.
- b) the major reforms of essential government systems (public finance management, public procurement, public service management, decentralisation) are expected to be pursued and rolled out to line ministries, including health and education.
- c) the work towards strengthening the institutional frameworks for better coordinated provision of education and health services in partnership with local communities and non-state actors shall be continued.
- d) the use of responsive monitoring and evaluation of services delivery in both the education and health sectors, focusing primarily on the assessment of outcomes and impact, needs to be promoted. Capacity strengthening in monitoring services delivery is thus expected to be among the priority Government interventions. FNDP indicators are expected to be used.

The main commitments by the Government to ensure mainstreaming of the cross-cutting issues are: the improvement of gender equality and tackling of HIV/AIDS pandemic (each issue having its own chapter in the FNDP). The PRBS programme will, through its support to the FNDP, indirectly affect these issues by singling out indicators related to HIV/AIDS, and using indicators on maternal health, closely linked to gender issues. Moreover, the issue of democratic governance will also be addressed within the FNDP, covering the broad issues of human rights and corruption (through the Anti-Corruption Commission), as well as external oversight of the budget (by ensuring proper functioning of the Office of the Auditor General). The provisions under the PRBS MoU, notably in respect of some 'underlying principles' related to democratic governance, will allow close monitoring of these issues during the PRBS implementation.

1.5 OTHER PROGRAMMES

As an indicative amount from the total A envelope, **EUR 67 million** is set aside for the following actions:

Food security and agriculture diversification

Support for food security and agricultural diversification will be based on supporting the achievement of strengthened agricultural growth based on production and marketing improvements at all levels that will contribute to improved food security, especially for the rural poor.

The overall objective will be achieved through five outputs:

- i) improved agricultural extension services supporting expanded year-round production and product diversification, in turn enhancing household food security, especially for the rural poor;
- ii) deepened and integrated agricultural marketing and post-harvest management, supporting value chain/value addition development, contributing to wealth creation and re-investment, especially for vulnerable groups;
- iii) expanded and diversified agricultural exports developed from improved, harmonised and streamlined standards and certification, branding and market development under the EPA framework;
- iv) sugar sector expansion contributing to poverty reduction and product diversification;
- v) progress towards sector and/or sub-sector investment policies.

As an indicative amount from the total A envelope, **EUR 30 million** is set aside for these non-focal initiatives. These EDF programmable funds will be integrated with Sugar Facility funding and rural road network elements of the Regional Integration in Transport Infrastructure contribution.

The main proposed actions will build on and possibly extend current agricultural initiatives in Western, North-Western, Southern, Central and Eastern Provinces and previous private sector and export development projects. Anticipated action will include: i) Extension, Production, Food Security and Nutrition

- a) project aid contributions to rural agricultural extension initiatives targeted at realising production and yield improvements and stabilisation through conservation farming and other techniques, the encouragement of non-agronomic sub-sectors and progress towards year-round production;
- b) specific pro-poor investments intended to achieve enhanced levels of food security, household nutrition and wealth creation among the most vulnerable rural groups;
- c) support to social protection schemes for the most vulnerable and food-insecure groups;

ii) Marketing, Value Addition

- a) continued project aid support to regulatory frameworks and developing viable, sustainable and vertically integrated agricultural marketing systems generating an increased diversity and volume of products traded domestically at all levels and increased cross-border agricultural trade;
- b) complementarities with trunk and rural road network investments, financed by 9th and 10th EDF under the focal sector Transport Infrastructure, to support agricultural market development and cross-border trade;
- c) support to agricultural value chain development and value addition at the community, rural and national levels through targeted interventions and facilitation of appropriate financing instruments;

iii) Export Development

Building on previous initiatives to further develop agricultural exports in close coordination with other donors in the sector. Specific policy, regulatory and marketing interventions are envisaged under the EPA framework that will enhance sanitary and phyto-sanitary standards, certification and marketing conditions, thereby improving product quality, health standards, branding opportunities, and market awareness and penetration;

iv) Sugar Sector Development

Sugar facility resources will be applied in three areas: the development of sugar outgrower schemes (supporting poverty reduction); studies supporting policies, regulatory frameworks and technical developments in sugar production and sugar by-products (including bio-fuels); and feasibility studies for road infrastructure supporting sugar exports;

v) Sector/Sub-Sector Development

Support to meet the requirements for the development of agricultural sector-wide approaches (SWAp), or sub-sector support mechanisms.

The principal implementing mechanism will be classic project support, but wherever possible these resources will be integrated with other resources applied through 10th EDF programmable Regional Integration-Transport Infrastructure resources, the Sugar Facility funds, other Budget lines and the 10th EDF RSP-RIP for the ESA-IO region (EPA accompanying measures).

The principal sector policy measures to be taken by the Government in support of these agricultural sector initiatives include: further reforms and/or developments in relation to the Agriculture Policy, the Irrigation Policy, the Markets Act and Food Security Strategy. Liberalised agricultural marketing conditions will also be encouraged, including the progressive removal of input subsidies. The Decentralisation Implementation Plan (DIP) under the decentralisation policy (2004) will support rural agricultural development by strengthening the role and capacities of District Council in local development planning and prioritisation, land use and management of rural road network investment and maintenance.

The crucial role of agricultural market development at the community, district, provincial and national levels will be supported by further policy and legislative reforms aimed at building and deepening markets and marketing capacities and associated pre- and post-harvest handling improvements.

An ad hoc Food Security Task Force will work with other stakeholders towards improved levels of food security, particularly among the most vulnerable groups (HIV/AIDS-affected, female-headed, elderly [especially those supporting orphaned children], disabled, orphans and vulnerable children) and food-insecure zones.

The roles of institutions involved in nutrition (National Food and Nutrition Commission [NFNC], MoH, MACO, Disaster Management and Monitoring Unit [DMMU]) will be further defined and clarified.

The FNDP provides broad mechanisms for monitoring performance in the agricultural sector and its sub-sectors. At the project level, additional indicators will be developed to measure and evaluate inputs from EDF resources.

HIV/AIDS and gender are cross-cutting issues that have both wide and specific implications in most aspects of the agricultural sector. Both issues will have inputs in the identification, formulation and implementation of initiatives proposed under this funding. Regarding environment, agricultural policies are likely to have negative impacts that must be mitigated while maximising the potential positive impacts. Therefore a Strategic Environmental Assessment (SEA) will be integrated from the beginning in the identification process. Sugar production may also have the same generic impacts, but some other could be distinct, especially in their severity. These aspects will be considered in a specific SEA to be undertaken in 2008 under the Accompanying Measures on Sugar.

Humanitarian and emergency needs regarding food aid and food security will be covered by ECHO through the B Envelope and within the framework of the new Humanitarian Aid Instrument.

Governance, EUR 25 million from the total A envelope, to continue support for PFM reforms (under PEMFA or successor programme) and interventions within the Decentralisation programme (both under the critically weak area IV. “Government Effectiveness” of the Governance Profile); support for the electoral processes and constitutional democracy (in particular, under the promising area I.C “Political/democratic governance. Electoral process”) is also envisaged. Other possible areas and specific actions could be identified on the basis of commitments and measures proposed by the Government (Government commitments under the Governance profile) and after coordination with other cooperating partners under the JASZ. These possible additional areas to be considered for EDF support are related to the “Judicial and law enforcement system” (area II in the Governance profile), public service reform programme (area IV. A), participation in the EITI initiative and other natural resources management initiatives (area V.B) and assistance to public actions addressing child labour and trafficking (area VII).

Support to initiatives of Non-State Actors will cover Non-State Actors eligible for funding as defined in Article 6 of the Cotonou Agreement and Article 4(1)(d) of Annex IV to the revised Agreement. Depending on their mandate, support to Non-State Actors may cover activities such as capacity-building, advocacy, research, awareness-raising, monitoring and delivery of services to the population. In supporting Non-State Actors, the EC may make use of Article 15(4), which allows it to be the Contracting Authority. As an indicative amount from the total A envelope, EUR 5.5 million will be made available for this purpose. *EPA/Trade related support (capacity-building)*, EUR 2 million from the total A envelope, to continue from 2010 the ongoing 9th EDF capacity-building support to public services responsible for external trade (Ministry of Commerce, Trade and Industry), private sector intermediary organisations and CSOs; the 10th EDF funding will cover: specific policy activities (strengthening analytical capacity and legal advice in the Ministry); regulatory and marketing interventions that will enhance sanitary and phyto-sanitary standards, certification and marketing conditions, thereby improving access to EU and other markets; developing product and quality improvement, to increase the added value and competitiveness of Zambian products. Involvement of CSOs will also be continued, especially in view of their oversight and monitoring function in the early phases of implementation of EPAs and other regional integration processes. This support is closely coordinated with other trade-related assistance EDF instruments, in particular the activities under the ESA-IO regional programme involving Zambia.

The *Technical Cooperation Facility*, EUR 3 million from the total A envelope.

Others: EUR 1.5 million from the total A envelope for contributions to regional programmes and projects, and reserve for insurance against possible claims and to cover cost increases and contingencies.

1.6. INTERVENTION FRAMEWORK & PERFORMANCE INDICATORS

1.6.1 First Focal Sector – Regional Integration. Transport Infrastructure

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	To contribute to economic development and poverty reduction through enhanced national and regional transport sector performance	<ol style="list-style-type: none"> 1) Capacity of paved and unpaved core road network meets traffic demands 2) Value of goods transported by road increasing according to planned targets 3) Road catchment cost-benefit studies show road sector investments to be positive contributors to development and poverty reduction 4) Road transport sector contributions to GDP increasing according to projections 5) Poverty indicators show positive trends correlating with road sector M&E framework trends 6) Aviation safety, air traffic management and regulatory oversight show improvement 	<p>RDA road counts</p> <p>Road sector study reports</p> <p>Road catchment cost-benefits studies</p> <p>CSO GDP statistics</p> <p>RDA annual M&E reports</p> <p>MCT and NACL sector reports</p>	<ol style="list-style-type: none"> 1) NRFA and RDA are supported by FNDP budgetary and statutory road user fees and donor contributions 2) Economic growth can support ROADSIP maintenance targets
Programme Purpose	<p>Road transport sector: Improved, maintained, sustainable and safe national and regional road transport network /connectivity</p> <p><u>Aviation sector</u>: enhanced regulatory and operational know-how and technology transfer</p>	<ol style="list-style-type: none"> 1) ROADSIP II performance indicators showing positive trends (network management, sector financing, institutional performance, poverty impact) 2) Environmental integration is promoted by a Strategic Environmental Assessment prior to the execution of civil works 3) Positive trends in sector financing (domestic funding, road user charges, donor contributions) 4) Government meets regional obligations towards further road transport system integration and facilitation 	<p>ROADSIP II quarterly reports, annual technical and financial reports of roads' agencies</p> <p>RDA AWP, ECZ reports</p> <p>.SEA. RDA and ECZ reports</p> <p>NRFA reports</p> <p>MFNP annual economic reports</p> <p>AU, COMESA and SADC transport sector reports</p>	<ol style="list-style-type: none"> 1) Government honours its obligations to meet road sector funding targets 2) Government continues to work with regional partners in support of regional road corridor and traffic/trade flow facilitation

Results				
	<p>1. ROADSIP II national core paved and unpaved road network improvement and maintenance programme fully implemented</p> <p>2. Road sector funding mechanisms enhanced</p> <p>3. Great East Road meets national and regional transport corridor quality requirements</p> <p>4. Rural road access for agricultural marketing, social service delivery, tourism and settlement areas improved</p> <p>5. Axle load and road safety controls enforced and harmonised with regional standards and targets and supporting network sustainability</p> <p>6. Road sector agencies and Roads Authorities fully operational</p> <p>7. Aviation safety, security, air traffic management and regulatory framework enhanced</p>	<p>1) AWP's achieving overall ROADSIP II targets</p> <p>2) Technical and financial contributions made to achieve improved road sector funding</p> <p>3) Great East Road rehabilitation contracts completed on schedule and to specification and budget meeting regional targets</p> <p>4) Reports indicate that specific agricultural, social service and tourism-support roads identified under ROADSIP II improved and maintained as programmed</p> <p>5) Axle load and road safety data show reduced overloading and traffic accident occurrence, respectively and compliance with regionally-agreed standards and targets</p> <p>6) Achievement of road sector agencies' and Roads Authorities staff and technical establishments and operational status</p> <p>7) TA services/studies executed according to scope</p>	<p>1) RDA AWP's, ROADSIP II quarterly reports, agency annual reports, consultancy reports, donor reports, technical reports (VOCs, roughness data, road condition, accident and fatality rates)</p> <p>2) MFNP, NRFA and RDA reports, consultancy reports, budgets</p> <p>3) Supervision consultant, RDA, ROADSIP II, MCT, COMESA, SADC and cooperating partner reports</p> <p>4) RDA, ROADSIP II, MACO, MoE, MoH, MTENR, District, RDA poverty impact reports</p> <p>5) RDA/RTSA/NRFA/ROADSIP II reports;</p> <p>6) RDA/MLGH/Provincial/District reports</p> <p>7) MCT/NACL sector reports and TA reports/study results</p>	<p>1) There are continued planned contributions by Government and cooperating partners to ROADSIP II/FNDP road sector targets</p> <p>2) NRFA receives adequate statutory and budgetary contributions from MFNP on a planned and regular basis</p> <p>3) Regional road transport corridor objectives are supported by Government</p> <p>4) Agriculture, social and tourism sectors' demands can be matched by planned ROADSIP II inputs</p> <p>5) Decentralisation process will actively support the identification, construction and maintenance of priority rural road networks</p> <p>6) Political commitment to legislative process and effective axle load and road safety controls continues</p> <p>7) Road sector institutional reforms continue, including recruitment to meet at least workable staffing levels</p> <p>8) Budgets for roads' agencies and</p>

1.6.2 Second focal sector – Human development, Health

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	Contribute to improve the health status of the people of Zambia in order to support socio-economic development in line with the MDGs and the national priorities of the Fifth National Development Plan	From the national health priorities and impact indicators in the Health chapter of the FNDP: -under five mortality -maternal mortality -HIV prevalence -TB incidence/prevalence -under five underweight prevalence	NDP annual reports, Health Management Information System (HMIS) Demographic Health Survey 2012	
Programme Purpose	Improve the capacity of Government to provide in a more equitable way good quality health services to the population, especially to the most vulnerable groups (women, children, OVCs, incapacitated households, people living with HIV)	-input: government funding of public health as % of domestic discretionary budget; % of health budget allocated to district level; government financing of the health workers wage bill -output/outcomes, see below	NDP annual reports, Health Management Information System (HMIS) Demographic Health Survey 2012 and Ministry of Health / Ministry of Finance financial reports	
Results	Improved access to health services in terms of coverage and utilisation (especially for children, women, disadvantaged localities).	Health Centre Utilisation for children under five Supervised deliveries One years old immunised in worst performing districts VCT, PMTCT and ART expansion Children under five sleeping under ITN ¹⁴ TB case detection rate ¹⁵ % of births by caesarean section ²	FNDP annual report PRBS PAF assessments (applicable to some indicators) Health Management Information System (HMIS) Health SWAp mechanisms (JAR...) Demographic Health Survey 2012	Budget allocations in line with FNDP estimates Commitment to FNDP implementation HR strategic plan implemented MoH commitment to systems development/improvement

¹⁴ Possibly included in the DHS

¹⁵ will be included in the reformed HMIS

Results	Improved provision of the essential package of care especially at district level and strengthened referral system.	Health centre staff load, including in worst performing districts Drugs Kits opened per 1000 patients TB DOTS case treatment rate ² Caesarean sections performed in district hospitals Essential drugs, vaccines and ITN availability	FNDP annual report Assessments of 9 th EDF support to HR strategic plan HMIS Health SWAp mechanism (JAR...) Demographic Health Survey 2012	Budget allocations in line with FNDP estimates Commitment to FNDP implementation HR strategic plan implemented MoH commitment to systems development/improvement
	More trained, motivated, equitably deployed health workers in public health delivery institutions	Progress in bringing MoH payroll to full establishment levels Health centre staff load, including in worst performing districts Nurses, Midwives, EHT and Clinical officers output ..and other HR for Health SP indicators	FNDP annual report Assessments of 9 th EDF support to HR strategic plan Health SWAp mechanism (JAR...) Demographic Health Survey 2012	Budget allocations in line with FNDP estimates Commitment to FNDP implementation HR strategic plan implemented MoH and PSD commitment to systems development/improvement
	All forms of malnutrition, including micronutrient deficiencies are reduced and safe levels of nutrient intake for Zambia are established	% Stunting (0-59 months) Prevalence of Vitamin A deficiency (6-59 months) Prevalence of iron deficiency (6-59 months) Proportion of women attending ante-natal classes who are malnourished	FNDP annual report Health Management Information System (HMIS) Demographic Health Survey 2012 Living Conditions Monitoring Survey	Budget allocations in line with FNDP estimates Commitment to FNDP implementation
		NB: all indicators gender disaggregated if the source allows		

1.6.3 Macro-economic support. General budget support

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	Support to the national strategy to promote broad-based and stable growth and poverty reduction			
Programme Purpose	1) Contribute to macro-economic stability to sustain broad-based economic growth 2) Enhance service delivery both for social sectors (e.g. health and education) and private agents (e.g. creation of a friendly business environment) 3) Continued strengthening of PFM systems			
Results	1) Macro-economic targets achieved 2) Targets for improved service delivery achieved 3) PFM reforms progress at an accelerate pace	In the context of the PRBS MoU, indicators will be established jointly (CPs-GRZ) in a common Performance Assessment Framework (PAF). The PAF is a rolling document, as it is updated at regular intervals. Broad areas of indicators would include: – Macro-economic performance: - public deficit/domestic borrowing indicators; - Government wage bill - Domestic revenue in GDP Service delivery: - Public service reform - Social equity indicators (mostly for Health and Education) - Private sector development - Financial sector reforms PFM reform: - releases/allocations - expenditure/releases - arrears clearance - enhanced oversight functions (Auditor general, Parliament)	MFNP and IMF Reports, CSO statistics, Bank of Zambia bulletins. MFNP MoH, MoE, reports; HMIS, EMIS; MCTI, ZBA, Bank of Zambia MFNP reports, PEMFA reports, PEFA Evaluation, OAG reports	Commitment to macro-economic stability is maintained; Sectoral strategies are implemented; dialogue between MFNP and line Ministries is enhanced. Commitment to PFM reforms is maintained

1.7 INDICATIVE TIMETABLE FOR COMMITMENTS AND DISBURSEMENTS

1.7.1 *Indicative timetable of global commitments*

	Sector indicative	2008		2009		2010		2011		2012	
		1	2	1	2	1	2	1	2	1	2
FOCAL SECTOR 1 – Regional integration. Transport Infrastructure	M € 117										
- Support to planned maintenance and rehabilitation of the core paved and unpaved road network (including ancillary actions such as axle load control, bridges, provision of basic access at rural level)	M € 77		77								
- Project support to Great East Road rehabilitation	M € 38				38						
- Technical support to other transport needs, particularly in the aviation sector	M € 2				2						
FOCAL SECTOR 2 – Health	M 59 €										
- Direct sector support to Health	M € 59		35				24				
Macro-economic support. GENERAL BUDGET SUPPORT	M € 232										
- PRBS 3 (2009-2011)	M € 114		114								
- PRBS 4 (2012-2013)	M € 118								118		
NON FOCAL SECTORS	M € 67										
- Food security and agriculture diversification	M € 30				15		15				
- Support for Governance	M € 25		15				10				
- Support for non state actors.	M € 5.5				5.5						
- Support for EPA/Trade related assistance	M € 2				2						
- Technical cooperation facility	M € 3				3						
- Others	M € 1.5				1.5						
Total Commitments	M € 475		241		67		49		118		
Total Cumulative Commitments	M € 475		241		308		357		475		

1.7.2 *Indicative timetable of disbursements*

	Sector indicative allocation	2008		2009		2010		2011		2012	
		1	2	1	2	1	2	1	2	1	2
FOCAL SECTOR 1 - Regional integration. Transport Infrastructure	M € 117										
- Support to planned maintenance and rehabilitation of the core paved and unpaved road network (including ancillary actions such as axle load control, bridges, basic access at rural level)	M € 77				23		27		27		
- Project support to Great East Road rehabilitation	M € 38				10	10	18				
- Technical support to other transport needs, particularly in the aviation sector	M € 2					1		1			
FOCAL SECTOR 2 - Health	M € 59										
- Direct sector support to Health	M € 59				17		18		12		12
Macro-economic support. GENERAL BUDGET SUPPORT <i>(based on assumption that VT are 50% of direct BS, disbursed in second half of year, and perform at 75%) NB: This scheme could be adapted to the one envisaged under the 'MDG Contract', once formally finalised)</i>	M € 232										
- PRBS 3 (2009-2011)	M € 114			19.5	13.87	19.5	13.87	19.5	13.87		
- PRBS 4 (2012-2014)	M € 118									20.3	14.25
NON FOCAL SECTORS	M € 67										
- Food security and agriculture diversification	M € 30					2	6	10	6	6	
- Support for Governance	M € 25			2	3	4	6	6	2	2	
- Support for non state actors.	M € 5.5					0.5	2	2	1		
- Support for EPA/Trade related support	M € 2				1		1				
- Technical cooperation facility	M € 3				1		1		1		
- Others	M € 1.5						1		0.5		
Total Disbursements	M € 475			21.5	68.87	37	93.87	38.5	63.37	28.3	26.25
Total Cumulative Disbursements	M € 475			21.5	90.37	127.37	221.24	259.74	323.11	351.41	377.66

1.8 SCHEDULE OF ACTIVITIES														
FOCAL SECTOR 1 (EUR 117 M)	Project ind. allocation								2008		2009		2010→	
Regional integration. Transport Infrastructure	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
- Support to planned maintenance and rehabilitation of the core paved and unpaved road network (including ancillary actions such as axle load control, bridges, access at rural level)	M € 77		FS		AF	FD								
- Technical support to other transport needs, particularly in the aviation sector	M € 2				FS		AF	FD						
- Project support to Great East Road rehabilitation	M € 38				FS		AF	FD						
FOCAL SECTOR 2 (EUR 59 M)	2008				2009				2010→					
Health	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
-Direct sector support to Health. 1 st operation	M € 35		FS		AF	FD								
-Direct sector support to Health. 2 nd operation	M € 24								FS		AF	FD		
MGENERAL BUDGET SUPPORT (EUR 232 M)														
PRBS 3(2009-2011)	M € 114		FS		AF		FD							
NON FOCAL AREAS (EUR 67 M)	2008				2009				2010→					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
- Food security and agriculture diversification. 1 st operation	M € 15				FS		AF	FD						
- Food security and agriculture diversification. 2 nd operation	M € 15								FS		AF	FD		
- Support for Governance. 1 st project	M € 15		FS		AF		FD							
- Support for Governance. 2 nd project	M € 10								FS		AF	FD		
- Support for NSA	M € 5.5				FS		AF	FD						
- Support for EPA/Trade related assistance	M € 2				FS		AF	FD						
- Technical cooperation facility	M € 3				FS		AF	FD						
- Others	M € 1.5				FS		AF	FD						
FS: Feasibility Study AF: Action Fiche FD: Financing decision														

ANNEX 1 – COUNTRY AT A GLANCE

Table 1. Macroeconomic indicators

		2000	2001	2002	2003	2004	2005	2006	2007
	Basic data								
1	Population (in 1000)	10.7	10.9	10.2	10.3	11.5	11.7	11.9	12.1
	- annual change in %	2	1.9	1.8	1.7	1.6	1.6	1.6	1.6
2a	Nominal GDP (in billion Kwacha)	10,072	13,133	16,260	20,479	25,916	32,450	39,299	44,142
2b	Nominal GDP per capita (in €)	327.6	372.7	391.2	405.6	389.1	467.9	758.7	655.9
2c	- annual change in %		12.1%	4.7%	3.5%	-4.2%	16.8%	38.3%	-15.7%
3	Real GDP (annual change in %)	3.6	4.9	3.3	5.1	5.4	5	6	6
4	Gross fixed capital formation (in % of GDP)	18.6	20	17.5	25.6	24.3	23	23.5	25
International transactions									
5	Exports of goods and services (in % of GDP)	27%	28%	28%	26%	36%	36%	32%	35%
	- of which the most important: Metals (copper) (in % of GDP)	15%	16%	15%	14%	24%	24%	24%	26%
6	Trade balance (in % of GDP)	-14%	-16%	-13%	-11%	-2%	-3%	2%	-3%
7	Current account balance (in % of GDP)	-19%	-21%	-17%	-15%	-10%	-10%	-8%	-11%
8	Net inflows of foreign direct investment (in % of GDP)	4%	2%	5%	7%	7%	6%	4%	5%
9	External debt (NPV, in % of GDP)	76	78.7	55.1	44.4	28.2	23	4	5
10	Service of external debt (in % of exports of goods and non-factor services)	15.9	13.4	11.4	14.6	18.3	6.7	2.1	2
11	Foreign exchange reserves (in months of imports of goods and non-factor services)	1	0.8	2.1	1.3	1.2	1.6	1.7	2

Government									
12	Revenues (in % of GDP)	25.1	25	26.3	24.9	23.7	23	42.3	21.3
	- of which: grants (in % of GDP)	5.7	5.8	8.3	6.9	5.5	5.6	25.5	3.8
13	Expenditure (in % of GDP)	30.9	32.2	31.3	31	26.7	25.8	23.5	23.4
	- of which: capital expenditure (in % of GDP)	10	11.9	11.8	11.4	8.7	7	4.8	5.7
14a	Deficit (in % of GDP) including grants	-7	-8.1	-6.3	-6.6	-1.7	-2.6	18.6	-2
14b	Deficit (in % of GDP) excluding grants	-12.7	-13.8	-14.6	-13.5	-7.2	-8.3	-6.9	-5.9
15	Debt (in % of GDP)	139.2	135.9	142.5	131.8	104.6	46.4	20.1	18.9
	- of which: external (in % of total public debt)	54.6	57.9	38.7	33.7	27.0	49.6	19.9	26.5
Other									
16	Consumer price inflation (annual average change in %)	26.1	21.4	22.2	21.4	18	18.3	9.2	8.6
17	Interest rate (for money, annual rate in %)					30.9	28.2		
18	Exchange rate (annual average of national currency per 1 €)	2873.4	3231.4	4074.5	4902.4	5791.6	5935.6	4363.2	5580.0
19	Unemployment (in % of labour force, ILO definition)				16				
20	Employment in agriculture (in % of total employment)				72				

Table 2. Trade. Commodity Composition of Exports and Imports (percent)

	Exports			Imports		
	1990-93	1995-98	2000-03	1990-93	1995-98	2000-03
Agriculture	2.9	8.6	21.1	7.2	9.6	10.0
Food and Feeds	1.9	5.3	11.8	6.2	8.2	9.1
Agricultural Material	1.0	3.3	9.3	1.0	1.4	0.9
Ores and Metals	92.5	82.9	62.3	2.8	2.5	0.9
Manufacturing	4.4	7.7	13.5	88.3	85.6	81.0
Fuels	0.0	0.6	0.1	0.5	1.1	7.1
Misc.	0.2	0.2	3.0	1.2	1.2	1.0

Source: COMTRADE

Table 3. Poverty. Trends and distribution

	Population (1000s)		Incidence (P0)		Depth (P1)		Severity (P2)	
	1998	2004	1998	2004	1998	2004	1998	2004
National	10,183	10,954	73	68	40	36	26	23
Rural	6,359	6,662	83	78	49	44	34	30
Small-scale farms	-	-	84	79	50	45	35	31
Medium/large-scale farms	-	-	73	73	38	36	25	22
Large-scale farms	-	-	-	37	-	-	-	-
Non-farm households	-	-	79	69	48	36	35	24
Urban	3,824	4,292	56	53	23	22	13	12
Central	1,019	1,136	77	76	44	43	31	28
Copperbelt	1,823	1,661	65	56	31	24	19	13
Eastern	1,304	1,514	81	70	46	40	31	27
Luapula	701	863	82	79	47	42	32	26
Lusaka	1,526	1,534	52	48	22	19	13	10
Northern	1,237	1,407	82	74	45	41	31	27
North-Western	549	654	76	76	41	40	27	26
Southern	1,268	1,360	76	69	42	35	28	22
Western	756	826	89	83	57	53	42	38

Source: Central Statistical Office

Note: These official poverty estimates are based on the Priority Surveys (1991, 1993) and Living Conditions Monitoring Surveys (1996, 1998, and 2004). GDP per capita is based on National Accounts.

Table 4. Progress on selected MDG indicators

Indicator	1990	2000	2004	2005	2006	2010: FNDP targets	2013	2015: MDG targets
1. Proportion of people living in extreme poverty [1]	58%	46%	53%	-	-		-	29%
2. Prevalence of underweight children (under-five years of age)	40%		53% (2003)	23%		13%		-
3. Under-five mortality rate (per 1000)	191	168						63
4. Net enrolment ratio in primary education	80%	76%	78%	95%		97%		100%
5. Primary Completion Rate	64%	73%	82%	81%		90%		100%
6. Ratio of girls to boys in:								
- primary education	0.98	0.98	0.95	0.95		0.98		1
- secondary education	0.92	0.9	0.84	0.83				1
- tertiary education			0.63					
7. Proportion of births attended by skilled medical personnel	51% (1992)	45%	43%	43.5%		50%		
8. Proportion of one-year-old children immunised against measles	77%	84%						-
9. HIV prevalence among 15- to 24-year-old pregnant women			21%					
10. Proportion of population with sustainable access to an improved water source	50%	53%		67%		80%		75%

[1] Extreme poverty is measured by taking a lower poverty line that reflects the minimum requirements of food spending and excludes some of the items included in the national 'basic' poverty line.

Source: UNDP MDG Report 2005, MoFNP Report on PRBS, UNAIDS 2006 Report, Zero draft of the FNDP (June 2006).

ANNEX 2 – DONOR MATRICES

MATRIX OF DONOR PROJECT SUPPORT FOR THE PERIOD 2006-2010

(USD millions)

DONOR \ SECTOR	Agriculture	Education	Energy	Environmental Protection & Natural Resources	Governance	Health	HIV/AIDS	Local Govt & Decentralisation	Social Protection	Transport Roads/Air	Water & Sanitation	Others	TOTAL BY DONOR
GRANTS													
DENMARK	0.00	3.20	0.00	5.10	30.30	4.10	0.00	0.00	0.00	56.2	43.4	15.7	158.00
DFID	0.0	0.0	0.0	0.0	9.2	13.1	25.6	0.0	20.4	0.0	0.0	51.4	119.70
NORWAY	0.0	0.0	0.0	29.7	5.8	0.0	2.3	0.0	0.0	0.0	0.0	4.8	42.60
NETHERLANDS	0.0	0.0	0.0	0.0	1.3	3.7	0.0	0.0	0.0	0.0	0.0	10.7	15.70
SWEDEN	39.5	0.0	5.4	0.0	26.2	3.6	0.0	0.0	0.0	0.0	0.0	38.7	113.40
GERMANY	0.0	0.0	0.0	0.0	33.2	0.0	6.5	16.6	0.0	9.6	52.1	4	121.98
FINLAND	16.9	2.1	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.3	40.00
E.U.	21.0	1.9	0.0	0.0	6.0	7.6	0.0	0.0	0.0	18.5	0.0	81.73	136.73
UNITED NATIONS	10.6	17.8	0.0	20.7	40.7	70.2	1.7	0.0	46.7	0.0	17.4	191.2	417.00
JAPAN	17.3	23.8	0.0	0.0	3.0	20.8	0.0	0.0	0.0	1.2	12.8	16.95	95.89
FRANCE	0.0	0.2	0.0	3.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0	3.80
ITALY	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	2.5	0.0	0.0	0	5.00
IRELAND	0.0	8.7	0.0	0.0	16.8	6.1	24.6	0.0	0.0	0.0	24.8	0	81.00
USAID	29.8	22.0	0.0	6.1	12.6	58.6	145.5	0.0	0.0	0.0	0.0	7	281.60
WORLD BANK	0.0	0.0	0.0	12.6	0.0	0.0	27.0	0.0	0.0	0.0	0.0	2.1	41.70
ADB	0.4	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.70
OPEC	0.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0	0.0	0	0	3.00
SUB-TOTAL GRANT BY SECTOR	135.5	79.7	5.4	78.1	185.8	187.8	238.7	16.6	69.6	85.5	150.5	444.6	1677.80
LOANS													
AFRICAN DEV. BANK	38.3	4.7	2.0	0.0	8.9	5.8	0.0	0.0	0.0	0.0	61.5	0.0	121.22
WORLD BANK	40.0	13.2	30.0	30.3	0.0	20.0	27.0	20.0	0.0	58.0	30.0	47.5	316.00
BADEA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.5	12.0	0.0	26.50
KUWAIT FUNDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.0	0.0	0.0	22.00
OPEC FUNDS	0.0	2.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0	20.0	4.5	0.0	29.50
EIB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.4	11.40
SUB-TOTAL LOANS BY SECTOR	78.3	19.9	32.0	30.3	8.9	25.8	30.0	20.0	0.0	114.5	108.0	58.9	526.62
GRAND TOTAL BY SECTOR	213.77	99.64	37.42	108.43	194.74	213.54	268.7	36.6	69.6	199.95	258.55	503.48	2204.42

MATRIX OF DONOR PROGRAMME SUPPORT FOR THE PERIOD 2006-2010

BUDGET SUPPORT						
DONOR	2006	2007	2008	2009	2010	Total by donor
Denmark	0.0	0.0	0.0	0.0	0.0	0.0
Norway	7.3	11.7	10.0	10.0	10.0	49.0
Netherlands	6.9	10.2	10.8	10.8	10.8	49.5
UK	41.1	47.2	46.3	46.3	46.3	227.0
Finland	0.0	6.0	6.0	6.0	6.0	24.0
Sweden	6.0	13.9	12.9	12.9	12.9	58.6
Germany	0.0	6.4	6.0	6.0	6.0	24.4
EU - o/w	66.9	72.6	49.1	71.8	69.5	329.9
General Budget Support	41.9	32.7	29.75	30.8	31.8	166.9
Sector BS Roads	25.0	25.5	10.1	28.6	26.8	115.9
FASector BS PEM	0.0	6.5	5.4	3.6	2.0	17.5
Sector BS Health	0.0	7.9	3.9	8.9	8.9	29.6
TOTAL BUDGET SUPPORT	128.2	167.9	141.1	163.8	161.4	762.4

Programme loans for an amount of USD 10 million (WB) and USD 30 million (ADB) are projected in 2007

EDUCATION SWAP						
DONOR	2006	2007	2008	2009	2010	Total by donor
Denmark	3.0	8.0	5.0	5.0	5.0	26.0
DfID	5.0	1.7	1.8	1.8	1.8	12.1
Norway	15.9	14.4	15.0	15.0	15.0	75.3
Netherlands	13.0	21.4	23.8	23.8	23.8	105.8
Sweden	0.0	0.0	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.0	0.0	0.0	0.0
Finland	4.8	4.7	0.0	0.0	0.0	9.5
EU	2.9	2.9	0.0	0.0	0.0	5.8
USAID	1.4	0.0	0.0	0.0	0.0	1.4
Ireland	5.3	0.0	0.0	0.0	0.0	5.3
UNICEF	3.0	5.0	11.0	10.0	6.0	35.0
TOTAL EDUCATION SWAP	54.3	58.1	56.6	55.6	51.6	276.2

HEALTH SWAP						
DONOR	2006	2007	2008	2009	2010	Total by donor
Denmark	0.0	0.0	0.0	0.0	0.0	0.0
DfID	0.5	0.0	0.0	0.0	0.0	0.5
Norway	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	14.9	15.5	15.5	15.5	15.5	76.8
Sweden	12.9	12.9	15.5	15.5	15.5	72.3
Germany	0.0	0.0	0.0	0.0	0.0	0.0
Finland	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	8.9	8.9	17.9
USAID	0.0	0.0	0.0	0.0	0.0	0.0
JAPAN	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0	0.0	0.0
Italy	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	3.3	0.0	0.0	0.0	0.0	3.3
UNICEF	0.0	0.0	0.0	0.0	0.0	0.0
ADB	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL HEALTH SWAP	31.59	28.37	30.97	39.90	39.90	170.7

GRAND-TOTAL	214.08	254.41	228.65	259.25	252.90	1209.29
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ANNEX 3 - EXECUTIVE SUMMARY - ZAMBIA COUNTRY ENVIRONMENTAL PROFILE

Environmental Summary

Zambia is a large country (752,612 km²) with a highly urbanised population concentrated in two principal conurbations: Lusaka/Kafue and the Copperbelt, which hold 69% of the urban population.¹⁶ Outside these cores, the population is mostly distributed in clusters around other urban centres and in linear settlements along major roads. The average rural population density is low (approximately 9/km²). Human impacts on the environment largely match the population footprint with major negative influences resulting from localised, but intensive mining, industrial, agricultural and urban activities. The deforestation rate is high by world standards and its effects are widespread. Unsustainable wildlife and fisheries practices also contribute to the loss of biodiversity. Policies, legislative structures, and development strategies exist that can facilitate the mitigation of existing negative environmental effects and constrain new ones. But institutional capacities at all levels: government, private sector, civil society and the community, are weak. And although the economy is growing, financial resources for environmental management and controls are limited. Recommended priority action areas to reverse accumulating impacts include: the expanded dissemination of environmental information; increased contributions to natural resources and protected area management; capacity building in the public service to improve the consistent and effective delivery of environmental policies and regulations; and increased support for environmental research and monitoring contributions from non-state actors.

The Copperbelt mining complex, Kabwe, and the Lusaka-Kafue conurbation are the areas of principal negative local environmental impact. Extensive impacts also exist that are principally the outcomes of rural poverty – particularly deforestation, land degradation and reduction in wild animal populations. Deforestation rates are high by global standards and represent a significant diminution of forest resource opportunities. Eutrophic and toxic impacts on water bodies are also areas of concern, principally in the Kafue River catchment where most economic activity is concentrated.

There are very few and localised incidents of extreme land degradation and desertification – and these are usually related to mining impacts, or to poverty-induced, inappropriate and uncontrolled land uses. Little information exists on dry season bush fires and subsequent surface cover removal, but these are believed to represent significant causes of local nutrient loss and atmospheric pollution. Contributions to greenhouse gas (GHG) and ozone depleting substance (ODS) emissions are still relatively low, but monitoring of emission levels is still at a research level and adherence to chlorofluorocarbon (CFCs) and other protocols is problematic with insufficient resources. This is illustrated by the implementation of the international instruments on climate change. Opportunities to encourage afforestation, reforestation and forest management investments under the Clean Development Mechanism (CDM) of the Kyoto Protocol have been slowed by the protracted process of Zambia's ratification of that agreement

Policies and Legislative and Regulatory Environment

Policy, legislative and regulatory instruments exist for most sectors to support sustainable environmental management, and to control inappropriate developments. In many cases, these frameworks are in the process of modernisation and all generally incorporate domesticated coverage of international environmental and biological conventions. But many of these Acts are not seamless with each other and this is compounded by an overarching absence of real inter-sectoral coordination and dialogue¹⁷.

¹⁶ The 2000 Migration and Urbanisation Report recorded 34.7% urbanisation in Zambia, declining from 39.9% in 1980.

¹⁷ Ministry of Tourism, Environment and Natural Resources, 2005: Draft National Policy on Environment, Lusaka

Institutional Framework and its Capacity

Weaknesses exist also in the institutional capacity to disseminate, regulate, and enforce policies and legislation, especially in the core environmental ministry – the Ministry of Tourism, Environment and Natural Resources (MTENR). These weaknesses derive mainly from inadequate financial, human and systems resources. Another shortcoming is that many regulatory functions have been transferred from thematic legislations to the more generic Environmental Protection and Pollution Control Act of 1990. While this focuses legislation, it weakens the field controls of line departments, and particularly agriculture - on land use planning and management controls such as cultivation near water courses, shifting cultivation, and other catalysts of deforestation, damage to headwater catchments, river sedimentation and soil degradation.

National policy and planning structures that influence the utilisation of the environment include the National Conservation Strategy, the National Environmental Action Plan (NEAP), the Environmental Protection and Pollution Control Act, and more recently, the Vision 2030 document and the environment and natural resources chapters of the subsequent Fifth National Development Plan. The National Policy on Environment will be a key guiding document in the environment sector once it receives approval from the new cabinet.

The MTENR also hosts several important statutory bodies that also suffer from under-resourcing, with implications that are critical to the way these organisations implement their missions. For organisations such as the Zambia Wildlife Authority (ZAWA), tasked with joint responsibilities of developing commercial opportunities in the wildlife estate and with conserving natural resources in these areas, a shortfall of funding, coupled with demands for self-sustainability, may force decisions that subvert conservation objectives. Lack of establishment resources has so far precluded the commencement of the proposed Zambia Forestry Commission – and therefore also the innovative Forests Act of 1999.

Key Environmental Issues

To casual observation Zambia's natural environment is still appears largely undisturbed. From the perspective of more developed countries, this is a valid viewpoint. Some 60% of the land area is still forested, major river catchments are still largely unpolluted, and on average air quality is generally good by global standards.

These perspectives should not encourage complacency. Environmental degradation, by virtue of its underlying biological and physical systems, is incremental and may be an exponential process. Therefore, the identification, mapping and monitoring of existing and incipient degradation is important – preferably linked with the definition of causal, rather than symptomatic factors. Higher importance should also be attached to the limiting aspects that environmental degradation imposes on the resource base.

In this context, the current Fifth National Development Plan (FNDP) has made some progress and stakeholder analysis has identified several key environmental issues:

- land degradation and dereliction – mainly in mining areas, but increasingly also in peri-urban and highly settled and drought-prone agricultural areas;
- avoidance of future contamination and increased, appropriate handling of hazardous and radioactive wastes – mainly from mining and industrial operations;
- surface and groundwater pollution – in mining, urban and major agricultural areas;
- localised air pollution – again mainly in mining and major urban areas;
- deforestation – widespread but particularly evident adjacent to major urban areas and trunk road systems;
- wildlife depletion – with a similar, but more extensive impact footprint;
- fish stock depletion – in all fisheries;

- loss and degradation of wetlands (floodplains, swamps, dambos and mushitus¹⁸ – mainly in the Kafue River catchment;
- loss of biodiversity – as an outcome of all of the above issues¹⁹.

Causative Factors - Driving Forces

Causative factors can generally be focussed in five principal driving forces:

- high levels of population growth (in excess of 3% for the last decades). In a stagnant, or slow growing economy, this has impacted most noticeably through a paucity of formal employment and livelihood opportunities, particularly in the poorest (rural) areas;
- increase in droughts, rain intensity and extreme heat events affecting agricultural production, water availability and quality, and human and animal health. The severity of current impacts points out the communities' high vulnerability to climate change and variability
- institutional weaknesses, including excessive centralisation, inadequate monitoring and planning and little inter-sector coordination;
- weaknesses in some sectors in the formulation, and particularly the rate of implementation, of policies, legislation and regulatory frameworks;
- inadequate information dissemination – limiting knowledge among stakeholders, thereby reducing opportunities: for appropriate developments; for cooperative environmental impact avoidance; and/or mitigation measures.

State of the Environment - Areas of Extensive Impact

The pressure impacts of the environmental degradation issues noted earlier are felt in many locations, but usually in a localised way. But the wider systems impacts are occurring at a higher level and can be categorised into three extensive, thematic areas:

- 1) fragmentation of the country's protected areas and associated ecosystems;
- 2) deterioration of the quality of life in the main centres of human habitation (urban systems); and
- 3) the diminution of economic potentials in the natural resources base through short-term strategies that over-exploit, fragment and/or contaminate resources.

There is also a range of indirect environmental impacts. These include:

- i) reduced productivity in the natural resources sectors (for example, in agricultural land from nutrient depleted, or acidity-affected soils; and forestry from illegal, selective timber extraction that create low return/high cost forest management processes); and
- ii) increasing pressure on the status of protected areas and the sustainability of their resources (in the timber, hunting and non-consumptive tourism sectors);
- iii) other effects exist in human health (especially in high-density urban settlements);
- iv) increasing risks of extreme events; and
- v) dysfunction of social systems (through corruption, marginalizing the poor and vulnerable, disruption of customary systems and reduced personal safety).

Response Strategies

Four documents have been elaborated by government to create the foundation structures for future support to the environment: the NEAP, the National Policy on Environment, Vision 2030, and the FNDP. The FNDP provides a medium-term planning framework covering the period 2006 to 2010. As noted, it is

¹⁸ Wet drainage line forests

¹⁹ Ministry of Finance and National Planning, 2006: Draft Fifth National Development Plan, Lusaka

agreed that the environmental aspects of the FNDDP will be based on a renewed emphasis on the NEAP and the new National Policy on the Environment.

Cooperation Structures

The Harmonisation in Practice (HIP) and the Joint Assistance Strategy for Zambia (JASZ), together have generated a new and more coordinated and focussed approach to development support. Thematic strengths of individual cooperating partners are recognised and applied through sector leadership roles. However, ironically, this may have negative implications for the environment sector because donors with marginal involvement in the sector have now withdrawn from direct support. The intention is for them to mainstream environmental issues into all their programmes. However, there is a risk of important environmental issues being ignored until environmental mainstreaming is better defined and articulated as a sector-wide, crosscutting issue.

Gaps in Environmental Support

Gaps that may develop in the context of environmental support include:

- environmental inputs becoming marginalized and then reduced as a result of the JASZ process;
- difficulty in coordinating and rationalising environmental issues (including the understanding of mainstreaming actions and how to monitor and evaluate them);
- insufficient environmental checks and balances in the FNDDP (there are few environmental indicators identified for the monitoring system).

European Commission Support Areas

European Commission (EC) support to Zambia under the last three National Indicative Programmes has focussed on engineering infrastructure; capacity building in financial management and private sector development; the social sectors (particularly health, education, and more recently social welfare) and governance and the rule of law. This targeting is likely to continue (which will build strengths from continuity and institutional memory) and the application of environmental support needs to be evaluated in this context. Recommended areas of support from the EC include:

- the construction of capacity in state and importantly, non-state actors to collect, analyse, project, plan and monitor environmental and natural resource management interventions;
- building out consensus on, developing materials, disseminating them widely, and then applying mainstreaming environmental issues into all development programmes;
- building enhanced environmental issues and capacity into programme design and the procurement of technical assistance that implement programmes;
- providing support through complementarity actions in existing programmes and projects and special budget line support, to special environmental concern areas in the agriculture, forestry, fisheries and wildlife sectors – and to simplified support to non-state actor interventions;
- providing mechanisms for support to maintaining effectiveness of international environmental conventions.

Key Environmental Indicators

Key environmental indicators warranting closer monitoring include:

- 1) the quality of water in important river systems at key points (e.g. below the mining complexes on the Kafue River, immediately downstream of key agricultural development areas and at the principal domestic water intake points on the Kafue and Zambezi Rivers) (sources – mining companies, ECZ);
- 2) the extent and rate of deforestation – through periodic satellite-based systems, or repeatable sample surveys (sources – NGOs, FAO land cover assessment, Forestry Department assessments);
- 3) the number of animals hunted legally on an annual basis, by hunting block sources – ZAWA, civil society publications);
- 4) the annual national fish harvest, by fishery (Fisheries Department).

ANNEX 4 - ZAMBIA: COUNTRY MIGRATION PROFILE

Many African countries are adversely affected by critical shortages of qualified human resources created in part by large-scale migrations of professionals and university graduates. The migrants comprise mainly professionals such as medical doctors, nurses, accountants, engineers, teachers as well as technical level personnel who leave their home countries in pursuit of better opportunities in developed countries. In turn, the migration of qualified human resources leads to the deterioration of the provision of social services – health and education – as well as the depletion of critical skills necessary for the development of the productive sectors that ensure sustainable development.

The push factors of the brain drain include: poverty and lack of opportunities, bad governance, political instability and conflicts, and high levels of unemployment. Once this cycle is triggered off, it does not only result in the depletion of qualified workers and management skills, but also to insufficient capacity for sustainable development.

It has also been found that the migration of people from poor countries to developed countries might also contribute to increased resource flows in the form of cash remittances back to the home countries. In some countries, such remittances become an important source of foreign exchange; enabling the country to acquire vital imports or for paying off foreign debt. A country like Lesotho gets about 26% of its GDP from official remittances. There are estimates indicating that total migrant remittance receipts to developing countries are more than the combined inflows from ODA and DFI. As such, migrant remittances could be an important factor in the reduction of poverty especially at the household level.

The migration profile in Zambia has evolved over time. After the imposition of colonial rule as well as hut tax, at the turn of the last century, Zambia became a net exporter of migrant labour to Zimbabwe, South Africa, Congo and Tanzania. However, with the development of the mining industry, after the 1930s, Zambia became a net importer of migrant labourer mostly from Malawi, Tanzania, Angola and Mozambique. This situation changed with the adoption of labour stabilisation policies initiated during the 1950s and the attainment of independence in 1964 and the advent of wars of liberation that ensued thereafter.

Consequently, the more recent characterisation of Zambia's migration profile comprises three sets of migrations. These are: internal migration, influx of refugees and spontaneous resettlements in board areas; and the migration of skilled personnel for better pay in neighbouring countries and beyond also known as the brain drain. Apart from data on refugees which is available at the Ministry of Home Affairs, the Commissioner for Refugees, data on internal migration is only captured every 10 years during the Census of Population and Housing. The data on migration of Zambians working outside the country does not exist as there is no national agency responsible for compiling this data. The Manpower Survey which used to show the number of Zambian professionals is no longer published.

Internal Migration – General Situation

Internal migrations are essentially movements of people within the country. These movements are caused by either involuntary migration or by voluntary migration. Involuntary migration relates to situations where people are forced to leave their usual places of habitation through a government decree in order to change use of the area for some perceived national benefit. Usually, this displacement of populations is through the designation of National Parks and National Forests; the construction of big dams; the establishment of commercial farms or large agricultural projects and farming blocks; the development of large-scale mining operations; and the establishment of urban centres.

This type of involuntary displacement, apart from the designation of farm blocks, occurred during the colonial era when national parks (wilderness areas) and national forests were gazetted; when mining areas, settler commercial agriculture and urban settlement centres were demarcated; and when the Kariba Dam was built. During the demarcation of Crown Lands for settler agriculture and construction of the Kariba Dam, large movements and displacement of the population took place. This partly the reason for growing land pressure in the Southern Province.

Involuntary migrations or displacement of communities 'for the greater good of the nation' could be seen as a violation of peoples' rights especially when such displacement is not accompanied by commensurate compensation for both the displaced and the hosting communities. In Zambia, this is a human rights issue that is being recognised, albeit belatedly. This communal compensation is in the form the Gwembe Tonga Project under the auspices of the Zambia Electricity Company (ZESCO) which brings in development projects such as roads, electricity, and dams to areas along the Kariba Dam.

Internal voluntary migration relates to the movement of people from one part of the country to another. In Zambia, there are two forms of this type of migration. The first is referred to a rural-urban migration. This is largely due to the structuring of the Zambian economy. The structure and development of the Zambian economy is such that it is urban biased. Formal employment opportunities are found in the urban areas where most of the mines, manufacturing and service industries were located. In addition, the urban areas are better serviced in terms of infrastructure, and access to education, health, better housing and other social amenities. The rural areas on the other hand were designed to be a source of cheap labour, cheap food as well as a retirement home for those no longer in formal employment. This is part of the reason why Zambia has a large urban population compared to other developing countries.

The motive for the rural-urban migration is largely an indication that not much attention and effort has been put to developing the rural areas. As long as the country sees rural areas as sources cheap labour, food and a refuge for those who are no longer useful to the urban economy the migration of people from the rural areas will continue.

The migration of people from the rural areas to urban areas is also a form brain drain within national boundaries. In most cases it is the young, the better educated and the most enterprising who leave the rural areas to seek their fortune in the urban centres. As such, the rural areas are left with a population of the aged, the least educated and less enterprising people. Such a situation helps to perpetuate the dual economy which works at the disadvantage of the rural areas.

Internal migration is also caused by ecological and economic reasons. Fishing communities move from one fishery to another as fish stocks get depleted. The frequency of droughts, deteriorating soils and population pressure especially in Choma, Monze and Mazabuka districts have precipitated migrations to sparsely populated and higher rainfall districts such as Itezhi-tezhi District in the Southern Province and to other districts in the Central and Copperbelt provinces.

The majority of people involved in this type of internal migration are from the Southern Province. The popular explanation for the incentive to migrate from these districts is that peasant-farming practices have resulted in environmental degradation such as deforestation, soil erosion, and increasing soil acidity. While this may be true, the major underlying cause is land pressure resulting from previous land alienation to make way for commercial farming, the establishment national forests and wildlife conservation areas as well as the Kariba Dam.

However, the influx of people into Kaoma District, apart from the attraction of better soils and rainfall patterns is largely due to the landholding practices in the rest of Western Province that is perceived as not to be in favour of individual land ownership. As such, most retirees from other parts of the Western Province who wish to settle on their own farm holdings prefer to settle in Kaoma District where individual ownership and title to land is recognised by the traditional establishment.

More recently, another form of internal migration has become apparent. This is the movement of people from the urban areas especially on the Copperbelt to rural districts. This phenomenon is largely due to loss of jobs in the mining and manufacturing industries in most of the Copperbelt towns. The 2000 Census of Population and Housing found that, during the inter-censal period, the population of the Copperbelt grew by 0.8% when the national average was 2.5%. Before 1980, the Copperbelt and Lusaka provinces were the net recipients of migrants from the rural areas and as such, had population growth rate that were far above the national average.

This new form of migration is reflected in increase of population growth rates in Northern, Luapula and Lusaka provinces. There was also significant out migration from the Copperbelt to Kasempa and Solwezi districts in the North-Western Province. These migrations are motivated by economic factors: the hope of

better economic opportunities in Lusaka, and the possibility of improved livelihood from the rural economy.

Internal Migration – Data from the Living Conditions Monitoring Survey IV(LCMS IV)

During the 2004 LCMS IV, a total of 10,992,538 persons were recorded. Of these, a total of 383,121 persons or 4 percent of the population were in migration. Of these migrants, 3 percent were males while 4 percent were females.

The percentage of migrants in urban areas was higher than that of rural areas by 2 percentage points (3 percent and 5 percent for rural and urban areas respectively). Results further show that there were more migrants that were not involved in any agricultural activities (11 percent). There has been a reduction of 1 percent in the proportion of persons who migrate, from 5 percent in 1998 to 4 percent in 2004. However, significant increases were recorded for large-scale farmers, from 0 percent in 1998 to 6 percent in 2004.

The poverty status indicators also show that the not poor migrate more (5 percent) while the extremely poor are the least with 2 percent. The reduction in the proportion of migrants has been more pronounced in Luapula province from 6 percent in 1998 to 3 percent in 2004. Eastern province is the only province that had a proportion of migrants that was above the national average with 5 percent. There were more migrants in the age range 20-39 as opposed to the other younger and older age groups for both males and females. This pattern has remained the same since 1998 although the proportions of migrants in both 20-24 and 25-29 age groups were higher in 1998 (6 percent) than in 2004 (5 percent).

There were more people who migrated from one urban area to another (147,036) making about 38 percent. These were closely followed by those who had migrated from one rural area to another (32 percent). The urban to rural migrants were the least with 14 percent. The main reason why people had migrated 12 months prior to the survey was that the head of the household was transferred (25 percent). This was followed the reason that people had decided to resettle (16 percent) while ‘back from school’ and ‘retrenchment’ were the least with 1 percent in either case.

Migrants and Non-Migrants by Residence, Strata and Province, Zambia, 2004

Characteristics	Migration Status				Total	
	Migrants		Non-Migrants			
	Number	Percent	Number	Percent	Number	Percent
All Zambia	383,121	4	10,609,417	96	10,992,538	100
Sex						
Male	187,660	3	5,213,579	97	5,401,239	100
Female	195,461	4	5,302,694	96	5,498,155	100
Residence						
Rural	184,893	3	6,510,952	97	6,695,845	100
Urban	198,228	5	4,098,465	95	4,296,693	100
Rural Stratum						
Small Scale	145,597	2	5,862,956	98	6,008,553	100
Medium Scale	5,211	2	330,220	98	335,431	100
Large Scale	1,555	6	26,067	94	27,622	100
Fish Farming	-	-	13,806	100	13,806	100
Non-Agriculture	32,530	10	277,902	90	310,432	100
Urban Stratum						
Low Cost	128,230	4	2,904,173	96	3,032,403	100
Medium Cost	42,514	5	760,757	95	803,271	100
High Cost	27,484	6	433,535	94	461,019	100
Province						
Central	39,355	3	1,097,111	97	1,136,466	100
Copperbelt	65,598	4	1,596,572	96	1,662,170	100
Eastern	68,558	5	1,446,047	95	1,514,605	100
Luapula	23,865	3	839,631	97	863,496	100
Lusaka	52,297	3	1,481,187	97	1,533,484	100
Northern	48,875	3	1,359,494	97	1,408,369	100

North-Western	16,252	2	641,368	98	657,620	100
Southern	40,134	3	1,321,511	97	1,361,645	100
Western	28,187	3	807,438	97	835,625	100
Poverty Status						
Extremely Poor	110,952	2	4,934,635	98	5,045,587	100
Moderately Poor	51,789	4	1,389,127	96	1,440,916	100
Not Poor	220,380	5	4,192,511	95	4,412,891	100

Source: Living conditions monitoring survey report 2004

Refugees and Spontaneous Settlement in Boarder Areas

Zambia is one of the most peaceful countries in the region. In spite of being surrounded by belligerent neighbours, the country has not experienced civil strife. As a result, Zambia has been a haven for many refugees from many countries in the region. During the wars of liberation in Southern Africa, Zambia hosted political refugees from South Africa, Namibia, Angola, Mozambique and Zimbabwe. During the civil wars in Angola and Mozambique, Zambia hosted refugees from those countries. The civil war in the Great Lakes region has generated a number of refugees from Rwanda, Burundi and Congo DR.

Number of Refugees in Zambia and Place of Settlement 2002 – 2006

Settlement	2002	2003	2004	2005	2006
Camps	136,211	128,637	96,590	73,660	70,728
Urban	4,338	4,858	4,931	5,255	5,486
Self-settled	126,471	126,327	75,000	75,000	75,000
Total	267,020	259,822	176,521	153,915	151,214

Source: Office of the Commissioner for Refugees, Ministry of Home Affairs, Zambia

Whenever the security situation improves in the home countries, refugees are repatriated and resettled in their home country. Almost all the refugees from Mozambique have since returned home. Similarly, a large percentage of refugees from Angola have been repatriated. Between 2003 and 2005 a total of 63,324 refugees were repatriated to their home countries. The more detailed breakdown of the number of refugees, country of origin and place of settlement is provided below.

Number of Refugee by Country of Origin and Settlement 2002 – 2006

Country	Settlement	2002	2003	2004	2005	2006
Angola		209,050	193,056	91,430	75,450	74,109
	Camps	87,987	71,989	42,351	26,367	25,022
	Urban	63	67	79	85	87
	Self-settled	121,000	121,000	49,000	49,000	49,000
Burundi		1,828	2,071	1,843	2,152	1,403
	Camps	834	1,092	789	1,054	278
	Urban	594	663	654	698	725
	Self-settled	400	316	400	400	400
Congo DR		49,071	57,354	66,263	59,376	60,507
	Camps	43,708	51,695	49,580	42,463	43,465
	Urban	1,363	1,659	1,683	1,913	2,042
	Self-settled	4,000	4,000	15,000	15,000	15,000
Rwanda		5,506	5,779	5,797	5,674	3,948
	Camps	3,509	3,720	3,778	3,632	1,859
	Urban	997	1,119	1,119	1,142	1,189
	Self-settled	1,000	940	900	900	900
Somalia		937	1,006	1,675	1,693	1,693
	Camps	8	30	1	6	2
	Urban	929	976	974	987	991

	Self-settled	0	0	700	700	700
Uganda		227	232	735	744	762
	Camps	16	18	16	19	32
	Urban	211	214	219	225	230
	Self-settled	0	0	500	500	500
Others		401	324	8,778	8,826	8,792
	Camps	149	93	75	119	70
	Urban	181	160	203	207	222
	Self-settled	71	71	8,500	8,500	8,500

Source: Office of the Commissioner for Refugees, Ministry of Home Affairs, Zambia

Angolan has by far the largest number of refugees in the country followed by Congo DR. The Angolan and Congolese refugees also constitute the largest number of refugees settled in refugee camps as well as the self-settled refugee, mostly in the border areas while the majority of refugees from Somalia and Uganda are settled in urban areas.

It should be noted that the number of 'registered' refugees does not give a true reflection of the number of foreigners in the country. Zambia and its eight neighbouring countries has a long history of spontaneous settlement of population along the border areas depending on the vagaries of the weather and political and socio-economic situation on either side of the international boundaries. Large numbers of unrecorded refugees settle in the boarder areas especially since the national boundaries cut across the same ethnic and linguistic groups. This is the reason why districts bordering strife torn countries such as Angola and DRC recorded high population growth rates. Traditionally, it is these same districts which have had low population growth rates due to outward migration to urban areas.

Population Size and Average Annual Growth Rates for Selected Districts

Province & District	1990 – 2000 Population				Average Annual Growth Rate (percent)		
	1990	2000		Total	Male	Female	Total
	Total	Male	Female				
Luapula Province	564,493	387,825	387,528	775,353	3.4	3.1	3.2
<i>Chiengi</i>	47,290	41,979	41,845	83,824	6.1	5.7	5.9
<i>Nchelenge</i>	20,045	56,343	54,776	111,119	4.5	4.2	4.3
Northern Province	925,865	629,976	628,720	1,258,696	3.3	3.0	3.1
<i>Kaputa</i>	53,403	44,556	42,677	87,233	5.2	4.9	5.0
Western Province	638,756	371,844	393,244	765,088	2.1	1.6	1.8
<i>Shang'ombo</i>	46,852	33,493	36,556	70,049	4.4	3.9	4.1
Zambia	7,759,117	4,946,298	4,939,293	9,885,591	2.6	2.3	2.5

Source: Summary Report, 2000 Census, Annex 1, pp 12 – 13.

Brain Drain

At independence in 1964, a UN/ECA Report, Zambia was dubbed as the least educated country in the least educated continent. After the attainment of independence, the Zambian government invested very heavily in the provision of education: new primary and secondary schools were built, additional Teachers' Training and other tertiary Colleges including the University of Zambia were built; and school fees were abolished throughout the educational system.

Zambia also benefited from scholarship programmes offered by a number of countries to enable Zambians to pursue post-secondary and post-graduate studies abroad. In addition, the University of Zambia established a staff development programme which sponsored Zambian graduates to pursue graduate and post-graduate training in Europe and North America especially those who intended to take up employment as lecturers at the University of Zambia. In addition, the parastatal companies offered scholarships to Zambian students to study abroad to acquire specialised technical and professional skills required by the public enterprises. Together, these efforts resulted in turning Zambia as one of the highly educated countries in Southern Africa by the mid 1980s.

However, the collapse of the economy during the same period witnessed the begging of a mass exodus of university lecturers to other Southern African countries. This was largely due to the fact that these countries did not have qualified university lecturers as most of the universities in the region did not have similar staff development programmes that Zambia had put in place. By the late 1990s, universities in

Botswana, Lesotho, Swaziland, Namibia and South Africa had many Zambian lecturers employed in their universities. In some university faculties in Botswana and Namibian universities the percentage of Zambian lecturers were as high as 40 to 50% of the staff compliment. There is also evidence of Zambian secondary and primary school teachers finding jobs in neighbouring countries such as Botswana and Namibia.

The exodus of medical personnel is very similar to that of university lecturers. The only difference is that it was made worse by the poor living and working conditions in Zambian hospitals as well as the mass sacking of medical doctors in 2000 during the Chiluba regime. However, the boom in the number of private clinics and hospitals as well as the establishment of the Central Board of Health contributed to stemming the high rate of migration among medical doctors.

This, however, did not stop the migration of nurses and midwives from Zambia. The increase in the demand for nurses, midwives and other health care professionals in the developed English speaking Commonwealth countries (England, Canada, Australia and New Zealand) exacerbated the migration of medical personnel to these countries.. This is largely due to the increase in the number of old people that nursing care and the fact that health care related professions in these developed countries are less attractive to young health professionals in these countries.

Other professionals that have left the country include accountants and engineers. The phenomenon of accounting personnel leaving the country is relatively recent and it involves young people who have attained basic accounting qualifications but who cannot find employment in Zambia but whose skills are in great demand in the more buoyant economies of the region. Civil and project engineers as well as quantity surveyors have found their way in neighbouring countries especially as partners to locals professionals running consulting engineering firms.

However, one group of professionals that has not been foot loose relates to those in the mining disciplines. Zambia has had a long history of large-scale mining and has over the years trained a good number of professionals in geology, mining engineering, and metallurgy. In spite of the decline in mining operations in the country as well as the privatisation of the mines which resulted redundancies even in the professional scales, not very many mining engineers, metallurgists and geologists have the left the country.

Most discussions relating to the brain drain centre concern themselves with the loss human resources for sustainable development. On the other hand discourses concerning the migration of low-level skilled persons focus more on role of the remittances of migrants to foreign exchange earnings, acquisition of skills and increased investment in the home country. In the case of Zambia, none of these apply. This due to a number of reasons.

First, and although Zambia invested very heavily in it human resources development through education and training, the Zambian economy did not grow at the level that that it was producing its high level manpower resources. As a result, the country was not in a position to absorb and pay its technical and professional manpower even after investing so much in their education and training. The example of the fate of its academics and medical personnel are a cases in point.

Secondly, most of the highly educated migrant workers – lecturers, doctors and accountants – are employed in the region and very few are working in Europe or North America. Further, a large number of Zambian professionals are employed at home in the many donor sponsored development projects around the country. And the many doctors who have left the public health sector are working within the country in the many private clinics that have sprung up in Zambia.

Thirdly, the many of the Zambian professionals working in the region do not earn much to enable them send money back home. This has to do with the fact that owing to the nature of early migration from the rural areas to urban centres, most Zambians feel at home wherever they are. Unlike other Africans who have strong roots in their places of origin (in rural areas) most Zambians establish homes at places of employment whether it is in Zambia or not. As such most income earned is used for family consumption, accommodation, children's education, etc. In additions, Zambian migrants move with their families and

as such, there is less likelihood or need to send money in the form of remittances to support family members left behind.

Lastly, most of the Zambians working in Europe and South Africa, a good number of whom are illegal migrants, occupy lowly paying jobs (in restaurants, old people's homes, and/or cleaning public places where salaries are low but rentals for accommodation are high due to the illegality of migration) their incomes are so low that they not enable to save money for later investment in the Zambia or support the extended family left behind. As a result, not many Zambians working abroad are holding jobs that could generate a surplus for investment at home or abroad.

ANNEX 5. CSP DRAFTING PROCESS CONSULTATIVE MEETINGS

	Date	Agenda	Venue
EU Member States	2 June 06	Guidelines, Initial orientations	EC Delegation
	11 July 06	Issues Paper, Draft Governance Profile	EC Delegation
	13 July 06	Draft Governance Profile	HoMs. Embassy of Finland
	24 July 06	Draft Governance Profile	EC Delegation
	9 Nov 06	Draft CSP/NIP. GP	HoMs. Embassy of Finland
	22 Nov 06	Draft CSP/NIP. GP	EC Delegation
	6 June 07	Distribution incentive tranche	EC Delegation
	23 October 07	Final draft CSP/NIP	EC Delegation
NAO/MFNP, EU MS + Non-EU cooperating partners in governance	19 January 07	GRZ's commitments on governance	EC Delegation
NAO/MFNP	12 July 06	Issues Paper	MFNP
	6 Sept 06	Issues Paper	MFNP
	19 Oct 06	Draft CSP/NIP	MFNP
	24 Nov 06	Draft CSP/NIP GRZ's commitments on governance	MFNP
	19 Dec 06	GRZ's commitments on governance	MFNP
	25 June 07	Distribution incentive tranche	MFNP
Civil Society	3 Aug 06	Issues Paper, Draft Governance Profile	EC Delegation
	19 Oct 06	Support to EPAs, link with CSP and RSP	Conference venue
	24 Nov 06	Draft CSP.NIP. EU GP profile	EC Delegation
CSO + Local Authorities	10 Feb 07	Governance profile GRZ response	EC Delegation
Local Authorities/NAO	26 Sept 06	Draft CSP/NIP	EC Delegation
Sectors (line Ministries & public agencies, cooperating partners)	19 June 06	Transport. Infrastructures sectors	EC Delegation
	12 Sept 06		
	20 Sept 06		
	26 Sept 06	Agriculture. Food security sectors	EC Delegation
	19 Sept 06	Education sector	Ministry of Education
	19 Sept 06	Health sector	Ministry of Health
Sectors(coop. partners)	12 Oct 06	Education sector	Embassy of Norway
Sectors(coop. partners)	16 October 06	Health/Education sectors	EC Delegation

NSA participation in the national development policy process (FNDP)

Sectoral Advisory Groups (SAGs), established for the preparation of the PRSP, have become an important voice in strategy development and monitoring. SAGs also provide a mechanism to review budget allocations and their alignment with the FNDP. Twenty-two SAGs, chaired by the relevant sector ministries and including stakeholder representatives, have drafted the FNDP. The periodicity of different SAGs' meetings has varied, with, at times, significant time lapses between meetings for some sectors. All SAGs are expected to hold joint, biannual national conferences to discuss progress in strategy implementation. Dialogue between the SAGs and the MFNP and line ministries otherwise occurs on an ad hoc basis.

While many CSOs participate in SAGs, the impact of civil society in monitoring has varied. The Government has aimed to address capacity constraints by proposing a training program among SAG members; a training needs assessment was conducted in 2004 and was concluded in 2005. Separately, the Civil Society for Poverty Reduction (CSPR), an umbrella NGO established in 2000, contributed to the PRSP through an autonomous consultative process. The CSPR conducted an independent evaluation of PRSP implementation and provided independent inputs into the FNDP. The CSPR has been an active member of SAGs and its views have been taken into account in preparing the FNDP.

During the formulation process of the FNDP, consultations on local needs took place in each of the 72 districts. Following these consultations and with assistance from the MFNP and local authorities, District Development Coordinating Committees (DDCC) prepared district plans, although ambitious timeframes and deadlines at times limited stakeholder input. The district plans were consolidated at the provincial level before submission to the national level as inputs to the FNDP. Private sector representatives participate in SAGs and individual businessmen participate in the provincial consultations.

While the National Assembly is involved in the national development strategy through the budget process, the Constitution does not provide for parliamentary approval of the development planning, and the National Assembly has not formally approved the strategy in the past. Co-operating partners will engage in a dialogue with the new Government to encourage at least a parliamentary discussion on the FNDP. Select committees of parliament have the authority to summon senior civil servants to provide information on government policy. The Public Accounts Committee summons Permanent Secretaries for inquiry on budget execution following presentation of the Auditor General's report.

10th EDF programming. Meeting with CSOs (3 August 2006), main conclusions

In relation to budget support and the national budget, CSOs indicated that under the PRSP, the PRSP policies and priorities were not reflected and translated into the annual budget, and that this is an essential problem to avoid under the FNDP. As formulated (zero draft) the FNDP doesn't contain guarantees to ensure these links policies, sector targets and budget allocations. Real involvement of civil society (in particular through the SAGs) and Parliament in the budget process is necessary to ensure the adequate composition and execution of the budget. The Delegation recognised the key importance of these issues for Budget Support cooperating partners. The mentioned technical and institutional links are not clearly established in the FNDP, but this latter offers a first basis of financial projections for poverty related public expenditures. The question is to ensure the nexus between these FNDP financial projections, the MTEF and the annual budgets, as well as the participatory modalities in all this process. In particular the role of SAGs must be more defined. Parliament capacities must be reinforced. A first project under the 9th EDF PRBS 1 has just started to support CSO capacities in monitoring FNDP and annual budget execution through the mentioned umbrella organisation CSPR

CSOs also raised the question of the statistical information systems in health (HMIS) and education (EMIS) funded under the 9th EDF. It is useful to have this information, but what is happening after? The Delegation replied that these can be important instruments to adapt and improve the implementation of sector policies and strategies, and that they can play an essential role in ensuring a more correct

monitoring of FNDP achievements. But other type of information that is necessary to monitor in the social sectors: the financial information related to budget implementation at the service delivery level.

The perspectives considered for the road transport sector under the 10th EDF were also examined. Why the road Luangwa Bridge-Chipata is taken into account? Why secondary roads are not contemplated, for instance in relation to the Zimba-Livingstone road rehabilitation project (connections to Kalomo or Choma...) Are the districts involved in setting the priorities. The Delegation explained that the rehabilitation of Luangwa Bridge-Chipata road is considered as a national priority (FNDP) for the purpose of regional connectivity and trade (Nacala corridor to Malawi and Mozambique), but also to improve access for the Eastern Province. This possibility (not confirmed) has been discussed with national institutions (RDA and the 2 ministries, Works and Transport) and according to the available estimates, it could absorb more or less only a fourth of the expected allocation for the transport sector under the 10th EDF. Secondary roads are considered under the periodic maintenance programme (9th EDF) implemented through sector budget support (RDA). The involvement of district authorities (District Councils) is ensured for roads under their charge (in particular feeder roads), according to the reform giving to these authorities the responsibility for managing rehabilitation/maintenance works on these roads. A special component (EUR 20 million) of the mentioned sector budget support 9th EDF has been proposed for feeder roads rehabilitation.

CSOs referred to the need of capacity building for NGOs, not only in the more classic areas, but also in new areas like trade. The current negotiation of EPAs should involve NSAs, but for that sufficient training and capacities are required The Delegation replied that there is a provision under the 9th EDF private sector project to support NSAs and intermediary organisations. If required, this allocation could be implemented in a flexible way to also cover these needs related to the EPA process, considering the tight timing (in principle the EPA agreement should be formalised by end 2007).

CSOs raised the question of possible support to decentralised institutions at district level, emphasising the important role that DDCCs can play as coordination and participatory mechanism at district level. The Delegation explained that this local support is inherent to some specific projects (feeder roads and agriculture under the 9th EDF, to continue under the 10th EDF) and territorial areas in which these institutions (District Councils for feeder roads and DDCCs for agriculture) are considered in the implementing modalities. A more general support to local institutions and to the decentralisation process could be considered depending on the final result and allocation for the Governance Profile, and in close coordination (JASZ) with other Cooperating partners involved in the decentralisation area.

10th EDF programming. Meeting with local authorities (Local Government Association of Zambia) and NAO (26 September 2006)

After detailed discussions it was concluded as follows:

1. That the Local Government Association of Zambia shall be invited and participate in future meetings of the 10th EDF programming and implementation reviews.
2. That consideration shall be made to extend EDF support (capacity building) to local authorities through the focal area infrastructure (through more responsible involvement of District Councils in the management and planning of the feeder roads/district roads programme) and also in the of area agriculture and food security(9th EDF project in Western and North-Western provinces and continuation under the 10th EDF).
3. That consideration will be made to support selected urban local authorities with respect to the appropriate planning and upgrading of road infrastructure connecting the main trunk roads passing through town centres currently being rehabilitated by the EU, e.g. Zimba/Livingstone road. It was agreed that support in this regard shall include the consideration of opening-up of safe urban space for non-motorized traffic participants (cyclists and pedestrians) that will enhance

the urban business environment as well as increasing the attractiveness of town centres for leisure purposes.

4. That consideration will be made to support Governance issues relevant to local government, particularly those relating to the implementation of the Decentralization Policy and PFM reforms (PEMFA) at local level. These issues could also be considered in future reviews of the Performance Assessment Framework(PAF) for general budget support
5. That the Local Government Association of Zambia be supported to lobby for increased allocation of budget resources to local government, funded out of the EU direct budget support.

ANNEX 6. THE HARMONISATION//ALIGNMENT IN ZAMBIA. THE JASZ

In line with the Paris Declaration 2005, to which the government of Zambia and its cooperating partners are signatory, has been promoted the JASZ: Joint Assistance Strategy for Zambia. The overall objective of the JASZ is to harmonize government national initiatives and development assistance provided by cooperating partners in the support to the implementation of Zambia's national development goals defined in the Fifth National Development Plan (FNDP) 2006-2010.

Since 2003, the government in collaboration with some pioneer cooperating partners (Nordic Plus group) developed a framework for harmonization and alignment. In April 2004, the “Memorandum of Understanding for Harmonization of Government/Donor Practices for Aid Effectiveness in Zambia”, often referred to as the Wider Harmonization in Practice (WHIP) agreement, was signed by 10 cooperating partners. By 2006, the Memorandum had been signed by all the EU Member States represented in Zambia, the EC and the main non EU cooperating partners.

The WHIP agreement aims to follow-up on international agreements on aid effectiveness by following principles, processes and procedures to increase harmonization with the objective of achieving poverty reduction and the MDGs, both among external partners themselves and between external partners and the Government. The WHIP agreement aims to increase Government leadership of coordination by calling for the establishment of an external development assistance policy, with the Ministry of Finance and National Planning at the head, to provide guidelines and procedures to govern various areas including coordination and harmonization, ODA agreements, and technical assistance as well as financial and accounting systems. In addition, the WHIP agreement called for an Aid Management Capacity Assessment to be undertaken. Key element of the Memorandum is an annex with specific actions and associated deadlines in relation to: increased use of direct budget support, establishment of more SWAPs, increased reliance on government systems for procurement, fund management and auditing, use of TA pools and preparation of a JASZ with an improved Division of Labour.

The JASZ seeks to rationalize and coordinate interventions by cooperating partners within the framework of the national development strategy (FNDP) and to establish a Division of Labour (agreed by the Government and cooperating partners in June 2006, see Table 1) for “de-congesting” sectors that were oversubscribed, with a. reduced number of lead partners in each sector, to act under agreed terms of reference. The selection of leading donors has been done not only examining the amount of resources committed but also the sector technical capacities of the possible leading donor.

The FNDP was officially launched by the Government in January 2007. After an intensive process of preparation and agreement (June 2006-April 2007), the JASZ was signed in May 2007 by twelve bilateral cooperating partners (Canada, Denmark, Finland, Germany, Ireland, Italy, Japan, Netherlands, Norway, Sweden, UK, US) together with the BW Institutions, the African Development Bank, the European Commission (EC) and the United Nations (UN) system. Of these signatories Germany, Great Britain, Ireland, Norway and Sweden will replace their current country strategies for development cooperation with the Government with the JASZ. The other signatories will base their maintained country strategies on the JASZ.

Key objectives of the JASZ are to:

- Establish a shared vision and guiding principles for cooperating partners (CPs') support to the objectives of the FNDP. Articulate priorities for support during the Plan period
- Replace or better align CPs' country strategies (including resource allocations) with FNDP priorities, targets and country systems
- Improve aid delivery by achieving a more effective Division of Labour and allocation of CPs' resources

- Deepen the results focus of assistance programmes
- Simplify aid management and improve aid predictability, and
- Reduce transaction costs for the Government

Besides, the harmonisation/alignment agenda for the next phase (2007-2010) has been adapted and developed on the basis of the targets 2010 considered under the Paris Monitoring Survey 2006 (Table 2)..

Summary of draft Zambian Aid Policy and Strategy

Principles

1. *Country ownership:* To the extent that development cannot be imposed upon a people, the Government of Zambia shall take responsibility for setting Zambia's own development vision and goals. In this respect, the Government shall make a conscious effort to move away from donor-led interventions towards country ownership. This shall entail (a) the building of a supportive policy environment and a country-led and effective organisational infrastructure in support of poverty reduction; (b) the creation of a more policy and organisational space for Zambian people to take the lead in, and ownership of, their own development programmes; (c) a preferential shift towards untied aid, including budget support; and (d) to make better use of existing systems and capacities within Zambia in the implementation of externally-supported programmes and, consequently, reduce the reliance on external technical cooperation. In the context of these ideals, cooperating partners shall ensure that all their supported activities in Zambia shall be consistent with the country's own programmes. This principle entails Government's imposition of its will and priorities on cooperating partners and the implied readiness to reject aid if it is not consistent with national aspirations and priorities as stated in the country's national development plans.
2. *Accountability and good governance:* In its development cooperation with external actors, the Government shall continue to abide by internationally agreed principles of accountability, good governance, social justice, transparency in both the political and economic spheres, and the respect of the rule of law. To realize these ideals, the Government shall continue to reform Zambia's economic and political system in such a manner as to satisfy realistic expectations of cooperating partners in the utilisation and transparent accountability of external assistance.
3. *Sectoral and regional allocation of own as well as external resources should contribute to the promotion of Justice and equity in the country:* The Government shall promote equity in the distribution of resources and the country's cooperating partners shall be invited to contribute to the enhancement of this ideal. The focus on poverty reduction that takes into account the existing disparities between regions and among different social groups shall be part of the Government's effort to promote social justice for, and equality of, Zambian people. The Government's commitment to poverty reduction, will be guided principally by the Millennium Development Goals (MDGs) targets. In this respect, it is Government policy to primarily solicit for external assistance that target key sectors that contribute to the attainment of the MDGs, covering such fields as basic education, health, food security, water and sanitation, HIV and AIDS, private sector development, and gender equality.
4. *Enhancement of true partnership through dialogue, coordination, harmonization, alignment, and information sharing:* Zambia's interaction with its cooperating partners shall be guided by an inclusive and well-informed dialogue in the spirit of real partnership. This calls for the development of effective dialogue mechanisms that will be designed by and for the benefit of the people of Zambia. Through these dialogue mechanisms and structures, the Government, civil society and cooperating partners shall share and exchange information on best practices and standards for Zambia's development.

TABLE 1. DIVISION OF LABOUR IN ZAMBIA. JUNE 2006

Sector from NDP	Lead Ministry	China (proposed)	ADB	BADEA	EC (excl. EIB)	IMF	KUWAIT Fund	OPEC	UN Systems	WB	Canada	Denmark	Finland	France	Germany	Ireland	Japan	Netherlands	Norway	Sweden	UK	USA	Total lead/active
Agriculture	MACO		A		A				A	L			A				A	P	B	L		L	8
Decentralization	MLGH								A	L		B			L	A	L	B			A	B	6
Education	MoE		B	B	A				A	A	P	A	P			L	A	L	A		A	A	10
Energy	MEWD				B				B	L							A		A	A			4
Gender	CO-GIDD								L									A	A			A	4
Governance	MOJ				A				L	A		A	B		A	A		A	L	P	L	A	10
Health	MOH				A				L	A	A	P				P	A	A		L	L	A	9
Housing	MLGH, MOL									A										P		A	2
HIV/Aids	MOH								L	A	B					B	A	A	A		L	L	7
Macro-economics	MOFNP				L	A			B	L		B	A		A	B		A	A	A	L	B	9
Private Sector Dev.	CO-DSC/MCTI				L				A	L	B		A			B	A	L		P	B	A	7
Social Protection	MCDSS		A						A	B					L						L		4
Science and Tech.	MTEVT									P													0
Tourism	MTENR									L							A		L			A	4
Water (WR and WSS)	MEWD/MLGH		A		B				A	A		L			L	A	A	B					7
Transport	MWS/MCT		A		L		A	A		A		A			P		A		B				7
Environment	MTENR								A	A		B	L						A				4
Total lead responsibilities					3				4	6		1	1		2	1	1	2	2	2	5	2	

XXX Non-signature to the WHIP MoU; L Lead CP; A Active CP; B Background CP; P Phasing out

TABLE 2. PARIS MONITORING SURVEY 2006: ZAMBIA (Results for 2005)

INDICATORS		2005 Baseline	2010 Indicative Target	Management arrangement	Assumptions
1	Ownership – Operational PRS	C	B or A		
2a	Quality of PFM systems	3.0	3.5		
2b	Quality Procurement systems	not any	TBA		
3	Aid reported on budget	53%	85%	Lead CPs Macroeconomics; PRBS group. WHIP lead troika.	<i>GRZ maintains commitment to implement the FNDP; PEMFA, improvement in MTEF and annual planning and budgeting. DAD operational;</i> GRZ provides sufficient funding and staffing.
4	Coordinated capacity development	32%	50%	- WHIP Lead Troika for overall discussion on CD. - Sectoral lead CPs for sector-specific discussions.	New PBAs/SWaps (see Indicator 9).
5a ⁱ	Use of country PFM systems (aid flows)	34%	TBA	- Lead CPs Macroeconomics; PRBS group. - Sectoral lead CPs.	Progress in PEMFA implementation
5a ⁱⁱ	Use of country PFM systems (donors)	7	TBA	- Lead CPs Macroeconomics; PRBS group. - Sectoral lead CPs.	<i>Progress in PEMFA implementation</i>
5b ⁱ	Use of country procurement systems (aid flows)	41%	TBA	Sectoral lead CPs.	Progress in PEMFA implementation
5b ⁱⁱ	Use of country procurement systems (donors)	12	TBA	- Lead CPs Macroeconomics - Sectoral lead CPs.	Progress in PEMFA implementation.
6	Parallel PIUs	30	10	- <i>WHIP lead troika.</i> - <i>Sectoral lead CPs.</i>	Progress on PSRP/PSM; GRZ implementation capacity strengthened.
7	In-year predictability	52%	76%	Sectoral lead CPs .	GRZ adheres to underlying principles of PRBS-MoU and meets PAF-indicators; improved GRZ annual planning and budgeting to enable realistic planning/budgeting on the CP-side; GRZ meets its own financing obligations (releases) for supported projects/ programmes.
8	Untied aid	81%	progress	- WHIP lead troika. - Sectoral lead CPs.	
9	Use of programme-based approaches	42%	66%	- WHIP lead troika; sector leads. - Sectoral lead CPs	GRZ adheres to underlying principles of PRBS-MoU and meets PAF-indicators; sectoral commitment to programme-based approaches across line-ministries.
10a	Coordinated missions	15%	40%	- WHIP lead troika based on reports from sectoral lead CPs.	New PBAs/SWaps (see Indicator 9).
10b	Coordinated country analytic work	61%	TBA	WHIP lead troika based on reports from sectoral lead CPs.	Individual CP's needs are accommodated through NDP/JASZ processes.
11	Sound performance assessment framework	D	B or A	- <i>Technical WG on NDP Monitoring.</i> - Sectoral lead CPs.	<i>GRZ/CP-commitment to NDP-implementation.</i>
12	Reviews of mutual accountability	No	Yes	WHIP lead troika in collaboration with selected sector lead CPs.	

TABLE 2. PARIS MONITORING SURVEY 2006: ZAMBIA (Results for 2005)
ANNEX 7 – CONVENTIONS RATIFIED BY ZAMBIA

International Human Rights Conventions		Date of Ratification
1	The Convention relating the status of Refugees adopted by the United Nations Conference of Plenipotentiaries on the Status of Refugees and Stateless Persons, held at Geneva from 2 to 25 July 1951, and entered into force on 22 April 1954 and its 1967 Protocol	24/09/1969
2	The International Covenant on Economic, Social and Cultural Rights (ICESCR) adopted by the General Assembly on 16 December 1966 and entered into force on 3 January 1976.	10/04/1981
3	The International Covenant on Civil and Political Rights adopted by the General Assembly on 16 December 1966 and entered into force on 23 March 1976 (ICCPR) and the First Optional Protocol to the International Covenant on Civil and Political Rights. The First Optional Protocol to the Covenant provides for the confidential consideration of communications from individuals who claim to be victims of a violation of any of the rights proclaimed in the Covenant.	10/04/1984
4	The International Convention on the Elimination of All Forms of Racial Discrimination adopted by the General Assembly on 21 December 1965 and entered into force on 4 January 1969 (CERD).	4/02/1972
5	The International Convention on the Suppression and Punishment of the Crime of Apartheid opened for signature at New York on 30 November 1973 and entered into force on 18 July 1976.	14/02/1983
6	The Convention on the Elimination of all forms of Discrimination against Women, adopted by the General Assembly on 18 December 1979 and entered into force on 3 September 1981 (CEDAW).	21/06/1985
7	The Convention on the Rights of the Child (CRC) adopted by the General Assembly on 20 November 1989 and entered into force on 2 September 1990.	6/12/1991
8	Convention against Torture and Other Cruel, Inhuman, Degrading Treatment or Punishment (CAT), opened for signature, ratification and accession on 4 February 1985, adopted by the General Assembly on 10 December 1984, and entered into force on 26 June 1987.	7/10/1998
8	As of 7 May 2001, the Republic of Zambia had failed to ratify Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty	N/A
9	Amendment to article 43 (2) of the Convention on the Rights of the Child (CRC). The amendment was proposed by the Government of Costa Rica and circulated by the Secretary-General in accordance with article 50 (1) of the Convention. It was subsequently approved by General Assembly on 21 December 1995	9/08/2000
Labour Conventions		Date of Ratification
1	Freedom of Association and Protection of the Right to Organise Convention, 1948 (Convention No. 87)	2/09/1996
2	Right to Organise and Collective Bargaining Convention, 1949 (Convention No. 98)	2/09/1996
3	Forced Labour Convention, 1930 (Convention No. 29)	2/12/1964
4	Abolition of Forced Labour Convention, 1957 (Convention No. 105)	22/02/1965
5	Equal Remuneration Convention, 1951 (Convention No. 100)	20/06/1972
6	Discrimination (Employment and Occupation) Convention, 1958 (Convention No. 111)	23/10/1979
7	Minimum Age Convention, 1973 (Convention No. 138)	9/02/1976
8	Worst Forms of Child Labour Convention, 1999 (Convention 182)	10/12/2001
African Union Conventions		Date of Ratification
1	African Convention on the Conservation of Nature and Natural Resources	29/03/1972
2	OAU Convention on Governing the Specific aspects of Refugee Problems in Africa	30/07/1973
3	Convention for the Elimination of Mercenarism in Africa	21/01/1983
4	African Charter on Human and People's Rights	10/01/1984
5	African Charter on Rights and Welfare of the Child	N/A

ANNEX 8 - DEBT SUSTAINABILITY ANALYSIS

Overview

The prospects for Zambia's overall external debt sustainability significantly improved since the attainment of the HIPC Completion Point in April 2005. Paris Club creditors have gone even further HIPC requirements and provided 100% relief on their bilateral claims. As a result, total external debt in nominal terms has been reduced to \$3.8 billion (end-2005) from \$7.1 billion (end-2004). In NPV (Net Present Value) terms, all the relevant debt indicators of the IMF/WB Debt Sustainability Framework are below the thresholds set for 'medium performers', as Zambia is classified (i.e. NPV of debt/GDP below 40%, NPV of debt/exports below 150%, NPV of debt service/exports below 20%). Therefore **Zambia is considered by the IMF/WB as 'at low risk of debt distress'**. The main risks to this favourable outlook identified in the latest Debts Sustainability Analysis carried out jointly by IMF and WB are in terms of increasing short-term domestic debt, which could endanger fiscal sustainability, and the vulnerability to a shock in exports earnings.

However, with the implementation of the Multilateral Debt Relief Initiative (MDRI), Zambia's debt sustainability prospects improve even further. The upfront debt stock cancellation provided by the three institutions involved would bring total external debt in nominal terms at \$0.5 billion as of end-2006. In particular, **IMF debt stock cancellation would amount to around \$580 million** (around 20% of total), **IDA to SDR 1.3 billion** (equivalent to around \$2 billion, i.e. about 70% of total) **and the African Development Fund to \$241 million** (9% of total). Debt indicators would therefore be further reduced, most notably the NPV of debt to GDP ratio and the NPV of debt to exports ratio, which would drop to 4% and 14%, compared to 19.8% and 63% respectively pre-MDRI. Table 1 provides an overview of these debt indicators.

Table 1: Evolution of debt burden indicators

	2004	2005	2006	
		<i>post HIPC</i>	<i>pre-MDRI</i>	<i>post-MDRI</i>
External debt (nominal terms, billion \$)	7.1	3.8	3.6	0.5
NPV of debt to GDP ratio (%)	28.2	22.8	19.8	4
NPV of debt to exports ratio (%)	75.1	65.8	63	14
NPV of debt service to exports ratio (%)	23	5	3.3	3

Source: IMF Art. IV Report, January 2006, Appendix VI.

It is worth noting that the improvement of the debt service to exports ratio pre and post-MDRI (i.e. a measure of the annual savings) becomes more evident in the medium-term, as the expected loan repayments are not due anymore over the years; indeed, the ratio post-MDRI is projected to be at 1% in 2010, compared to 4% in a scenario without the MDRI.

TABLE 2. PARIS MONITORING SURVEY 2006: ZAMBIA (Results for 2005)**Estimates of annual savings**

The figures on the annual savings that HIPC/MDRI relief entail are being progressively released. For HIPC, Table 2 provides an overview of annual debt relief, which would therefore translate in annual savings. On average between 2005 and 2008, around \$180 million will be saved under HIPC.

Table 2: HIPC annual debt relief

million \$	2005	2006	2007	2008
HIPC debt relief	328	127	137	117

Source: IMF Art. IV Report, January 2006, Table 8.

For the MDRI-IDA part (which covers around 70% of MDRI relief to Zambia), the source of information is the IDA Documents released last March. Table 3 below shows the MDRI relief by IDA period, which is labelled in SDRs.

Table 3: IDA MDRI relief

	IDA 14	IDA 15	IDA 16	First decade	Total
<i>SDR million</i>	<i>FY 07-08</i>	<i>FY 09-11</i>	<i>FY 12-14</i>	<i>FY 07-16</i>	<i>FY 07-44</i>
MDRI relief SDR	25	51	69	195	1269

Source: IDA Document n. 35768, Vol.1 Rev, March 2006, Annex 1.2.

These figures however are for several IDA Fiscal Years (which start on 1 July), corresponding to the various IDA replenishments, which do not overlap with the Zambian fiscal year. To estimate the impact year by year (hence the annual savings) of IDA relief, these figures should be 'apportioned' to the respective calendar year. This is done in Table 4, with an estimate in dollar terms up to 2008, i.e. until the exchange rate \$/SDR has been fixed (at 1.5104).

Table 4: estimates of annual savings from IDA relief

	2006	2007	2008
IDA relief SDR million	6.25	12.5	14.8
IDA relief \$ million	9.4	18.9	22.3

Source: own calculations, based on IDA Document n. 35768, March 2006.

Table 5 shows the savings brought by the implementation of the MDRI by the IMF.

Table 5: estimates of annual savings from IMF relief

	2006	2007	2008	2009	2010	2011	2012	2013	2014
IMF relief \$ million	18	44	70	80	118	105	78	50	38

Source: IMF Report on 4th PRGF Review, June 2006, p. 14.

For the African Development Fund, no information is available on the implied level of annual savings.

ANNEX 9 – GOVERNMENT COMMITMENTS ON GOVERNANCE

Questions / Issue	SUMMARY OF GOVERNMENT OF ZAMBIA POSITION	GOVERNMENT COMMITMENTS
I. Political Democratic Governance		
A. Human Rights		
<p>1. Domestication of international/regional conventions on Human Rights</p> <p>Does the government have any particular problem to sign, ratify or transpose to domestic law human rights related global/regional conventions? If so, why? Please provide comments on implementation of human rights ratified conventions.</p>	<p>With Zambia having the chair of the human rights committee in the UN, there are special efforts to ratify the Second Optional Protocol to the Covenant on Civil and political Rights, which aims at the abolition of the death penalty. An inter-ministerial committee has been created to facilitate the signing of all optional protocols, such as the Convention on the Rights of the Child on the involvement of children in armed conflicts, and the African charter on the rights and welfare of the child as a Regional Protocol. Considering the large number of Zambians working abroad, Zambia is very much interested in the Convention on the Protection of Rights of All Migrant Workers (MWC). This is still an open international debate with no agreement reached yet between countries of origin and countries of destination. Zambia is still waiting for the outcome of this discussion.</p> <p>The problem regarding delays in the transposition of ratified treaties into national legislation is explained more by administrative shortcomings than legislative hurdles. In the past, there was only one person in Governance Development Unit (GDU) dealing with the adaptation of legislation, leading to a serious backlog of cases. The Ministry of Justice has been allowed to recruit more personnel. With this, the adaptation of signed treaties into the national legislation is going to be processed much more smoothly in future.</p>	<ol style="list-style-type: none"> 1. A National Plan of Action for Human Rights for the period 2000 to 2009 was adopted in 1999. According to FNDP, Government is committed to ensuring that this Plan of Action continues to provide guidance and a framework for the effective promotion and protection of human rights in Zambia in the next five years. 2. During the FNDP period, the Government intends to domesticate the seven international human rights conventions to which it is party. 3. Government is committed to the strengthening of the staffing and capacity of the Governance Development Unit (GDU) at the Ministry of Justice. The Unit is in charge for expediting the adaptation of international treaties into national legislation. 4. Government is committed to solve the remaining cases of abuse of power through unlawful corporal punishment in places of detentions. A Police Public Complaints Authority has already been established to give the public the opportunity to report on excesses of individual officers. 5. Zambia was elected as a member of the newly created United Nations Human Rights Council (UNHRC) in 2006. Zambia's mandate runs from 2006 to 2008. The country's membership to the UNHRC will require that it participates at high political and technical level at various international meetings during Zambia's tenure of office. During the FNDP, Zambia will be required to prepare and submit six State Reports as follows: Convention on the Elimination of all Forms of Racial Discrimination (due in 2009), Convention on Economic Social and Cultural Rights (due in 2009), the African Charter on Human and Peoples Rights (due in 2010), Convention Against Torture and all Forms of Inhuman and Degrading Treatment (due in 2010), Convention on

		Civil and Political Rights (due in 2010) and Convention on the Rights of a Child (due in 2009).
2. Ratification of the statute of the International Criminal Court	The Rome Statute on the International Criminal Court has been ratified by Zambia.	
3. Death Penalty If death penalty has not been abolished, under which circumstances and grounds is it being applied (military, sharia courts.)?	The death penalty is in the process of being abolished in Zambia. There is an inter-ministerial committee on human rights that is studying this issue, which also includes NGOs. Pending the abolition of the death sentence, no convict has been executed since 1997. The convicts are usually not waiting for a revision of their sentences, but rather wait for a Presidential Pardon which is routinely given during the period of the Independence celebrations. Currently, the death penalty is being applied under the provisions of the Constitution of Zambia. No other laws, military, sharia, or otherwise, are used to manage this aspect. The current President has publicly announced that he would not sign any death sentence.	Government is committed to the abolishing of the death penalty.
4. Watchdog institutions Do the watchdog public institutions (Ombudsman, Human Rights Commission), in case they exist, have problems in exercising effective power?	<p>The Government established the Human Rights Commission (HRC) in 1996 specifically to focus on the protection and promotion of human rights. The mandate of the Commission covers the investigation of human rights violations; and educational programmes. The Commission is pursuing a decentralisation programme, which has resulted on the establishment of several provincial offices; partnership and collaboration with various stakeholders; establishment of a prohibited immigrant's fund; and a complaints database. The complaints handled by the HRC include employment and labour related cases, torture, and child abuse. The HRC also undertakes a number of prison visits. It is worth noting that the HRC faced a number of challenges which ranged from inadequate funding and logistics to understaffing.</p> <p>In order to address the low capacities and slow intervention processes of the Commission, more paralegals are being trained. Together with the introduction of provincial offices, this should help speed up these processes.</p>	<ol style="list-style-type: none"> 1. Provincial offices of the Permanent Human Rights Commission, already operational in a number of Provinces, are to be established in the remaining provinces as well. 2. In order to address the still limited capacities of the Commission, more paralegals will be trained and put in charge to address human rights violations issues. 3. Key strategies defined in the Fifth National Development Plan include cross-sectoral awareness raising and information dissemination campaign on electoral, administration of justice and human rights issues, as well as the establishment of rehabilitation centres for human rights victims.

<p>5. Forms of discrimination</p> <p>Is the principle of non discrimination based on sex, race, colour, language, religion, political or other opinion, national or social origin foreseen by the law and effectively guaranteed? If not what are the main problems?</p>	<ul style="list-style-type: none"> • Latent gender discrimination is recognised as a problem and is being addressed in the new draft constitution. The Penal Code has been recently amended to widen the scope of sexual crimes and increase the severity of punishments for sexual offences. The signature on the Optional Protocol to the Convention on the Elimination of all forms of Discrimination against Women is before Cabinet for approval and is expected to be signed within the coming year. <p>Non discrimination based on sex, race, colour, language, religion, political or other opinion, national or social origin is foreseen by the law and is effectively guaranteed, as can be seen from the severity of punishments for sexual offences that are meant as a deterrent for would-be offenders. However, Government recognises that women are still under-represented in responsibility and decision-making posts, with Zambia not likely to reach the 30% SADC target in the near future. The modest number of female parliamentarians in the recent (2006) elections resulted out of nomination processes.</p>	<ol style="list-style-type: none"> 1. Zambia is firmly committed to all fundamental freedoms. Non discrimination based on sex, race, colour, language, religion, political or other opinion, national or social origin is enshrined in the law. 2. Government has, through the adoption of the National Gender Policy (NGP) and it's implementation plan, the Strategic Plan of Action (SPA) committed itself to addressing gender issues and concerns at all levels of national development. In addition to this, Government has acknowledged that gender inequalities and imbalances have a negative impact on economic growth, development and human well-being of both women and men. In this regard, Government has taken gender equity and equality as a development goal and has, through a number of measures and instruments such as Cabinet Circulars number 6 and 7 of 1996 and 72/1/3 of 20011, putting in place of the Gender Consultative Forum, the Parliamentary Committee on legal Affairs, Governance, Human Rights and Gender Matters among others, directed all development agents in Zambia to institutionalise gender mainstreaming. At the institutional level, the Gender In Development Division (GIDD) at Cabinet Office is responsible for co-ordinating, monitoring and evaluation of the implementation of the National Gender Policy and the SPA. 3. Government recognises latent gender discrimination as a problem and is making sure that this is addressed in the ongoing process of drafting the new constitution, enshrining the principles of gender equality in line with international standards. 4. The signature on the Optional Protocol to the Convention on the Elimination of all forms of Discrimination against Women is before Cabinet for approval and is expected to be signed within the coming year. 5. Although Zambia is not likely to reach the 30% SADC target of female representation in decision-making positions in the near future, the President has shown his commitment to this goal in his various speeches, including during the opening of the Tenth National Assembly. 6. The FNDP outlines strategies to eliminate all remaining discriminatory laws and procedures and to ensure the economic empowerment of
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		<p>women.</p> <p>7. In Education, key performance indicators include the improvement of the gender parity index for Grade 1-7 from 0.96 in 2005 to 0.98 in 2010.</p>
<p>6. Minority rights</p> <p>Are minorities' and indigenous peoples' political and cultural rights effectively protected? What are the main controversial issues (land rights, political rights.)?</p>	<p>The Government has passed the Citizen's Economic Empowerment Bill of 2006 that serves as an affirmative action to assist disadvantaged groups of society. The Bill does not inflict on the rights of more affluent minorities who have other opportunities to become economically empowered.</p> <p>At the more operational level, the Government, through Social Protection interventions during FNDP, intends to focus on addressing key risk factors that can either be co-variant, affecting an entire community, such as natural disasters, HIV and AIDS, and macroeconomic shocks or those affecting individuals or defined groups of people through life cycle events, such as sickness, death of breadwinner and old age. Key risks for the most vulnerable/minority groups in society include lack of sustainable livelihoods in rural areas; inadequate access to social security, education and training; inadequate health services; HIV/AIDS; violence against women and children; and lack of legal entitlements for refugees. In its attempt to protect the affected communities and individuals from risks and shocks, the Government, through social protection measures during FNDP, seeks to tackle the incidence and impact of any risk event at three possible levels: risk reduction, risk mitigation, and risk coping. The most vulnerable/minority groups in Zambia that are being targeted can be grouped into three categories, namely:</p> <ul style="list-style-type: none"> a) Low capacity households including widows, the disabled, the old, and other marginalised, low-income households, and informal sector operators; b) Incapacitated households with no self-help potential, including mainly households affected by HIV and AIDS; and c) Child-headed households and street children. 	<p>1. The Government is committed to the implementation of Citizens' Economic Empowerment Bill of 2006 and, through it, provide opportunities under selected 'incentives,' to improve their economic and social welfare.</p> <p>2. Government is committed during FNDP to take <i>Social Protection</i> measures that entail policies and practices that protect and promote the livelihoods and welfare of people suffering from critical levels of poverty and deprivation and/or are vulnerable to risks and shocks. Through Social Protection measures, Government also hopes to reduce income inequality.</p> <p>3. The Government, initially through the Poverty Reduction Strategy Paper (PRSP) and later through the FNDP, is committed to addressing the plight of disadvantaged people, focusing primarily on the following interventions:</p> <ul style="list-style-type: none"> a) Improved access to educational and health facilities by scrapping the payment of fees by the poor for these services. Primary education is now free. Education and health have been allocated 27.3 and 20.1 percent, respectively, under the FNDP over the 2006-2010 period. b) Provision of free anti-retroviral drugs for affected persons, particularly those that can least afford to acquire them. c) Provision of social safety nets for citizens that fall under the category of extreme poverty. d) Target interventions for Orphans and Vulnerable childrens (OVCs) through comprehensive and multi-sectoral plans for integrating young people as partners in development and the enhancement of child survival, development and protection interventions, and support for, and protection of, OVCs through the review of child legislation; e) Support for victims of sexual abuse; f) Addressing the needs of children living with HIV and AIDS;

			<p>g) Development of policy on the aged;</p> <p>h) Development of a comprehensive social security system which will include informal sector workers;</p> <p>4. The Government is committed to the development of a comprehensive social security system which will include informal sector workers.</p>
7. Other relevant information		Main human rights issues concern the death penalty, violence against women and torture by police. The current political and constitutional process should provide adequate ground for putting remedy to these shortcomings and challenges in the human rights field.	
B. Fundamental Freedoms			
<i>Are the following fundamental freedoms recognised and effectively exercised by citizens (what are main restrictions and problems if not respected)</i>			
1. Freedom of movement , including entering and leaving the country		Freedom of movement is enshrined in the Constitution under the Bill of rights (part 3 of the current Constitution) and is enforced without any difficulties. Citizens and non-citizens freely travel in and out of the country without inhibitions except for those that are restricted due to court orders.	Government is committed to the enforcement of freedom of movement.
2. Freedom of thought, conscience and religion		Freedom of thought, conscience and religion is enshrined in the Constitution and no one has ever been victimised in Zambia for their religious views	
3. Freedom of expression		<ul style="list-style-type: none"> Government control over state-owned media is clearly diminishing. Two private TV stations are currently operational. There are also a number of privately-owned/independent radio stations as well as print media. Even the two main state controlled newspapers are frequently carrying reports that do not necessarily reflect the position of Government. 	Government is committed to respect the freedom of assembly and association as well as the freedom of expression, by further loosening the remaining control over state-owned media.
4. Freedom of information Are there restrictions to international media and to access to internet?		A number of institutional reforms in the sector have also been implemented. Further, in order The FNDP acknowledges that the prevailing media legislative environment does not adequately provide for freedom of the media and freedom of information. However, significant progress has been registered in the past five years to correct the situation. For example, to streamline operations, the Zambia News Agency and Zambia Information Services were merged to form the Zambia News and Information Services (ZANIS). This was done in the context of the Public Service Reform Programme. The FNDP period shall concentrate on	<ol style="list-style-type: none"> Government is committed to key reforms through, inter alia, the liberalisation of the airwaves, which has facilitated the establishment of a number of community radio stations and private commercial radio and television stations. The number of private radio stations stand at over 30 while that of private television stations stand at five and in all these developments, the freedom of information is secured. In terms of legislation, the Independent Broadcasting Authority (IBA) Act No. 17 of 2002; and the Printed Publication Act Cap 161 do lend support to the policy of opening up space for the freedom of information.

	<p>the consolidation of these positive structural reforms and ensure that legislation is enabling enough to guarantee effective performance of the information services sector. Above all, the role of the private sector and communities in providing information services shall be one of the focal points during the FNDP period.</p>	<p>To improve ethics and professional standards, a number of media bodies, including the Zambia Community Media Forum (ZaCoMef) and the Media Ethics Council of Zambia (MECOZ), have been formed.</p> <ol style="list-style-type: none"> 3. A Bill on Freedom of Information was developed and presented to Parliament but had to be withdrawn by Government due to a number of technicalities. Nevertheless, the Government is still committed to re-submitting it once the contentious issues are resolved. 4. Government is also committed to the creation of a favourable environment within which the country sets up community radio stations. Presently, the Media Trust Fund, supported by donors, is assisting the country at this level. 5. The Government has just developed an ICT Policy that strives to allow Zambia participate in the technological revolution that is changing the world. Access to the ICT, including the internet, has been enhanced by Government fiscal incentives for the acquisition of ICT, including computers. Presently, Internet hosting and internet cafes are among the fastest signet in the services sector.
<p>5. Freedom of assembly and association (including meetings held by political opposition, demonstrations).</p> <p>Is the regulatory environment conducive for civil society organisations, professional associations, trade unions, political parties to operate</p>	<p>With a code of conduct in place in the just ended 2006 election campaign, all political parties were given media coverage with no access denied. There were no reports that any party was stopped from conducting a political rally. Even during the demonstrations of opposition parties and civil society against the constitutional review process at the end of 2004, the police acted within their mandate to prevent violence and to protect the public space. In all cases where permits for peaceful demonstrations were applied for, demonstrations were allowed and were conducted and protected accordingly. Most recently, in January 2007, the main opposition party was allowed to demonstrate over the constitutional review process and the privatisation of the Zambia National Commercial Bank.</p>	
<p>6. Other relevant information</p>	<p>The Government attempts tot guarantee fundamental freedoms. The Draft Constitution is addressing some of the outstanding issues in this area. One of the outstanding challenges relate to capacity to implement/enforce legislation due to institutional, financial and human resource limitations.</p>	

C. Electoral Process

Were the last Presidential, parliamentary and/or local electoral processes considered free and fair by EU and/or other international bodies? Please refer to the following elements to assess the electoral process.

<p>1. Obstacles What are the main obstacles?</p>	<p>All international observers (with the exception of the EU that no longer uses the terminology) declared the 2006 elections as “free and fair.” and reported marked improvements against 2001. Also, the winning margin of the Presidential elections has been quite pronounced, leaving hardly any doubts for widespread fraud. Equally importantly, there are no presidential petitions against the results of the 2006 elections. In the light of this, the electoral process and election results in 2006 have shown the tremendous improvements made in this respect since 2001 and before.</p>	<ol style="list-style-type: none"> 1. Government is committed to the enforcement of the new Electoral Act, that aims to enhance the effectiveness and fairness of the playing field for all political players. 2. Government is also committed to effectively guarantee equal and fair access by all parties to the media.
<p>2. Independence, impartiality and credibility of the electoral authority Specific problems that undermine the independence, impartiality and credibility of the authority in charge of supervising the electoral processes</p>	<p>The Electoral Commission of Zambia (ECZ) consists of a chair and four members that are appointed by the President but, to enhance democratic and transparent norms, these must be ratified by Parliament. There have been tremendous improvements on how the Electoral Commission has handled the 2006 elections compared to the 2001 case, thanks to the Government effort to strengthen the capacity, independence and impartiality of the ECZ.</p>	<ol style="list-style-type: none"> 1. Government is committed to continue to strengthen the electoral process through, for example, vigorously working on the finalisation of the constitutional reform and the consolidation of the National Election Commission. 2. ECZ is currently being restructured to strengthen its operations. 3. Beginning during the second quarter of 2007, ECZ shall initiate a continuous voter registration exercise. The infrastructure for this is already in place in all districts. All districts are now connected to the ECZ Headquarters. Recruitment of staff is being done at district levels. 4. Government is beginning voter education on a continuous basis, targeting the constitutional review process.
<p>3. Electoral census and the voters’ registration system</p>	<p>Voter registration improved markedly in preparation for the 2006 tripartite elections. The IT technical solutions (IT) that were employed in the voter roll management are quite advanced and, with some capacity enhancement on how best to utilise it, should lead to significant improvements in electoral management. The voter registration is still based on baseline data from the 2000 national census. This is because there has been no further census data since then. Although it may have contributed to a slowing down of the process, the decision to maintain the principle of separation of National Registration Cards from ECZ Voter Cards was a deliberate one and aimed at enhancing a strong separation of</p>	<p>Government is committed to the improvement of the voter registration process</p>

		duties and checks and balances in place. This was also seen as important given the high number of refugees from neighbouring countries living in Zambia. The basic problem is that there is no joint database and the two databases are made for different purposes. Until the technical problems of the mutual access to the data have been solved, difficulties in reconciliation of voters' data will continue.	
<p>4. Equal campaigning opportunities Specific problems that undermine the principle of equal campaigning opportunities (equal access for all contesting parties to the state-controlled media, availability of published and broadcast media in all constituencies, transparency of financing of political groups / candidates)</p>		In 2006, there have not been any complaints from political parties that the President or Vice President would have misused their positions, or Government resources, in their electoral campaigns. The electoral code of conduct applied to all candidates, and was adhered to by the ruling party in the same way as by other parties.	<ol style="list-style-type: none"> 1. The Government is setting up a Consultative Committee that brings in all political players/parties, in a formalised way, for regular interaction around common issues. 2. Government supports the National Conflict Management Committee that is made up of civil society groups and to which ECZ is providing logistics and serves as a secretariat. District level committees have also been set up.
<p>5. Validation of election results Existence of mechanisms for checking and validating election results - possibility to use recourse procedures</p>		The electoral process and election results in 2006 have shown tremendous improvements made in this respect since 2001.	The Government, through ECZ, has set up a Candidates and Results Management System which is a computer-based system that aims to ensure that electoral results are transmitted and verified in a more effective manner.
<p>6. International election observation Possibility of requesting an authorised international election observation - possibility for local observers (from independent NGOs or political parties) to operate</p>		The SADC Parliamentary Forum deployed a mission in November 2005 to observe the voter registration process and it monitored the 2006 elections. Local NGOs also fielded local monitors (as they had also done in 2001). Government during the last two national elections invited Elections Observer Missions to Zambia (including to the EC). There were no restrictions whatsoever imposed with respect to international or local election observers (from independent NGOs or political parties) to operate. The EU EOMs as well as other international observers attended the 2006 elections and there were no problems reported. Some of the noteworthy positive	Zambia is determined to continue with its open-door policy of admitting observer missions

		things that happened around the 2006 elections were the highest number of registered voters, the highest voter turn-out, and better management of the electoral process.	
7. Other relevant information	There are resource constraints that require to be addressed, particularly in the area of support for the strengthening of the electoral management system. Additionally, more legal authority is required for ECZ to empower it to be involved in the prosecution of offenders. The proposals that ECZ has made in its 2006-2010 Strategic Plan will require to be followed up.		
D. Principles of Constitutional Democracy			
1. Separation of powers Does the Constitution contain the principle of the separation of powers?		The current Constitution is a hybrid between a presidential and parliamentary system which has developed over a long time. It is being revised at the moment. For example, there is a recommendation in the draft constitution to appoint Cabinet ministers from outside parliament who would then be answerable to Parliament, strengthening its role versus the executive. Political pluralism and multiparty democracy, with a distinct separation of powers are the pillars and fundamental principles of the political system of the country. Nevertheless, Government is aware of the need to further strengthen their application in practice. For example, in order to reinforce the oversight function of Parliament, there is a recommendation in the draft constitution to appoint Cabinet ministers from outside Parliament who would then be answerable to Parliament.	<ol style="list-style-type: none"> 1. In order to strengthen the role of Parliament within the budgetary process, the Ministry of Finance and National Planning intends to strictly adhere to the principle of having not only the original budget, but also all supplementary budgets first approved by Parliament, before authorising any releases and expenditure. 2. Government is committed to taking capacity building measures for new Parliamentarians, with the introduction of professional support staff. This would enhance the oversight role of the Members of Parliament.
2. Power of Parliament How does Parliament exercise its main powers? (legislative functions, power to decide the national Budget, oversight of the executive/government's action and capacity to dismiss the executive)		The Legislature/Parliament in Zambia has three main functions namely, to make laws, to vote money for public expenditure, and to oversee Government administration and subject its activities to scrutiny. Other functions are also undertaken, such as ratification of certain presidential appointments, and representation of the electorate. Under the Parliamentary Reform Project (PRP), the National Assembly has undertaken to reform its operations in five key areas namely, the legislative process, member-constituency relations, administration of the National Assembly, support services to Parliament and the Committee system. The PRP activities include the development and implementation of a strategic plan; review of the standing orders; Information and Communication Technology (ICT), enhancement in National Assembly operations; development of a directory of all civil society organisations; members' handbook; establishment of constituency offices; design	<ol style="list-style-type: none"> 1. In order to increase the linkages between the members of Parliament and their electorates, FNDP provides for the establishment of Constituency Offices in every constituency. 2. Government is also committed to the enactment of the Parliamentary Service Commission Act and the Budget Act that will further strengthen the powers of Parliament. 3. The ongoing Parliamentary reforms have included the extension of live broadcasts of Parliamentary debates to the line-of-rail audiences. Government is committed to extending this to the rest of the country during the third phase of the Parliamentary Reform Programme. 4. Component 10 of PEMFA aims to develop the capacity of the Parliament to play its oversight role in public resources management in order to promote the culture of democratic governance, transparency and

	<p>of an Internship Programme; Indexing of Committee Hearings and Bills; and the National Assembly Directory. In the area of capacity building, training for members of parliament and staff has been conducted under the PRP. In order to increase coverage of parliamentary news, radio broadcast was expanded 50 kilometres to all places along the line of rail. The PRP is in its phase II and is expected to be extended into phase III in 2007.</p> <p>It is equally noteworthy that the Office of the Vice President Parliamentary Business Division (OVP – PBD) coordinates the executive side of Government business in Parliament. The aim is to enhance transparency, accountability and collective responsibility of the Cabinet in the discharge of parliamentary business, particularly the oversight function of parliament over Government Administration.</p> <p>Under the current Constitution, Parliament can impeach the President which, by definition, would result in the dissolution of Parliament and the calling of fresh elections. With respect to supplementary budgets it is enshrined in the Act that they have to be approved by Parliament. The malpractice of ex-post approval has been recognised and is being addressed.</p>	<p>accountability. In this respect, Government commitment is focused on:</p> <ol style="list-style-type: none"> a) Human and institutional capacity building in financial and resource management analysis by, inter-alia, attachment of support Staff to other Parliaments on Best Practices; and attachment training in the region; PEMFA sensitisation of new members of Parliament’s Public Accounts Committee , Committee on Estimates and Committee on Economic Affairs; b) Improved public participation in Parliamentary business through expansion of existing facilities and closer interactions with stakeholders
<p>3. Existence of political parties Are there any political parties or similar structures? If not, what are the main obstacles for their formation and functioning?</p>	<p>There are virtually no obstacles for the formation and functioning of political parties. The issue of equal opportunities to the media is more to do with financial capacity of some political party to pay for advertisements than restrictions to the media.</p>	<p>Government supports the opening of political space for the emergence of political parties. The Current constitution provides for a multi-party political system</p>
<p>4. Political pluralism How do political parties ensure political pluralism? (their capability of being representative, their budget, etc.)</p>	<p>While political parties are still dependent on the personalities of their leaders, there has been a marked improvement in this respect in the 2006 elections, with distinct party programmes having been presented. In a series of election debates organised by the independent press (The Post Newspaper), parliamentary candidates were publicly debating their parties’ programmes in their constituencies. It is also noteworthy that the draft constitution addresses some of the issues raised in the Governance Profile, including the 51% requirement for a presidential candidate.</p>	<p>Government supports political pluralism. However, the current legislation does not provide for the funding of political parties (including the ruling party) from government resources.</p>

<p>5. Control of law enforcement institutions Is the security system, including law enforcement institutions such as police, armed forces, paramilitary forces, etc, under democratic control and oversight by Parliament and civilian authorities? If not, what are the main obstacles?</p>	<p>Legislation related to law enforcement, including security, is enacted by Parliament. Similarly, all budgetary allocations of the law enforcement and security wing of government are considered and approved by Parliament. It is also important to point that only retired/out-of-service former military personnel are actively involved in Zambia's civilian Government. In this regard, no military personnel are allowed in Zambia to be involved in politics. Similarly, no civil servant is allowed to be involved in active politics. They are, as a standard Government procedure, expected to resign from their civil service position even before they are adopted as, for example, parliamentary candidates.</p>	<ol style="list-style-type: none"> 1. The Government has accepted that a Constitutional Assembly, rather than Parliament, be allowed to adopt the new Constitution. 2. The constitutional reforms process is being hastened following the Government's release in December 2006 of its Roadmap for this important activity. After considering the submission of its Constitution Review Committee, Cabinet decided that the Government will commence the implementation of the Roadmap in 2007. 3. An important positive aspect is that there were no presidential petitions against the 2006 election results and observers, local, regional and international, agreed that, generally, the elections were conducted under a conducive atmosphere. An outstanding structural challenge relates to the current weakness of Parliament in providing effective oversight over the Executive. This is being addressed under the Parliamentary Reform Programme that is getting into the Phase III.
<p>6. Other relevant information</p>	<p>Notwithstanding the several challenges that are outstanding in the area of constitutional democracy, Zambia has registered a number of positive developments.</p>	

II. Political Governance/Rule of Law: Judicial And Law Enforcement System

<p>1. Type of judicial system What type of judicial systems (modern, religious, traditional) coexist in the country? What is their respective jurisdiction?</p>	<p>The Zambian judicial system is based on the British law. There, nevertheless, also exists traditional/customary law.</p>	<p>Government is committed to the promotion of the Rule of Law and clean political governance that is free of corruption. With respect to the independence of judges, the Project "Access to Justice" will put some measures in place to ensure the independence of the office of the Director of Public Prosecutions (DPP).</p>
<p>2. Independence of judges Do procedures of nomination, removal, sanctions and promotion ensure the independence of judges?</p>	<p>Although the Director of Public Prosecutions and High Court and Supreme Court judges are appointed by the President, these are subjected to ratification by Parliament that is allowed to extensively debate the nominations. The same process applied to the Chairperson of the Human Rights Commission.</p> <p>The post 2002 period saw the Ministry of Justice embarking on policy formulation in the areas of prosecution and legal aid. The National Prosecutions Policy has been developed and is awaiting Cabinet approval. Institutional reforms to improve the administration of justice also included the transformation in 2001 of the juvenile justice system into one conforming to international standards. Plans to extend court annexed mediation were commenced. The discharge of justice has been boosted by a</p>	<p>The Government is committed to the enhancement of the independence of the Judiciary through capacity building and resource provisioning.</p>

	<p>number of infrastructure developments at High Court, Subordinate, and Local Court levels.</p> <p>The Judicature has put in place the process of developing a strategic plan. This will be finalised during the FNDP. It is worth noting that the Judicature, in its submissions to the CRC, proposed the creation of a Constitutional Court, the establishment of a Court of Appeal, specialization in the court system, and enhancement of the financial autonomy of the Judicature. The outcome of the constitutional review process will, therefore, have an influence on the operations of the Judicature.</p>	
<p>3. Performance of judicial system Is the current system conducive to a performing judicial system (appropriate salary, training, transparent disciplinary regulations, trained judges, equipped courts)?</p>	<p>The Judicature of Zambia is a creation of the Constitution and it consists of the Supreme Court, High Court, Industrial Relations Court, Subordinate Court, Small Claims Courts, and the Local Courts. The Ministry of Justice has two chambers, namely, Attorney-General's and Director of Public Prosecutions, both constitutional in character. A number of successes were recorded in this area, which included the holding of all the gazetted High Court and Supreme Court sessions. However, a number of challenges were faced, namely, inadequate court space and time to handle the case loads.</p> <p>Government acknowledges that the absence of policy frameworks for the Director of Public Prosecutions Chamber and the Legal Aid Board continued to negatively affect the proper administering of prosecutorial and legal aid services respectively, as did the absence of decentralised structures.</p> <p>Capacity building for local court justices has been recognised as a priority and is being addressed by ongoing and planned projects. There still remains the challenge of inadequate personnel.</p>	<ol style="list-style-type: none"> 1. The President announced that the Government will considerably improve the justice delivery system and its efficiency over the next five years, providing enhanced access for all people through, inter alia, the decentralisation of the Legal Aid Board and the Director of Public Prosecution's Chamber. 2. The key performance indicators outlined in the FNDP underline Government commitment to improve the justice delivery system, e.g. by focusing on the number of reported cases of crimes that result in prosecution, or the percentage or prosecuted cases resulting in successful verdicts.
<p>4. Rights of every citizens Does the judicial system guarantee the right of every citizen to a fair trial? The following elements could be taken into consideration:</p> <ul style="list-style-type: none"> o Is the access to justice reasonably ensured (including its geographical 	<p>The Directorate of Legal Aid was created in 1967 under the Legal Aid Act and is obliged under the Constitution to provide legal aid to the poor. Amendments to the Legal Aid Act in 2000 transformed it into a semi-autonomous entity with its own Legal Aid Board. While it is acknowledged that legal standards in general are not yet at sufficient levels, there have been quite some efforts to improve the situation, within the limitations imposed by the available resources. More efforts are being put in place, on the basis of the FNDP in the coming 5 years.</p>	<ol style="list-style-type: none"> 1. Government is committed to securing the rights of every citizen as enshrined in the Constitution. 2. Government is committed to utilising the Access to Justice programme to enhance the respect for citizens' rights. In its objective for the improvement of access to justice for all, the Government has committed itself during the FNDP period to undertake the following: <ul style="list-style-type: none"> a) Improve coordination and communication among justice

<p>coverage) and judicial decision taken in a reasonable time?</p> <ul style="list-style-type: none"> ○ Is the system for appeal deemed effective? 		<p>institutions and other stakeholders.</p> <ul style="list-style-type: none"> b) Capacity building and retention of personnel. c) Develop Courts and other infrastructure d) ensure the autonomy, effectiveness and efficiency of Administrator General, and DPP,. e) Improve the legislative process and policy framework affecting the administration of justice. f) Decentralise Judicial Complaint Committee and Administrator-General. g) Increase public awareness of human rights and criminal justice system. h) Decentralise civil litigation, Administrator General and Official Receiver, Legal Aids and Director of Public Prosecution i) Improve record management and information management. j) Improve access to justice for the vulnerable, especially women and children. k) Capacity Building for personnel in gender issues.
<p>5. Security of citizens and respect of law In the exercise of its functions, does the law enforcement system (police, judges, penitentiary system) guarantee security of citizens and respect of law, while respecting human rights? Are penalties proportional to crimes? Do prison conditions respect human dignity?</p>	<p>Public safety and order relates to internal security. The principal actors in the sector are Zambia Police Service (ZP), Zambia Prisons Service (PS), Drug Enforcement Commission (DEC), Departments of Immigration, National Registration, Passport and Citizenship, National Archives of Zambia, Commission for Refugees and the Office of the Registrar of Societies. These institutions fall under the superintendence of the Ministry of Home Affairs. They carry out their respective mandates in collaboration with other government wings such as the Anti-Corruption Commission (ACC) and the Zambia Security Intelligence Service (ZSIS).</p> <p>In 1999, the Government established the Police Public Complaints Authority (PPCA) which commenced its operations in 2002. The PPCA addresses public complaints against police misconduct in order to secure</p>	<p>Government is committed to securing public safety and order by consolidating its policy goals and objectives of maintenance of internal security in order to secure the continuity of a stable government and the enjoyment of personal freedoms. The Government has rededicated itself during the FNDP period to strive to build and maintain effective internal security institutions, guided by the respective strategic plans of the various arms of the Government that are contributing to the public safety and order function as well as by the overarching goals of the Public Service Reform Programme. Government continue to secure the trust and confidence of the community as the it strives to facilitate community-based policing through such programmes as the Neighbourhood Watch; the Victim</p>

		<p>individual fundamental human rights and freedoms and achieve professionalism in the Zambia Police Service. Zambia has submitted her state party reports to various treaty bodies as provided for in various international and regional human rights instruments ratified or acceded to by the State.</p> <p>The Government is aware of the problem of abuse of power through unlawful corporal punishment in places of detentions. To arrest the situation, a Police Public Complaints Authority has been established to give the public the opportunity to report on excesses of individual officers. A number of officers have already been suspended and others are being investigated.</p>	Support Unit; Offender Management Programme; and Extension Services for ex-prisoners.
6. Other relevant information		The Government is committed to the respect of the Rule of Law and institutional and human resource capacity enhancement shall be among the targeted interventions.	
III. Control of Corruption			
1. Occurrence of Corruption What are the sectors in which cases of corruption are reported? What kind of corruption is it? (i.e. customs, public procurement, revenue collection)?		Government has acknowledged the existence of corrupt practices in both the public and private sectors and has adopted the policy of zero tolerance on this vice. Because the problem is quite generalised, it is not easy to single out an institution that is more prone to the problem than others. Anecdotal evidence suggests that the public procurement system and the Zambia Revenue Authority	<ol style="list-style-type: none"> 1. The President has re-confirmed the continuing commitment of the Government to pursue, and further refine, the policy of Zero Tolerance to Corruption. 2. Government announced in January 2007 that it will extend the life of the Taskforce on Corruption and is currently assessing the existing opportunities for legislating it so that it is better enabled to perform its mandate. 3. Zambia intends to sign the African Union and the SADC Protocol against corruption
2. Legal system for fighting corruption Does the country have an appropriated legal framework enabling to fight against corruption? (i.e. do national law criminalise active and passive corruption)		There is a legal framework in place that provided for the installation of the Anti-corruption Commission (ACC) in 1996. The current legal framework provided for the installation of ACC). In view of the recognised importance of this independent institution, the draft National Corruption Prevention Plan foresees a more robust role for the ACC on corruption prevention as well as the establishment of “focal points of integrity” – internal watchdog units in all major Government ministries and departments. In order to better	According the FNDP, the Government makes the following commitments in the area of curbing corruption: <ol style="list-style-type: none"> 1. Review the law on corruption in order to strengthen it further and provide for internationally accepted best practices. In this regard, the ACC shall be transformed into a proactive performance-based institution. Emphasis shall be placed on prevention of corruption and related malpractices and seeking to

<p>to/by a public official; is an anti-corruption commission or other similar institution in place?)</p>	<p>focus its activities on priority areas, the ACC has planned to conduct a comprehensive corruption survey for 2007, to be followed by the planning and implementation of targeted anticorruption measures.</p> <p>Alongside other measures, the strengthening of the Office of the Auditor General, establishing its presence in all districts is expected to play a key role in implementing the policy of zero tolerance to corruption. Furthermore, In 1999, the Government established the Judicial Complaints Authority (JCA), which began operating in mid-2003. The JCA's operations are meant to curb corruption and other forms of misconduct in the judiciary. The JCA has the function of receiving and investigating complaints from the public on alleged misconduct by judicial officers. JCA makes recommendations to appropriate authorities for possible disciplinary action. Judicial officers are judges, including the Chief Justice, Deputy Chief Justice, Chairman and Vice Chairman of the Industrial Relations Court, Magistrates, Local Court Justices, and all persons who have the power to hold or exercise the judicial powers of a court. It is noteworthy that the Task Force on Corruption has been operational since 2002.</p>	<p>institutionalise corruption prevention in public and private institutions.</p> <ol style="list-style-type: none"> 2. The ACC shall develop the national corruption prevention policy and a strategic implementation plan. 3. The ACC will, during the FNDP, attract, develop, and retain skilled human resources to enable it achieve the objectives set out in the Plan. A need has also been identified to harmonise the operations of the ACC with those of other institutions and offices dealing with prevention of corruption so as to strengthen the administration of criminal justice and the rule of law in general. The strengthening of the administration of criminal justice will require new laws to be passed in the areas of conflict of interest and disclosure of assets and liabilities by public officers apart from Cabinet Ministers and Members of Parliament as has been the case. 4. The Government will continue its efforts under the Anti-Money Laundering Authority and aims to have an anti-money laundering strategy in place. 5. The Government will seek to facilitate the review and enactment of relevant legislation in order to provide autonomy for the Office of the Auditor General.
<p>3. Implementation of the legal system Is the national legal framework implemented? Are the institutions adequately financed to fulfil their mandate?</p>	<p>The institutions that are currently mandated to implement the legislation on corruption and currently functional albeit under institutional and human resource capacity limitations in some cases. Generally, though, the funding for implementing the anti-corruption measures is, by and large, adequate. While the ACC has received support from cooperating partners, government has shown its commitment through the allocation of own resources and political support. Capacity building is one of the priority areas to be addressed by the MCA.</p> <p>By 2005, the Task Force had seized over US \$30 million in assets in Zambia and abroad and has begun prosecuting 10 high profile corruption cases in the Zambian courts. So far two people have been convicted on charges of the plunder of national resources.</p> <p>There have been complaints that the legal process has been very slow in</p>	<ol style="list-style-type: none"> 1. Government is committed to the development of effective mechanisms for prevention of crime, in order to significantly reduce criminal activities in the country. During the FNDP, this will be realised through the following: <ol style="list-style-type: none"> a) Establish crime prevention mechanisms; b) Implement systems for monitoring and evaluating the effectiveness of crime prevention mechanisms; c) Maintain and update database on crime; d) Disseminate information on crime; e) Strengthen marine policing in inland waters; f) Introduce air wing policing

		convicting the accused persons. This is explained by the fact accused persons can only be convicted once they are proven guilty through the full legal process. The earlier presented deficiencies in the administration of justice due, in part, to resource constraints have also affected the speed at which the state is secure convictions.	<ol style="list-style-type: none"> 2. To increase efficiency and effectiveness in investigation and prosecution in order to expedite the clearance of cases. This shall be done through the following actions: <ol style="list-style-type: none"> a) Streamline and implement effective investigations and prosecution management system; b) Monitor and evaluate implementation of investigation and prosecution measures; c) Apply IT in the investigation; d) Establish a specialized training school for law enforcement officers; e) Strengthen the legal framework. 3. To effectively develop human resources for the efficient performance of law enforcement.
4. Adherence to international law regarding anti-corruption What is the position of the country towards international law regarding the fight against corruption (UN conventions, Financial Action Task Force)?		With respect to Zambia signing international conventions against corruption, there is the African Union and the SADC Protocol to be acceded by the end of the year 2006.	Zambia signed the UN Convention against Corruption. It is planning to ratify it
5. Contribution to FATF-GAFI Is the country contributing to FATF-GAFI (Financial Action Task)?		Zambia is contributing to FATF-GAFI through GABAOA through ESAMLAG (Eastern and Southern African Money Laundering Action Group).	Zambia is in the process of enacting money laundering legislation
6. Reform measures for addressing corruption Does the country have a strategy or reforms addressing the main weaknesses identified here above? Are these strategies / reforms integrated in the poverty reduction		A draft National Corruption Prevention Plan has been developed which lays a more robust role for the ACC on corruption prevention as well as the establishment of “focal points of integrity” – internal watchdog units in all major Government ministries and departments.	<ol style="list-style-type: none"> 1. Government is committed to strengthening the Task Force on Corruption. In this regard, the Task Force’s mandate has been extended with a view to providing it with the necessary legislative provisions to enable it to better carry out its mandate. 2. On the basis of the same Baseline Survey on Governance of 2004, the Government is committed to the corruption prevention programme under the Millennium Challenge Account. The

strategy ?		<p>objective of this programme is to reduce opportunities for administrative corruption in institutions prone to such malfeasance, namely Ministry of Lands, Immigration Department of the Ministry of Foreign Affairs and ZRA. For these institutions, the programme aims to accomplish the following objectives:</p> <ul style="list-style-type: none"> ○ implementing institutionally tailored regulatory reforms ○ establishing a strengthened internal watchdog units ○ creating efficient citizens, business monitoring and reporting mechanisms for Zambian citizens, business and private sector employees to expose corruption in target institutions. <p>It is expected that, once this programme is fully implemented, significant progress in combating corruption will have been made.</p>
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7. Other relevant information	<p>The 2005 Transparency International Corruption Perceptions Index (TI CPI) had 159 countries surveyed. Zambia's score remained at a modest 2.6, maintaining the same position as the previous year, with corruption still perceived as prevailing at a high level. From the Government perspective, however, the field data used for compiling the Transparency International Corruption Perceptions Index (TI CPI) published in 2005 has a backlog of 3 years during which Zambia has progressed considerably. Also, the reliability of this perception survey has been challenged by the Government. In this regard, the ACC has planned to conduct its own corruption survey for 2007.</p>
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IV. Government Effectiveness

A. Institutional Capacity

<p>1. Institutional capacity constraints What are the main obstacles for public institutions (ministries, central bank, tender authority, audit) to exercise their power in an effective manner? The following elements could be taken into consideration:</p> <ul style="list-style-type: none"> ○ Is their mandate clearly 	<p>The Public Service Reform Programme (PSRP) was launched in 1993 as a systematic long-term effort to reform the Public Service. The new wave of reforms focuses on three priority areas, namely,</p> <ul style="list-style-type: none"> a) improving Financial Management, Accountability and Transparency; b) improving the efficiency and effectiveness of the Public Service; and c) improving service delivery at the local level through decentralisation. <p>The Public Service Management (PSM) Component of PSRP is an important element that focuses on the effective management of the people</p>	<ol style="list-style-type: none"> 1. Government's commitment to institutional capacity strengthening is enshrined in the PSRP and shall continue exerting effort towards the achievement of the three main components of the Programme. 2. In the context of PRSP, the Government is committed to the implementation of the decentralisation policy that focuses on the following: The programme on fiscal decentralisation is also advanced. An intergovernmental fiscal architecture has been designed, focusing
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<p>defined?</p> <ul style="list-style-type: none"> ○ Do they dispose of qualified staff and adequate budgetary resources? ○ Is there an effective coordination between the central and local level government? ○ Is the national and local administration able to formulate and implement policy initiatives? ○ Are they able to manage external aid? ○ Do they have the capacity to respond effectively to natural disasters? 	<p>employed in the Public Service in order to improve their performance and that of the ministries and institutions for which they work. The Component has four sub-components – as follows:</p> <ul style="list-style-type: none"> a) <i>Rightsizing</i>: All Government ministries and institutions have staffing complements which are appropriate to their agreed mandates and are affordable in relation to their respective budget ceilings; b) <i>Pay Reform</i>: Employee remuneration is related to the job and performance; the Public Service is able to attract and retain essential technical, professional and managerial staff; pay arrangements support and reinforce improved service delivery; and increases in pay levels are consistent with the resource envelope; c) <i>Service Delivery Improvement</i>: All Government ministries and institutions are managing performance effectively within an agreed framework of planned objectives and standards, and are taking action to improve their capacity to deliver better services; d) <i>Payroll management and establishment control</i>: Personnel emoluments and establishments for the Public Service are effectively managed and maintained at agreed levels. <p>Although PRSP has not yet covered all institutions in its restructuring exercise yet, there is continuation and notable progress in this respect. Similarly, Government has developed the Aid Policy and Strategy that is also awaiting Cabinet approval.</p>	<p>on different transfer modalities of grant funds to the local level, for restructuring expenses, as well as the covering of recurrent and capital expenditure.</p> <p>The Public Service Reform is the second pillar to improve Government effectiveness. Government, through Cabinet Office, is determined to expedite the implementation and finalisation of this important reform process, that is rightsizing the public service at more competitive and performance related salary scales, while still resulting in a more manageable total wage bill. An important role in this respect is the rolling out of an Integrated Payroll Management Establishment Control (PMEC) System across all Ministries, institutions, and Provinces, including integrating PMEC with IFMIS over the FNDP planning period. Government's commitment to the implementation of these reform processes is reflected by the adoption of concrete indicators with targets under the Performance Assessment Framework (PAF) of the Poverty Reduction Budget Support programme.</p> <p>3. With regard to capacity to cope with disasters, the Disaster Management and Mitigation Unit under the Office of the Vice President and has the following objectives:</p> <ul style="list-style-type: none"> a) To design and implement disaster management activities. b) To co-ordinate and monitor the Disaster Management Programmes in order to rationalize resource utilization and ensure effective implementation of the programmes. c) To reduce Zambia's vulnerability to disasters in the identified areas of concern d) To put in place appropriate measures that minimizes the negative effects of disaster. e) To activate response mechanisms for effective, timely search and rescue operations, in order to
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			<p>save lives and minimize damage to property, in times of a crisis.</p> <p>f) To put in place measures to restore livelihoods and other life support systems of the affected communities.</p>
<p>2. Competencies for decentralisation process If a decentralisation process is ongoing, are the relevant competencies devolved to local authorities? Are appropriate resources (staff and budget) secured through allocations in the State's budget or through their own revenues?</p>		<p>The National Decentralisation Policy was adopted in 2004 and aims at achieving a fully decentralised and democratically elected system of governance characterised by open, predictable and transparent policy making and implementation processes.</p> <p>In the 2006 budget, a restructuring grant for local authorities was included which will continue in the budgets 2007 up to 2009. An interim recurrent will also be put in place for those Local Authorities that have been restructured so that they do not become insolvent again.</p>	<ol style="list-style-type: none"> 1. To facilitate the implementation of the Decentralisation Policy, the Decentralisation Implementation Plan (DIP) was developed in 2005 and is awaiting Cabinet approval. Although the DIP has not yet been approved, implementation of some of the programmes has already begun and Government is committed to this process. A generic structure on how the districts are to perform, with clear division of responsibilities between the central and local level, has been developed. The major institutions such as health, education, agriculture, have been covered. 2. The programme on fiscal decentralisation is also advanced with significant commitment on the part of the Government to make it work. An intergovernmental fiscal architecture has been designed focusing on three transfer modalities. These are: <ol style="list-style-type: none"> a) Restructuring grant to facilitate the restructuring of local authorities by clearing retrenchment/ retirement costs and other debts; b) Recurrent grant to support recurrent costs of running Local Authorities in addition to own resources such as property tax, personal level and user charges. It is envisaged that the recurrent grant will replace the <i>ad hoc</i> general purpose grant currently being given to Local Authorities. c) Capital grant which will be the vehicle through which development funds will be disbursed to local authorities.
<p>3. Other relevant information</p>		<p>The performance of the public service has benefited from the on-going PSRP. Most of Government ministries have gone through strategic planning processes. The FNDP rededicates the Government to advanced further reforms towards capacity strengthening of the public service.</p>	

B. Public Finance Management (PFM)

<p>1. PFM Assessment Is there an up-to-date assessment of PFM in the country?</p>	<p>The delays encountered with respect to IFMIS implementation are deplorable, but they were also due to cumbersome procurement procedures on the side of cooperating partners and not only on Government side. With PEMFA taking off, Government expects this area of PFM to further improve in the near future.</p>	<p>1. Government is strong committed to the improvement of public finance management systems through PEMFA (Appendix 1 summarises the main components of PEMFA).</p>
<p>2. Budgeting processes Describe if there are problems with:</p> <ul style="list-style-type: none"> ○ the realism of the budget document? ○ the execution of the budget? ○ the comprehensiveness and the transparency of the budget ? ○ internal controls? ○ external scrutiny and audit? 	<p>With respect to the comprehensiveness and transparency of the budget, it should be noted that Grant aided institutions have to report separately on their financial balance sheets. In the budget, it is only the respective grant that is captured as a lump sum. The same applies to District Authorities which have their own budget to administer. On the other hand, Government also expects more transparency from the cooperating partners in providing sufficient information on resources transfers, especially to actors outside Government. This is expected to be addressed through the HIP and JASZ processes.</p> <p>In order to strengthen internal controls, Audit Committees have been introduced through the Public Finance Act. There is also the provision to discipline erring controlling officers. And there are intentions to introduce INTOSAI standards during the FNDP period. The Office of the Auditor General has been restructured and will include a scrutiny of the value for money principle in its audits.</p>	<p>1. In order to improve budget execution, the Government is committed to ensuring that a set of important measures are put in place by the MFNP. For example, budgets for capital items are to be released within the first three quarters of the year, leaving enough time for the procurement within the rest of the year. By far the most effective instrument has been the cash flow framework that has been introduced, including a monitoring system.</p> <p>2. With respect to Government tenders, clear improvements have been made and the Government is committed to ensure that this succeeds. However, there is still the problem of proper and clearly phrased specifications. Procedures that have been introduced in order to rationalise public spending are biased towards a strict application of the lowest bid, with no measures in place to compare value for money. In this respect, capacity building is still needed. Through PEMFA, the remaining shortcomings in procurement are being addressed.</p>
<p>3. PFM improvement Is there a reform programme to improve the quality of PFM? If not, is one being drafted? If so, is there evidence of the authorities' commitment to its implementation</p>	<p>1. Government is now focusing, through the speedy and full implementation of the Public Expenditure Management and Financial Accountability (PEMFA) programme, on swiftly addressing the remaining shortcomings, for example, in procurement and expenditure reporting, to be accomplished over the FNDP planning period. PEMFA's objective is to improve efficiency, effectiveness and accountability in the management and utilisation of public financial</p>	<p>Government is committed to the efficient and effective implementation of PEMFA's components, particularly the following:</p> <ul style="list-style-type: none"> a) Component 1: <i>Commitment Control and Financial Management Systems</i> that focuses on the improvement of the financial management system; b) Component 2: Integrated financial management Information System that aims at, inter alia, making the Chart of Accounts

	<p>resources.</p> <p>2. The Office of the Auditor General has been restructured and will include a scrutiny of the value for money principle in its audits. The intended decentralisation of the OAG, with the creation of district offices, will be a major step in improving the efficiency of this institution throughout the country.</p> <p>3. The FNDP, in outlining its strategies for the implementation of the decentralisation policy, also lists a series of activities to improve financial management and accountability in local government, mainly through capacity building measures at that level, that also include auditing and reporting procedures of councils, specifically establishing and operationalising a comprehensive local government financing system.</p>	<p>consistent with IFMIS;</p> <p>c) Component 3: Improved Fiscal Policy and Economic Planning, focusing on such aspects as improved quality of macroeconomic and fiscal frameworks used in the preparation of annual budgets and medium-term planning documents (MTEF, national development plans, etc); and enhanced ability of the Government and stakeholders involved in the Sector Advisory Groups (SAGS) to monitor economic/development progress.</p> <p>d) Component 4: <i>Budget Preparation and Execution</i> that aim at improved budgetary planning through an institutionalized MTEF process; enhanced capacity of local authorities to implement MTEF/Activity-based budgeting principles and processes; improved design and implementation of tax policy reform; and enhanced capacity for policy analysis.</p> <p>e) Component 5: <i>Improved debt</i> management, focusing on increased clarity of roles and responsibilities; improved efficiencies and effectiveness of debt management through institutional re-organization; and human capacity enhancement in debt management.</p> <p>f) Component 6: <i>Enhanced Internal Audit and Controls</i>, targeting human resource capacity strengthening for internal auditors</p> <p>g) Component 7: <i>Better External Financing</i> through improved coordination mechanism for managing ODA; <i>approval of the Aid Policy and Strategy for Zambia; adoption of the Joint Assistance Strategy (JASZ)</i>; installation of donor assistance database; development of a Consultative Forum for dialogue; and improved institutional and human resource capacity in aid management.</p> <p>h) Component 8: <i>Improved legal and regulatory framework</i>, focusing on the revision and strengthening of public procurement legislation;</p> <p>i) Component 9: <i>Strengthened External Audit</i> through expanded audit coverage to more provinces; improved training facilities; decentralisation of Office of the Auditor General to all</p>
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		<p>provinces; better staffing of provincial offices; and improving Value for Money Auditing</p> <p>j) Component 10: <i>Enhancing Parliamentary Oversight</i></p> <p>k) Component 11: <i>Accountancy Training and Regulation</i>, focusing on the design and implementation of professional accountancy qualification with public sector content;</p> <p>l) Component 12: <i>Public Procurement Reforms</i>, targeting legal and regulatory framework for public procurement; and</p> <p>m) Component 13: <i>Centralized Computer Services Department</i>.</p>
4. Other relevant information	<p>The programmes to improve Public Finance Management have been sustained with positive results being registered, thanks mainly to PEMFA and MTEF. The implementation of IFMIS should further improve the situation. The Aid Policy and Strategy, once approved, also provides additional opportunities for further improvements in the management of resources, particularly ODA. The momentum has been enhanced by the parallel donor interest to improve aid management through more coordinated and harmonised systems of delivery and monitoring, particularly informed by the Rome Declaration on Harmonisation and, subsequently, the March 2005 Paris Declaration on Aid Effectiveness.</p>	
V. Economic Governance		
A. Private sector/Market-friendly Policies		
Is the business climate attractive for private sector investment in particular taking into account the following:		
<p>1. Business climate: registration and winding up</p> <p>The time and cost to start/end a company</p>	<p>As the steadily growing investment figures show, the business climate is quite attractive for private sector investment, foreign as well as local. The attractive good investment climate has been enhanced by the Millennium Challenge Account (MCA) programme that was approved in May 2006, aimed at tackling administrative barriers that stall trade and investment. Specifically, the economic freedom component of the MCA aims at addressing the weak public service delivery to the private sector and administrative barriers to business and investor entry and operation as the main hindrances to dynamic economic growth.</p> <p>Some of the activities that are currently being implemented are the establishment of the Zambia Development Agency (ZDA) which is a “one stop shop.” The Agency has brought together and rationalised the operations and procedures of five statutory bodies, namely, the Zambia</p>	<ol style="list-style-type: none"> 1. The Government is committed to promote private sector-led entrepreneurship and use, as the main instrument, the Private Sector Development (PSD) Programme’s six reform pillars, namely, (a) to improve the policy environment and institutions that serve the private sector; (b) regulations and laws, (c) infrastructure development, (d) business facilitation and economic diversification, (e) trade expansion, and (f) citizens economic local empowerment 2. The economic performance of Zambia over the last couple of years, with growth rates averaging 4.9% per annum, inflation coming down to single digit figures (8.3% during 2006), and a relative stable exchange rate, has shown the commitment of Government to economic reforms and broad-based wealth

	<p>Investment Centre (ZIC), the Zambia Export Processing Zones Authority (ZEPZA), the Export Board of Zambia (EBZ), the Zambia Privatisation Agency (ZPA) and the Small Enterprise Development Board (SEDB).</p> <ul style="list-style-type: none"> • 	<p>creation through private sector led growth.</p> <ol style="list-style-type: none"> 3. Government has set a goal of at least 7% of economic growth per annum that is to be achieved through a continued and even further enhanced commitment to private sector friendly economic policies. Agriculture, tourism, mining, and manufacturing are highlighted as the key areas of focus. Government commitment to improve its performance in this respect is highlighted by a series of private sector related indicators in the PAF, e.g. Indicator PSD 1, where Government pledges to reduce the “average length of time taken to establish a business” from 35 to 7 working days by 2008. 4. Through MCA, Government is committed to addressing the remaining bottlenecks with respect to the customs regulations and their application, for example through a one stop border clearing house at Chirundu which is a pilot and is expected to be replicated at other border areas. 5. Government is committed to ensuring that ZDA is functioning effectively and efficiently and that it remains one of the key programmes under the MCA Threshold Project.
<p>2. Business climate: Access to capital The level of access to capital market; adequacy of central bank supervision</p>	<p>The high interest rates prevailing in the past have effectively limited the access of the private sector to the capital market. But the macro-economic situation has considerably improved in 2005 and 2006. The year 2006 saw for the first time single digit inflation rates. This has also helped to bring down interest rates, although they remain comparatively high. Government has recognised that the interest rates were effectively preventing access to the financial markets. Through the Financial Sector Development Plan, Government is addressing this issue.</p> <p>The Banking and Financial Services Act has been revised which has given the Bank of Zambia more powers in its responsibility of supervising commercial banks and non-bank financial institutions. It is noteworthy that the Credit Reference Bureau (CRB) has been established.</p>	<p>The private sector has often cited lack of credit as one of the major impediments to their expansion. In this regard, the Government, through the PSD, is committed to the strengthening of the financial system in order to expand intermediation in the economy. The Financial Sector Development Plan (FSDP) is the Government’s flagship framework for the development of Zambia’s financial sector and it is committed to seeing it succeed.</p>
<p>3. Customs regulations The customs regulations and</p>	<p>Surveys rank Zambia’s trade and exchange control regimes among the most open and liberal. The MCA aims to address the remaining bottlenecks with</p>	<p>Government is addressing trade-related impediments through the Integrated Framework (IF), which is an international initiative to</p>

<p>the application of the rule</p>	<p>respect to the customs regulations and their application, for example through a one stop border clearing house at Chirundu which is a pilot and is expected to be replicated at other border areas.</p> <p>Zambia has also made progress towards streamlining domestic laws and practices that govern foreign and local trade. These include the simplification and reduction of tariffs and integrating into regional and multilateral programmes under the SADC, COMESA and WTO. However, deficiencies still impinge on trade facilitation. These include excessively bureaucratic trade procedures; lengthy inspection and certification processes; poor or non-existent border ICT infrastructure; inadequate application of modern customs techniques; and inadequate skilled personnel.</p>	<p>respond to developing countries' trade needs, particularly focusing on supply-side constraints. A Diagnostic Trade Integration Study (DTIS) was developed in the context of the PSD Reform Programme and focused on specific priority areas for intervention and support; making export incentives work for exporters; improving trade facilitation; enhancing the capacity to formulate, coordinate and implement trade policy; and negotiating trade agreements. This includes streamlining the duty drawback scheme, the development of a single processing and payment window for all border agencies, and the amendment of the Standards Act to separate standard testing from the regulatory functions.</p> <p>With the support of the Millennium Challenge Account, a programme shall be put in place aimed at enhancing port efficiency through the establishment of a "Comprehensive Integrated Tariff System" (CITS) that will unify all border related fees and procedures. The programme will start with two pilot border posts, namely, Chirundu and Lusaka International Airport (LIA).</p>
<p>4. Labour regulations</p>	<p>In order to respond to various changes in the labour market, the Government, through the Ministry of Labour and Social Security, has developed the national employment and labour market policy.</p>	<p>1. The following are some of the focal areas that are being implemented under the FNDP (2006-2010):</p> <ul style="list-style-type: none"> a) Support to the various sectors of the economy aimed at achieving higher employment creation, productivity and improved wages and working conditions; b) Revision and formulation of employment/labour policies and legislation; c) Reduction of brain drain in the country; d) Strengthening the participation of government, employers and workers in social dialogue; e) Provision of comparative information on the state of labour through monitoring and analysing the labour market; f) Elimination of all forms of discrimination in employment; g) Elimination of the worst forms of child labour; h) Provision of social protection/security and integration of

			<p>special and vulnerable groups into the labour market; and</p> <p>i) Promotion of awareness and recognition of fundamental rights of workers.</p> <p>2. Specifically with respect to the elimination of child labour, the Employment of Young Persons and Children’s Act (Chapter 274 of the Laws of Zambia) has been passed in response to the ILO Convention 182 on the elimination of the worst forms of child labour. There are restrictions on where a child can work. Moreover, the a Draft Child Labour Policy</p> <p>3. Statutory instruments on labour regulations have been amended in 2006. For example, managers are now excluded from the category of vulnerable workers and are not automatically entitled anymore for the two to three months termination benefits for every year of service.</p> <p>4. The Government is currently addressing the challenges of casualisation of labour with public debate being facilitated with a view to addressing the challenges that come with this.</p>
<p>5. Business climate: Corruption The unofficial payment for firms to get things done</p>		See Section III above on Control of Corruption	See Section III above on Control of Corruption
<p>6. Other relevant information</p>	PSD is the main instrument being used by the Government to create a hospitable environment for private investment, both foreign and local.		
<p>B. Management of Natural Resources</p>			
<p>1. Extractive Industries Transparency Initiative Has the country adhered to the Extractive Industries Transparency Initiative (EITI)? If not, what are the problems regarding the adhesion? Has the country encountered any problems in the</p>		Zambia has not yet adhered to the EITI.	As indicated in the last IMF PRGF Review Report(December 2006), the Zambian authorities have expressed their interest in participating in the EITI

<p>implementation of the EITI (programme, activities, creation of a EITI specific department)?</p>		
<p>2. Illegal logging and trade in illegally-harvested timber FLEGT (Forest Law Enforcement, Governance and Trade) Is the country affected by illegal logging and the trade in illegally-harvested timber? If yes, what steps has the government taken to strengthen forest sector governance, and address underlying causes of illegal logging? Has there been dialogue between the government and the Commission concerning the EU FLEGT Action Plan, and is the country a potential candidate for a partnership under the FLEGT Action Plan?</p>	<p>Zambia boasts of rich and abundant natural resources with extensive forestry resources. Forest resources, comprising about 60 percent of the country, have an estimated 1,755 to 3,652 million cubic metres of woody biomass. There is also a variety of ecosystems with over 3,000 different species. To maintain biodiversity and support forest production, Zambia has set aside 9.64 percent as protected forests (reserves) throughout the country, and 60,000 ha of plantation forestry respectively on the Copperbelt and in other provinces. Rapid increases in the population combined with over-exploitation of resources have threatened the resource base and in turn the lives of the people. The growing population implies that the number of people who exploit natural resources as a means of sustaining themselves will also increase.</p> <p>Generally, Zambian forest resource is dwindling; annual deforestation is estimated at 900,000 ha., indicating the urgent need to reduce the high rate of deforestation, and to mitigate its impact on the people and the environment. Charcoal burning significantly contributes to rapid deforestation. Half of Zambia’s population lives in urban areas and the rate of urbanization is increasing. Between 66 and 98 percent of urban households use charcoal for domestic energy needs.</p> <p>Before 1985, Zambia had no coherent and comprehensive policy framework and an apex institution for the management and utilization of environment and natural resources. Thereafter, important policy and institutional developments took place, which include the adoption of the national conservation strategy, the enactment of the Environmental Protection and Pollution Control Act (EPPCA) and the subsequent establishment of the Environmental Council of Zambia (ECZ) and the Ministry of Environment and Natural Resources (MENR) in 1992 as apex institutions. These heralded the development of major programmes such as the National Environmental Action Plan (NEAP) (1994), the Environmental Support Programme (ESP), the Zambia National Biodiversity and Action Plan (NBSAP), the Zambia Forestry Action Plan (ZFAP), the National Action Plan for the implementation of the United Nations Convention to Combat Desertification (UNCCD), and the Zambia</p>	<p>As stated in the FNDP, Government is committed to reviving the process of establishing the Zambia Forestry Commission to effectively manage the forestry sub-sector, including safeguarding the sustainability of the usage of forestry resources and the conservation of indigenous forests. The following are other commitments in the next five years as stated in the FNDP:</p> <ol style="list-style-type: none"> a) The Government shall implement the National Environmental Policy once it is approved by Cabinet. To do this effectively, the Government shall facilitate the development of an implementation plan in the context of the decentralization policy. b) Presently, the Forestry Department has no capacity to adequately manage forest estates in the country. In view of this, the Government shall consider various options for improving the operations of the sector; c) The Government shall continue to facilitate forestry development by encouraging the involvement of local people and the private sector in forest businesses and ensure that many people access the Forest Development Credit Facility. d) The Government shall work towards the domestication of international environmental conventions during the FNDP period. Zambia has acceded to over 20 international environmental conventions, and these have a bearing on the management of the country’s natural resources. The Government shall give priority to the domestication of five conventions that are critically relevant to Zambia namely, Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES); Convention on Biological Diversity (CBD); United Nations Convention to Combat Desertification (UNCCD); Convention on Wetlands of International Importance (Ramsar Convention); and Convention for the Protection of World Heritage.

	<p>Wetland Strategy and Action Plan.</p> <p>The supportive policy environment has, thus, improved, particularly in the light of the fact that the final draft of the National Policy on the Environment (NEP) having been finalised in 2005 following widespread consultations. Environmental issues have also been given prominence in the FNDP</p> <p>Zambia, therefore, generally fulfils the requirements to be a potential candidate for a partnership under the FLEGT Action Plan.</p>	<p>e) The Government shall facilitate the process of putting in place the new system and structures for decentralized, collaborative and enhanced forest management, including the option of creating the Zambia Forestry Commission under the Ministry of Tourism, Environment and Natural Resources; and</p>
<p>3. Code of Conduct for Responsible Fisheries Does the country implement the FAO Code of Conduct for Responsible Fisheries (CCRF)?</p>	<p>The main aim of the Government in the fisheries sector is to increase fish production and promote sustainable utilization of fisheries resources thereby contributing to the economy through the generation of employment, income and improved availability of fish. In this regard, The Government implements a policy of fish ban during the fish breeding season. During the FNDP, plans to focus on promoting community-based resource management of capture fisheries, thereby improving catches. Concerted efforts will be made to promote aquaculture development and restocking natural water bodies with fish seed. Better processing facilities will be promoted and the distribution network improved.</p>	<p>As a way of commitment, the following interventions that are in line with the FAO Code of Conduct for Responsible Fisheries shall be undertaken by the Government during the FNDP:</p> <p>a) Conserve and maintain bio-diversity of aquatic resources through improved monitoring;</p> <p>b) Regulate and control the marketing and trading of fishing gears and fishing practices;</p> <p>c) Promote aquaculture development, especially among women;</p> <p>d) Strengthen gender balanced research-extension-farmer linkages;</p> <p>e) Promote improved fish processing and storage</p>
<p>4. Other relevant information</p>	<p>Overall, government has placed a high premium on improved management of natural resources. There is the National Conservation Strategy, the National Environmental Action Plan (NEAP), the Environmental Protection and Pollution Control Act, and, more recently, Vision 2030 document and the environment and natural resources chapters of the Fifth National Development Plan. The National Policy on Environment will be used by the Government as the key guiding tool in the environment sector once it receives approval from the new cabinet.</p>	
<p>VI. Internal and External Security</p>		
<p>A. Internal and External Security</p>		
<p>1. Ethnic/regional conflict What kind of internal ethnic/regional conflict can be identified?</p>	<p>Zambia is blessed as one of the few countries in Africa where there has never been any civil strife or armed conflict since Independence.</p>	<p>Government is committed to continue its nation-building efforts that provide for a wide cultural and ethnic diversity under the umbrella of undisputed national unity.</p>

<p>2. Civil unrest Can signs of civil unrest be detected? If yes, which sectors of society are affected?</p>		<p>Zambia has not suffered from civil unrest and can proudly boast of being among a very small group of countries in the region that can say this.</p>	<p>Zambia is committed to maintaining peace and stability through its philosophy of <i>One Zambia One Nation</i></p>
<p>3. Other relevant information</p>	<p>None</p>		
<p>B. External Threats and Global Security</p>			
<p>1. Conflict-preventing international/regional agreements Is the country respecting international/regional agreements related to Antipersonnel Landmines, Explosive Remnants of War and illicit trafficking and spread of Small Arms and Light Weapons</p>		<p>Zambia has continued to play an important role in seeking solutions to regional conflicts in Southern Africa and, in recent years, in such countries as the DRC, the Great Lakes Region, and far afield in Sierra Leone and Kosovo. On its part, the country has never been a source of concern in the region, thanks to its state of internal peace and tranquillity.</p>	<p>Government is committed to play its traditional strategic role in resolving regional conflicts and it will continue to respect regional and international agreements that secure peace.</p>
<p>2. Respect for international law on managing external conflicts Does the country respect international law and its regional obligations in managing external conflicts? Is the country involved/affected by any external conflict?</p>		<p>Zambia has never been involved in an external conflict or war except during the freedom struggle of its neighbours when it provided refuge to freedom fighters which often resulted in skirmishes on Zambian soil. Currently, Zambia has eight neighbours and continues to enjoy good relations with all of them.</p>	<p>Zambia is committed to maintaining good neighbourliness with regional countries. It will continue to uphold international law and respect regional obligations in managing external conflicts.</p>
<p>3. Contribution to UN peace-keeping Is the country contributing positively (troop contributions to peace-keeping by UN) to the maintenance of peace in the world, continent, region?</p>		<p>Zambia has often contributed to the UN or AOAU/AU armed forces for peace-keeping operations (e.g. in Sierra Leone, Sudan, Kosovo etc.). The country has also signed the following SADC protocols:</p> <ul style="list-style-type: none"> a) Protocol on Politics, Defence and Security Cooperation. b) Protocol on the Control of Firearms, Ammunition and other related materials. 	<p>Zambia remains committed to non-military approach to peacekeeping</p>

		<p>c) SADC Defence Pact.</p> <p>The country is also a member of the SADC Defence Joint Cooperation that meets often to share and strategise on peace & security in Southern Africa.</p>	
<p>4. Peace mediation</p> <p>Is the country involved actively in peace mediations?</p>		<p>Zambia has actively participated in the management of regional conflicts in such countries as the DRC and the Great Lakes Region</p>	<p>Zambia is committed to actively participate in peace mediation particularly in the context of the UN system and in accordance with regional commitments.</p>
<p>5. Enforcement of UN resolutions on terrorism</p> <p>Is the country committed to implement UN Security Council Resolution 1373 (2001) and UN Convention on Terrorism?</p>		<p>Zambia's foreign policy clearly condemns terrorism.</p>	<p>Within the limits of its capacity/resources, Zambia is committed to the implementation of the UN Security Council Resolution 1373 and UN Convention on Terrorism.</p>
<p>6. Prevention of proliferation of weapons of mass destruction</p> <p>Does the country comply with and implement international norms and convention against the proliferation of weapons of mass destruction and their means of delivery?</p>		<p>Zambia believes that interdependence and mutual trust among nations are preconditions for prosperity and development of any given country. In this regard, international peace and security should be encouraged. According to Zambia's Draft Foreign Policy, Article 1 of the UN Charter is an important basis for promoting international peace and security. Accordingly, in the context of Article 1 of the UN Charter, states the Draft Foreign Policy, "Zambia is of the view that disarmament, particularly nuclear disarmament and the elimination of all forms of weapons of mass destruction is essential to word security. In upholding the principle of peaceful resolution to conflicts, Zambia strongly feels that progress in disarmament will go a long way in enhancing international peace and security. ..Zambia shall continue to support efforts, to eliminate poverty, drug trafficking and international terrorism, which are serious threats to international peace and security."</p>	<p>Zambia has made clear that it does not support the proliferation of weapons of mass destruction and shall continue to uphold this policy position</p>
<p>7. Other relevant information</p>	<p>Zambia stresses the policy of peaceful coexistence, firstly, with its neighbours, and, secondly, with the world at large.</p>		
<p>VII. Social Governance</p>			

<p>1. Signing and domestication of ILO conventions</p> <p>Does the government have any particular problem to sign, ratify or transpose to domestic law the eight fundamental ILO Conventions²⁰ ? If so, why? Please provide comments on implementation of ILO ratified conventions, in particular on children</p>	<p>According to Government statistics, there are some 595,000 child workers in Zambia. Of these, 58% are 14 or younger and, thus, ineligible for any form of employment under the Employment of Young Persons Act. The vast majority (about 90 %) of working children are employed in the agricultural occupations, most of whom in the rural areas. Occupations relating to trading accounted for the largest occupations in urban areas. Street vending or hawking is predominantly an urban phenomenon.</p> <p>In the light of the above, Government has adopted a very positive and supportive attitude towards all international agreements and Conventions on cross-cutting issues such as children's rights, gender equality, and HIV/AIDS, and has put a series of measures in place to implement the signed and domesticated protocols. In this spirit, the country has ratified forty-one ILO Conventions, including the seven core ILO Conventions such as Convention 98 on the right to organise and collective bargaining, Convention 100 on equal remuneration, and Convention 87 on freedom of association and protection of the right to organise. All these conventions were ratified in 1997.</p>	<ol style="list-style-type: none"> 1. Government is committed to the enforcement of the "Industrial and Labour Relations Act" that provides for, inter alia, the right to join a trade union and perform union-related activities, and protection from dismissal due to participation in trade union activities, minimum wages, etc. 2. The Government ratified ILO Convention 138 on February 9, 1976, Convention 182 on December 10, 2001 and, consequently, has identified a list of occupations considered as the worst forms of child labour. The laws against child labour in Zambia are spread across various parts of the constitution. 3. The Constitution prohibits trafficking of children under 15 years old and the penal code prohibits the trafficking of girls and women for sexual purposes. The Government is coming up with a system of tracking the points of origin and destination, including tracing what the child does after leaving the country. The Ministry of Labour is supporting a survey to this effect and a consultant is currently in the field collecting data. 4. The Government is a signatory of the following treaties that prohibit child trafficking: <ol style="list-style-type: none"> a) Partemo Protocol b) UN Convention Against Transnational Organised Crime c) The Protocol to Prevent, Suppress and Punish Trafficking in Persons d) The Protocol Against Smuggling of Migrants by Land, Sea and Air e) UN Convention on the Rights of the Child (1989) f) Convention concerning forced labour g) Convention on the Worst Forms of Child Labour number 182 of 1999 5. Following the signing of international protocols, the following is
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²⁰ Conventions on freedom of association and collective bargaining (conventions 97, 98), on elimination of forced and compulsory labour (conventions 29, 105), on elimination of discrimination in respect of employment (Conventions 100, 111), on abolition of child labour (Conventions 138, 182)

		<p>domestic legislation that works to prevent child trafficking in Zambia:</p> <ol style="list-style-type: none"> a) The Constitution Cap 1 b) The Penal Code Cap 87 c) The Penal Code (Amendment) Act No. 15 of 2005 d) The Employment of Children and Young Persons Act (giving minimum penalty of 5 years imprisonment and maximum of 25 years) e) The Employment of Young Persons and Children (Amendment) Act No. 10 of 2004 f) Prohibition and Prevention of Money Laundering Act No. 14 of 2001. g) Employment Act cap 268 h) Draft Statutory Instrument defining the list of hazardous forms of child labour <ol style="list-style-type: none"> 6. An inter-institutional Committee on Human Trafficking Legislation has already been created under the auspices of the Ministry of Home Affairs 7. The Employment of Women, Young Persons and Children Act (Chapter 505 of the Laws of Zambia) is the most explicit piece of legislation about working children. This Act makes it an offence for any person under the age of 14 to be employed in any industrial concerns except where all employees in the enterprise are members of the same family. The Act also seeks to prevent the exposure of children to harsh working conditions. The Ministry of Labour and Social Security, which is responsible for enforcing labour laws, established a Child Labour Unit to specifically address issues relating to child labour.
<p>2. HIV/AIDS national strategic plan</p> <p>Does the country have a National Strategic Plan to enable it to respond to the challenges of HIV/AIDS e.g., a national Coordination</p>	<p>Zambia has developed 2002-2005 Strategic Intervention Plan. The fight against the HIV/AIDS pandemic has been recognised and taken up as a cross-sectoral policy principle. The most comprehensive HIV and AIDS monitoring indicators are found in the <i>Zambia HIV and AIDS Strategic Framework, 2006-2010</i>. The development of the <i>Framework</i> was completed in mid-2006 and is expected to serve as the reference tool for the implementation and</p>	<ol style="list-style-type: none"> 1. The Zambia Multi-Sectoral Response, coordinated by the National AIDS Council (NAC), is committed to controlling HIV and AIDS by integrating HIV and AIDS into the work of every partner and development agenda. The aim is to scale up prioritised actions which are rapid and responsive to the needs of the local communities to be served. 2. The Government is committed to a number of principles in its national

<p>Committee etc.?</p>	<p>monitoring of HIV and AIDS interventions. The Framework is intended to set the framework for the following:</p> <ul style="list-style-type: none"> a) Support coordinated, prioritised and knowledge-based scale up of the response; b) Facilitate broad ownership of the response by all partners and practical partnerships for the implementation of the response; c) Represent joint strategic direction of all Partners; d) Enable the involvement of key sectors and decentralised levels in all stages of the process; and e) Guide resource management at the strategic level. 	<p>response, namely:</p> <ul style="list-style-type: none"> a) Adoption of a human rights approach. This means that HIV/AIDS programmes and interventions are people-centred and culturally sensitive supporting and empowering communities, families and individuals to develop their own competencies and to learn from the experience of others. This approach further call for strong political leadership, commitment and engagement so as to promote good governance, transparency and accountability at all levels and in all sectors. b) Gender equity and HIV issues. c) HIV/AIDS interventions should be pro-poor with HIV and AIDS mainstreamed in the national development agenda, sector policies, plans and budgets of the Country in order to ensure sustainability. d) Controlling HIV and AIDS needs the involvement of all sectors of society through the Multi-Sectoral response and partnership in the design, implementation, review, monitoring and evaluation of the Zambia Strategic Framework.
<p>3. Political Will for HIV national response</p> <p>Where national strategies and structures exist to respond to the challenges of HIV/AIDS, how far is there the political will and the commitment of domestic resources to ensure that they are effective?</p>	<p>The Government has put in place a number of national support structures to address the HIV/AIDS pandemic. They include the following that testify to the country's political resolve to address the challenge:</p> <ul style="list-style-type: none"> a) A high level Cabinet Committee of Ministers on HIV and AIDS, which provides policy direction and supervises and monitors the implementation of HIV and AIDS programmes; b) A Partnership Forum has been established to include high level representation of different stakeholders in the Zambian Multi-sectoral HIV Response; c) The National AIDS Council (NAC), established through an Act of Parliament in 2002, is a broad-based corporate body with government, private sector and civil society representation. The NAC is the national mechanism to coordinate and support the development, monitoring and evaluation of a multi-sectoral national response to HIV and 	<ol style="list-style-type: none"> 1. Government has recommitted itself in the next five years to the prevention of the spread of HIV and to provide appropriate care, support and treatment to HIV and AIDS infected persons and those affected by HIV and AIDS, TB, STIs and other opportunistic infections. 2. The Government, under FNDP, is committed to integrate VCT, PMTCT and <i>free</i> anti-retroviral therapy into the public health care delivery system and in private health care services.

	<p>AIDS;</p> <p>d) The National HIV/AIDS/STI/TB Policy of 2005 provides the direction and mandate for the national response;</p> <p>e) At lower levels, provincial, district and community HIV and AIDS Task Forces (PATFs, DATFs and CATFS) have been established to operate as sub-committees of the decentralised development coordinating structures, the Provincial Development Coordinating Committees (PDCCs) and the District Development Coordinating Committees (DDCCs) respectively. Local level planning to support development of more strategic planning for HIV and AIDS at decentralised district level has been initiated. Districts have also been given guidelines for the mainstreaming of HIV and AIDS into the district development plans and sector plans.</p>	
<p>4. Ratification and domestication of conventions on gender equality</p> <p>Does the government have any particular problem to sign, ratify or transpose to domestic law the most important international conventions and declarations on gender equality?²¹ If so, why? Please provide comments on implementation</p>	<p>Zambia has ratified the Convention on the Elimination of all forms of Discrimination against Women. At the moment, Government is revising the Interstate Act to address concerns regarding gender inequality. The Attorney General's Office is revising the Interstate Act and a bill is yet to be drafted and passed for onward submission to Cabinet for approval. In support of women empowerment, Zambia has also ratified the SADC Protocol of having 30% representation of women in decision making positions, although there are still a number of constraints to overcome before this goal can be achieved. In 2004, government successfully enacted a policy on re-admitting girls who fall pregnant during their school years back into school.</p>	<p>Government has commenced the process of domesticating the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) into the Zambian law. Further, the constitutional review process afforded women the opportunity to address issues in the constitution which were discriminatory.</p>
<p>5. National gender responsiveness</p> <p>Has the country put in place strategies and structures to</p>	<p>Gender-based violence is a critical area of concern particularly in cases relating to girls' and women's rights and its contribution to the spread of HIV. The major cause of gender based violence is unequal power relations. Zambia has ratified the SADC Protocol of</p>	<p>1. The Government adopted the national gender policy in 2000 and launched the strategic plan of action (2004 to 2008) in 2004. The national gender policy highlights a number of policy areas which include poverty, health, education, decision making, gender based violence, land, agriculture, environment, science and technology, legal reforms, natural</p>

²¹ Convention on all forms of discrimination against women (CEDAW, 1979), the Cairo Programme of Action (1994), the Beijing Platform for Action (1995)

<p>respond to the challenges of gender equality, e.g. a national strategic plan, a coordination committee or the like?</p>	<p>30 percent women in decision-making positions.</p>	<p>resources, commerce and trade and labour and employment. The national gender policy takes into account the issues and concerns contained in strategic documents such as the Convention on the Elimination of all forms of Discrimination Against Women (1979); the Beijing Declaration and Platform for Action (1995); the SADC Declaration on Gender and Development (1997); and the Millennium Declaration and Development Goals (2000).</p> <ol style="list-style-type: none"> 2. With respect to the still prevailing gender imbalances in general, the Government is working on a strategic plan that outlines how gender concerns can be included in all national policies, plans and programmes and to strengthen the legal framework and law enforcement guaranteeing women's rights. 3. The dual legal system in Zambia, in which both statutory and customary laws apply, has often led to discriminatory practices which in many cases are biased against women especially in the application of customary law which is not written. For this reason, the Government has initiated the review of customary law to avoid arbitrary interpretation of the customary laws and to align them to statutory laws. 4. The Government has also embarked on the process of addressing negative cultural beliefs and practices such as early marriages and property grabbing. A cultural policy has been developed to ensure that the traditions and customs do not discriminate against women. 5. With regard to gender based violence, Government established the victim support unit (VSU) in the Zambia Police Service to address the issue. 6. In 2003, the Government established the gender consultative forum aimed at advising Government on emerging issues and ensuring that policies being formulated and programmes being implemented are gender responsive.
<p>6. Other relevant information, overall appreciation and summary of the main problems identified in the area of social governance</p>	<p>Government is committed to stepping up its fight against poverty not only through private sector focused policies for broad-based wealth creation, but also through the guaranteed provision of basic social services in all parts of the country. This applies first of all to primary health care and basic education. Government believes that the free education policy and a number of accompanying measures have already had a tremendous impact in reducing gender imbalances in the access to the education system. Government will continue to focus on this aspect and has shown its commitment in this respect through the adoption of several PAF indicators that emphasise gender balanced access to such services.</p>	

VIII. International And Regional Context

A. Regional integration

1. Implementation of economic integration agenda

Degree of implementation of national obligations in respect of the economic integration agenda, especially as regards the creation of a FTA or a Custom Union.

Zambia has done remarkably well in terms of trade, with a weighted tariff average of 11%, far above that of the Sub Saharan region. The Millennium Challenge Account Threshold Programme will also address the remaining issues of bottlenecks in trade. Zambia has signed an MOU on the Customs Union and is also a member of the finance protocol.

With respect to an improvement in Transport and Communications, Zambia has facilitated cross border trade by the establishment of a one stop border post in Chirundu.

1. Zambia will continue to cooperate well with its neighbouring countries, including in the field of active regional dialogue processes.
2. Government is committed to proceed in the direction of further regional integration for the mutual benefit of all countries in the Region.
3. Zambia intends to negotiate an EPA within the ESA (Eastern and Southern Africa) region, thereby strengthening further the regional integration process of COMESA.
4. In addition, Zambia is negotiating bilateral trade agreements with Botswana, the Democratic Republic of the Congo, Mozambique, Namibia, Tanzania, and Zimbabwe.
5. Through the Millennium Challenge Account Threshold Programme, Government will also address the remaining issues of bottlenecks in trade.
6. As part of its external relations, the Government aims during the FNDP period to Strengthening of Bilateral and Multilateral Relations through the following measures:
 - a) Establish new missions in strategic regions and economic blocks;
 - b) Strengthen bilateral and multilateral relations;
 - c) Maintain closer contact with the NEPAD Secretariat, UN organization, SADC, COMESA and other regional and global institutions;
 - d) Strengthen commercial wings of missions abroad in order to aggressively market Zambia abroad;
 - e) Promote Trade and Investment;
 - f) Undertake trade-lobbying missions;
7. Facilitate activities related to the New Asia-Africa Strategic Partnership

<p>2. Application of regional integration programmes</p> <p>Degree of application of the regional plans/programmes for other regional policies (transport, trade development...) which are part of the regional integration agenda</p>	<p>Zambia is a member of COMESA. The aims and objectives are to facilitate the removal of the structural and institutional weaknesses of member states so that they are able to attain collective and sustained development. Moreover, COMESA aims to create and maintain:</p> <ul style="list-style-type: none"> ○ a fully Free Trade Area guaranteeing the free movement of goods and services produced within COMESA and the removal of all tariffs and non-tariff barriers; ○ a Customs Union with a common external tariff. According to the scheme, the CET will be 0% on capital goods, 5% on raw materials, 15% on intermediate goods and 30% on final goods; ○ free movement of capital and investment supported by the adoption of common investment climate - a common investment area - for the COMESA region; ○ a gradual establishment of a payments union and the eventual establishment of a monetary union with a common currency; and ○ the adoption of common visa arrangements, including the right of establishment leading eventually to the free movement of bona fide persons. <p>It is noteworthy that COMESA has acceded to the International Convention on the Simplification and Harmonisation of Customs Procedures in order to reduce cumbersome procedures.</p> <p>Zambia is also a member of SADC whose overarching development objective is macroeconomic convergence and market integration, investment, finance, and external trade regime and resource management harmonization. Coordination is also pursued in arrangements for ensuring internal and external security, and for political and economic (public and corporate) governance. Protocols have been signed or are being developed for regional and external trade; the creation of a Southern African Power Pool; agricultural, climatic, scientific and industrial research; sharing of common natural resources such as waterways; harmonization of tariffication for public utilities; and transparency and accountability standards,</p>	<p>The concepts of development corridors and Spatial Development Initiative (SDI) have been developed and implemented in southern Africa. The SDI approach is increasingly being pursued by the members of the Southern African Development Community (of which Zambia is a member) as a priority policy and strategy for the development of development corridors (based on the rehabilitated regional transportation routes) and, to a lesser extent, in the context of certain resource rich areas that the participating governments believe have a high inherent development potential for tourism and agriculture-led development. The SDI approach is being pursued against the following imperatives:</p> <ul style="list-style-type: none"> • The need to increase the rate of economic growth in the region. • Development of the regional economy to make it more diversified, stronger, and internationally competitive. • The need to create viable business opportunities for small and medium scale entrepreneurs. • To promote greater complementarities in economic strategies between regional countries as opposed to encouraging competitive structures of production. • The need to derive sustainable strategies and programmes to facilitate the rehabilitation and expansion of the region's infrastructure networks and facilities, and also to improve on the quality and reliability of the logistical services provided in terms of such infrastructure and facilities. • The need to develop an integrated and coherent framework and strategy within which private and public sector, as well as donor support can be successfully mobilised to support economic reform and socio-economic development. • To enhance intra-regional trade and, for the Southern African region, to begin to correct the large trade imbalances between South Africa and the wider region. • Promotion of institutional collaboration (vertical and horizontal) • To increase international competitiveness of regional countries' export goods.
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	<p>among others. Very importantly, the adoption of common standards for the modernisation of the infrastructure (rail, road, power generation systems and grids, seaports, airports, water storage [dams], irrigation and water distribution systems, and telecommunications) is also being pursued. SADC has 20 sector coordinating units assigned to the 14 member countries and concrete action plans are being implemented to foster the Community's development agenda. Zambia currently coordinates the region's mining sector development.</p> <p>To the extent that both COMESA and SADC aim to establish functional customs union, there is a serious potential challenge regarding Zambia's multiple membership status and the Government, through a planned study, intends to establish how best to resolve the potential conflicts.</p>	<ul style="list-style-type: none"> • To promote a more equitable spatial location of industries within the region based on inherent development potential. • To mobilise increased flows of Foreign Direct Investment (FDI). <p>Zambia is committed to, and continues to support the establishment and/or consolidation of the following regional development corridors:</p> <ul style="list-style-type: none"> • Tazara Development Corridor (Zambia and Tanzania) • Beira Development Corridor (Zimbabwe and Mozambique) • Trans Caprivi Corridor (Namibia and Zambia) • Lobito Development Corridor (Angola, Zambia & Democratic Republic of Congo) • Mtwara Development Corridor (Tanzania, Malawi and Zambia) • Namibe Development Corridor (Angola and Zambia) • Okavango Upper Zambezi (Zimbabwe, Botswana, Angola, Namibia & Zambia)
<p>3. Compliance with regional financial and legal obligations</p> <p>Degree of commitment in regional institutions, especially as regards the financial obligations of the country and the acceptance of binding decisions from the regional legal institutions (jurisdictions)</p>	<p>Zambia has continued to make its contributions to the COMESA Fund. It also hosts the Secretariat of the Organisation. Furthermore, Zambia is among the COMESA member states that have consented to the elimination of tariffs.</p>	<p>Zambia is committed to the principles of regional integration and continues its membership of SADC, COMESA, and the African Union.</p>
<p>4. Degree of commitment to regional integration schemes</p> <p>Coherence and technical/legal compatibility of the country position as against the various regional integration agenda to which it is part, and degree of</p>	<p>Zambia recognises the potential conflict between COMESA and SADC particularly when it comes to customs union arrangements and common external tariff principles. Zambia has, therefore, facilitated the rationalisation process of regional bodies with similar mandates and to which states maintain multiple memberships. Minister of Commerce received a directive from the President to undertake a study on choice between COMESA and SADC. In this</p>	<p>Zambia is committed to the harmonisation and rationalisation of regional integration schemes so as to maintain coherence and compatibility. Notwithstanding this, the country still continues to maintain its membership in both COMESA and SADC.</p>

commitment to the rationalisation process of the regional economic communities.	regard, in March 2006, the country played host to an African Union technical seminar on RECs rationalisation. It is also reported that the President directed the Minister of Commerce Trade and Industry to study the potential conflict emanating from its membership of both SADC and COMESA so as to see how best to proceed.	
5. Other relevant information	One of the vexing challenges that is outstanding is how best to increase national production to be able to tap benefits from opportunities that are being opened in the context of regional integration. Moreover, one of the vexing challenges relate to how Zambia's multiple membership to COMESA and SADC that both aspire to develop customs unions could be addressed.	
B. Involvement in Regional Initiatives on Governance and Peer Review Mechanisms (such as APRM)		
1. Involvement in peer review mechanisms Is the country actively participating in regional initiatives on governance?	Zambia has continued to participate in the African Peer Review Mechanism. In May 2006, the Government was represented at the African Governance Forum in Kigali, Rwanda whose theme was <i>Implementing the Africa Peer Review Mechanism (APRM): Challenges and Opportunities</i> . A statement was made by Zambia during that meeting expressing the country's commitments to the ideals of the APRM, namely, to ensure that the policies and practices of participating states conform to the agreed political, economic, and corporate governance values, codes and standards that are contained in the Declaration on Democracy, Political, Economic, and Corporate Governance.	Zambia is committed to the primary purpose of APRM, namely, to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration through sharing of experiences and best practice. The APRM mandate, to which Zambia subscribes, also includes the identification of deficiencies and assessment of capacity building shortfalls.
2. Accession to APRM Has the country acceded to the Africa Peer Review (APR) process? Is the country being reviewed or has it been reviewed? Is APR programme of action integrated in the PRS, in the MTEF, etc	President Mwanawasa signed the Accession document on behalf of his Government in 2006 during the African Peer Review (APM) Forum of Heads of State. During the AGF VI in Kigali, Zambia committed itself to begin the process of facilitating an institutional structure at the national level. The Ministry of Foreign Affairs is backstopping this process but has not yet registered significant progress.	Zambia recognises the importance of regional peer reviews and is committed to participate in all aspects of the APRM to which it acceded officially in 2006. It is currently in the process of making preparatory arrangements that traditionally follow the accession to APRM, namely, <ol style="list-style-type: none"> a) Sign the MoU on technical assessments and the country review visits. b) Appoint national APRM focal points, national APRM commission/Secretariat and other structures. c) Contribute to the funding of the APRM. d) Sensitization and information dissemination. e) Ensure participation of all stakeholders. f) Conduct the national self-assessment exercise and the country

		self-assessment report. g) Develop and implement a realistic National Programme of Action (NPA).
3. Other relevant information	Zambia has been participated in SADC initiatives and has acceded to the APRM / NEPAD	
C. Migration		
1. Dialogue with EU on migration issues Has the country been invited to deepen the dialogue with the EU on the broad agenda of migration related issues contained in art. 13 Cotonou?	Zambia has not been invited by the EC for dialogue on migration issues	N/A
2. Interest to address important migration issues In case where development aspects of migration have been identified as an important issue (e.g. brain drain / return of qualified nationals, remittances, relation with diaspora), does the country show willingness to address them in the programming dialogue? Does the country pursue a pro-active approach in this policy field? What steps have been taken in this context?	<p>The problem of the brain drain is quite acute and in Zambia. Many professions have left the country for the more rewarding countries in the Southern African region and even far beyond, including abroad. The Government is looking at ways of how to retain professionals in Zambia. One of the most affected sectors in Health. The key issues that have been identified as affecting the health sector include the following:</p> <p>(i) the public health sector is currently operating at half the expected number of health workers</p> <p>(ii) high levels of brain drain internally, within the region and to developing countries.</p> <p>It is in the above context that, in August 2005, the President of Zambia directed the Ministry of Health to develop a plan that would address the problems affecting the health sector, focusing on the human resources.</p>	Government is committed to finding ways of retaining professionals in the country by minimising the incentive to migrate to other countries. As an example, the Ministry of Health has formulated and presented in October 2005 a Human Resources for Health (HRH) Strategic Plan. The Plan sets out strategies and options for 2006 to 2010 to tackle the human resources crisis in the health sector, within the timeframes of the National Development Plan and the National Health Strategic Plan 2006 – 2010. Its overall aim is to ensure an adequate and equitable distribution of appropriately motivated, skilled and equitably distributed health workers providing quality services.
3. Willingness to address refugees issues In case where refugee aspects of migration have been	Zambia continues to host refugees from the Great Lakes Region (GLR) and beyond. About 80,000 refugees (out of the total of approximately 160,000) live in designated camps/settlements. A tripartite exercise by Zambian Government (Ministry of Home	Zambia has amicably handled the refugees issues in collaboration with UNHCR. Most recently (November 2006), a Tripartite Agreement on the Refugees from the Democratic Republic of Congo living in Zambia was signed

<p>identified as an important issue (either as a host country or as a country of origin), does the country show willingness to address the position of refugees in the programming dialogue? Does the country, when appropriate, cooperate on initiatives to enhance domestic or regional protection capacity?</p> <p>Does the country pursue a pro-active approach in this policy field?</p> <p>What steps have been taken in this context?</p>	<p>Affairs), the United Nations High Commissioner for Refugees (UNHCR) and Angola is in progress in which Angolan refugees (17,600 in 2005) have been repatriated back to Angola.</p> <p>A total amount of € 5,5 million from 9th NIP envelope B has been utilised to fund the repatriation of Angolan refugees since 2004. However, refugees from the DRC, Rwanda, Burundi and other countries are yet to be repatriated.</p> <p>In collaboration with UNHCR, the Zambian Government has implemented since 2004 a programme called Zambia Initiative promoting among others local integration and self-reliance of refugees</p>	<p>facilitating a smooth repatriation of 20,000 during 2007.</p> <p>Zambia is still hosting approximately 160,000 refugees from the Great Lakes Region (GLR) and beyond. While sticking to its international commitments for assistance to these refugees, Zambia will also contribute to an orderly and safe repatriation of these people to the DRC, Rwanda, and Burundi, as soon as the situation allows.</p>
<p>4. Willingness to address issues on illegal migration, smuggling and/or trafficking of human beings</p> <p>In case where illegal migration, smuggling and/or trafficking of human beings have been identified as an important issue, does the country show willingness to address these issues in the programming dialogue?</p>	<p>The Government has requested to fund an ILO study on child trafficking under the 9th EDF NIP. The results of this study could be considered for subsequent actions</p>	<p>Government is committed to curbing illegal migration, smuggling and/or trafficking of human beings, particularly children</p>
<p>5. Other relevant information</p>	<p>The Government shall continue to play host to refugees that flee their counties as a result of civil strife there.</p>	
<p>D. Quality of partnership</p>		
<p><i>A. Political dialogue:</i></p>		
<p>1. Degree of Zambia-EU political dialogue</p> <p>Are there agreed terms of</p>	<p>Government has continued to maintain dialogue with the EU on a cordial basis.</p>	<p>Efforts to verify this with Ministry of Foreign Affairs have proved to be difficult. This shall continue with assistance of MFNP.</p>

reference, joint agendas and established calendar for article 8?			
2. Openness of political dialogue Would you qualify political dialogue as open and constructive? If not, what are the main difficulties? Did the political dialogue lead to any concrete achievement?		Dialogue between the Government and the EU has remained cordial. There is, nevertheless, still need for more structured dialogue with the areas of focus for discussions better elaborated. Moreover, dialogue has generally been dominated, on the Government side, by the Ministry of Foreign Affairs.	Government is committed to an open dialogue with the EU and wishes to have more engagement with other ministries and government bodies beyond the Ministry of Foreign Affairs. The development of a clearer dialogue architecture ought to be developed to enable the discussions to be less ad-hoc and more structured.
3. Degree of formalisation of dialogue process Within art. 8 is dialogue on essential elements systematic and formalised? Have specific benchmarks or targets been agreed?		On more specific issues, dialogue has been systematic and formalised. However, to ensure smoother follow of decisions, a more structured mechanism would help the situation.	Government is ready and willing for a more structured dialogue system with the EU.
<i>B. Programming dialogue</i>			
1. Inclusiveness of dialogue around programming Does the government involve Parliament, non-state actors and local authorities in the programming dialogue?		The Government has set up various consultative mechanisms that aim to involve as many stakeholders as possible in discussions concerning planning and implementation of its programmes.	<ol style="list-style-type: none"> 1. Government is committed to maintaining an intensive dialogue with all its cooperation partners. However will insist that this has to be increasingly in line with the harmonisation in practice (HIP) and Joint Assistance Strategy (JASZ) processes and principles, in respect of the Zambia Aid Policy which is to be officially endorsed and adopted soon. 2. The cooperation with non-state actors in programming, implementation, and monitoring of Government programmes has been an important principle of economic governance. This principle has been institutionalised in all sectors through the Sector Advisory Groups where civil society is formally represented. Government is committed to maintain this principle of cooperation and to enhance further the quality and quantity of dialogue.
2. Openness and inclusiveness of the programming process		Donor preparedness to harmonise their support to Zambia has more recently found expression through the collective effort to prepare the Joint Assistance Strategy for Zambia (JASZ) in line with the principles that are enshrined in the Harmonisation in	<ol style="list-style-type: none"> 1. The Government is committed to entering into agreements with likeminded donors to prepared ground for more harmonized systems of support through General Budget Support. An Action Framework was signed in March 2003 between the Government of Zambia and Directors

<p>Was the programming exercise effectively a joint and open process? Did the Government actively promote co-ordination and harmonisation with other donors?</p>	<p>Practice (HIP) Initiative and the Paris Declaration on Aid Effectiveness. The intermediate objective of the JASZ is to build an effective development partnership by strengthening national ownership and Government leadership of the development process; aligning donor support to Government priorities, systems and procedures; harmonising Government and Development Partner processes; managing resources for development results; and ensuring mutual accountability. Under JASZ, a ‘lead partner’ will be appointed in each sector, thematic area and sub-sector to lead and coordinate the support and contributions to sector/thematic dialogue of other Partners that are active in that area. In some cases, a group of donors, through troika arrangement, would collectively assume leadership. Significant progress has already been registered at the level of responsibility sharing among donors.</p>	<p>General of the main cooperating partners. This Framework laid the foundation for the development of the <i>Aid Policy and Strategy</i>; a Donor Assistance Database for Zambia; and an MoU for Harmonisation and Coordination of Aid that was signed in April 2004. As of now, most donors had acceded to the MoU, namely, Canada, Denmark, the EU, Finland, France, Germany, Ireland, Italy, Japan, Norway, the Netherlands, Sweden, United Kingdom, and the World Bank. The operational relationship under the MoU places value upon ownership, alignment, harmonization, managing for results, and mutual accountability.</p> <ol style="list-style-type: none"> 2. The Government also subscribes to more collective programming of external support around poverty reduction. Perhaps the most illustrative arrangement in Zambia in this regard is the Poverty Reduction Budget Support (PRBS) whose enabling multi-donor MoU was signed in April 2005 by the Government and (initially) DfID/UK, Norway, the Netherlands, Sida/Sweden, the European Commission, and the World Bank, with the IMF as an observer. 3. A full PRBS Performance Assessment Framework (PAF) is under finalization with clear indicators. DfID made the first disbursement of 9 million pounds under the new agreement (out of 15 million pounds commitment for 2005). The European Commission also announced that its poverty reduction programmes would be integrated into the multi-donor PRBS arrangement with common review mechanisms during 2005 onwards. The European Union is earmarking for GBS close to 40 percent of its 10th EDF support for Zambia over the 2006-2013 period. 4. As part of the programming dialogue mechanism, a Joint Steering Committee (JSC) has been formed involving both the Government and cooperating partner representatives. A harmonised multi-donor PRBS review process is an integral part of the agreement, thus, providing more formalised opportunities for donors influencing both policy and strategy in the area of poverty reduction.
<p>3. Other relevant information</p>	<p>The quality of partnership between the Government has been enhanced following the initiatives around the HIP (later Wider Harmonisation in Practice – WHIP) involving most major donors in Zambia. The Aid Policy and Strategy for Zambia, the JASZ, and the BPRBS have provided an important framework for enhanced and more harmonised programming of external support to Zambia.</p>	

PEMFA COMPONENTS AND SPECIFIC OBJECTIVES

Component	Specific Objective
Component 1: Commitment Control and Financial Management System	More effective financial management and commitment control.
Component 2: IFMIS implementation	To improve public expenditure management through an integrated and automated financial management system in order to ensure efficient and effective utilisation of public resources.
Component 3: Fiscal Policy and Economic Planning	To attain a policy based budgetary process that is able to facilitate the effective mobilisation and allocation of resources in a systematic, effective, efficient and predictable manner.
Component 4: Budget Preparation and Budget Execution	To establish a credible budgeting process and a transparent and clear presentation of the budget document; to implement the budget in a more efficient and predictable fashion, with reduced variance between budget and actual spending.
Component 5: Debt Management	To manage Zambia's debt, both Domestic and External to sustainable levels and effectively manage Government Investments.
Component 6: Internal Audit	To strengthen internal controls throughout the public sector for improved public expenditure management and financial accountability.
Component 7: External Financing Coordination	Improve overall budgetary planning and coordination of external financing by integrating donor flows into budget.
Component 8: Legal and Regulatory Framework	To have a consistent and harmonised legal framework to support transparency and accountability in the Public Sector
Component 9: External Audit	Enhance external auditing function for improved accountability and transparency in the utilisation of public resources.
Component 10: Parliamentary Oversight	To develop the capacity of the Parliament to play its oversight role in public resources management in order to promote the culture of democratic governance, transparency and accountability.
Component 11: Accounting Training and Regulation	To strengthen the accountancy profession and to provide effective regulatory services in order to promote high professional and ethical standards in the accountancy profession.
Component 12: Public Procurement Reform	To promote and institutionalise a transparent, accountable and efficient public procurement system in order to improve expenditure management

ANNEX 10 – RSP EXECUTIVE SUMMARY

Region of Eastern and Southern Africa and the Indian Ocean

10 EDF RSP RIP for the period 2008 – 2013 – DRAFT Version

EXECUTIVE SUMMARY

The regional organisations which are concerned with the ESA-IO RSP are COMESA, EAC, IGAD and IOC. The four regional organisations have decided to pursue the collaboration they started under the 9th EDF, to jointly prepare and implement the 10th EDF RSP/RIP for the ESA-IO region. The nineteen member States which form part of the ESA-IO region are heterogeneous in terms of size, economic structure, as well as resources endowment. They however share a common objective to address poverty reduction through regional economic integration and trade.

Regional economic integration process in ESA-IO was institutionalised in the late seventies and evolved into the formation of regional organisations that were attributed with mandates to address specific issues, with the ultimate common development objectives. COMESA and EAC pursue a regional integration agenda. COMESA launched its Free Trade Area in 2000 and is preparing to establish its Customs Union by 2008. EAC launched its Customs Union in 2005 and plans to finalise the process by 2010. IGAD and EAC are both focused on regional economic and functional cooperation and have signed MOU's with COMESA to fast-track their trade policies in harmony with COMESA.

The overall objective of the 10th EDF ESA-IO RSP is to contribute to the eradication of poverty in member countries and assist them in attaining the MDGs, as enshrined in the ACP-EU Partnership Agreement, by supporting economic growth and developing trade. The specific objectives are to support the regional integration agendas of the RECs; to strengthen regional cooperation and to support the integration of the region into the global economy. The underlying principles of the RSP is to align cooperation with the Paris Declaration on Aid Effectiveness and the EU Consensus on Development, to the mainstreaming of trade into the development objectives of the region and to ensure that trade assistance is delivered in a manner which is predictable, effective and sustainable.

Interventions are foreseen under two Focal areas: Regional Economic Integration and Infrastructure (Focal Area 1), and Management of Natural Resources, Environment and Food Security (Focal Area 2). Focal Area 1 aims at facilitating the implementation of the necessary regulatory framework, providing financial support for the trade liberalisation process and its possible impact on fiscal revenue losses, and developing trade-related infrastructure in the region in order to deepen regional integration and enhance trade. Focal Area 2 is to ensure the sustainable management of the natural resources of the region as a core asset for livelihood systems of the people and to ensure that it provides a basis for sustainable economic growth and food security. Under the non-Focal areas, interventions include peace and security, knowledge development and capacity building (such as support to inter-regional coordination mechanisms and involvement of Non-State Actors).

The Regional Indicative Programme of an amount of € 465 million (excluding any further resources which may be available under the incentive tranche) will be allocated as follows:

Regional Economic Integration and Infrastructure,:	65%-75%
Management of Natural Resources, Environment and Food Security	15%-20%
Other Programmes:	10%-15%.

Implementation will be made through the Inter-Regional Coordinating Committee - IRCC, to ensure better coordination in the implementation of programmes and contribute to the harmonization of policies in line with the recommendations of the AU. Two delivery mechanisms will be used to channel the funds to the ESA IO region: Contribution Agreements and Financing Agreements. Regional mechanisms such as the COMESA Fund and other equivalent mechanisms under other RECs will be used as much as possible to channel funds to infrastructure development projects.

ANNEX 11 - FNDP VIABILITY

FNDP 2006-2010. Basic framework

Under the FNDP baseline real GDP growth is projected to rise from the 2000-05 average of 4.6%, to 6.0% per annum. This assumes continued strong contribution from the traditional mining sector(10.7% annual average) combined with significantly increased contributions from construction(8.0%), electricity/gas/water(10.2%) and transport(9.0%). A higher case scenario envisages average annual growth at 7.0% per annum based on a stronger contribution from the agricultural(7.2%) and tourism(11.5%) sectors.

Overall, the projected sustained GDP growth and an increased domestic fiscal effort, combined with reduced external debt servicing costs (estimated reduction from HIPC + MDRI at almost USD200 million a year), should allow fiscal consolidation to be achieved, while reorienting expenditures towards FNDP priority areas. Under the accelerated growth scenario, the total cost of public expenditures for the 5 years(2006-2010) of FNDP implementation stands at ZMK 62.6 trillion²² to be financed by domestic funding(ZMK 48.4 trillion) and cooperating partners(ZMK 11.2 trillion), with a residual gap of almost ZMK 3 trillion(expected to be covered by cooperating partners). On the total financing requirements, 38.6 trillion is for priority sectors(agriculture, energy, infrastructure, water and sanitation, health, education, public order and safety) to be financed as follows: ZMK 25.2 trillion from domestic funding and ZMK 13.4 trillion from cooperating partners(including additional aid to cover the gap).

Policy consistency

Zambia is one of the poorest countries in Sub-Saharan Africa. More than two thirds of the population were considered poor in 2004 by the Living Conditions Monitoring Survey IV, with a vast majority of these people concentrated in rural and remote areas. The Gini coefficient for Zambia was 0.55 in 2004, which is among the highest levels of income disparities in Sub-Saharan Africa.

The recent growth path, while positive, is insufficient to substantially alleviate poverty because it is concentrated in urban based and capital intensive sectors(mining, construction²³) These sectors have not generated sufficient employment and income opportunities due to weak linkages with the rest of the economy. This tendency of low poverty reduction linked to economic growth is statistically confirmed. From 1998 to 2006 the growth rates have varied between 3-5%, whereas the poverty reduction for the period from 1998 to 2004 was a movement back to the 1990 level(73% to 68%)²⁴. This means that the growth-poverty elasticity seems to have varied between 0.15-0.3% in the period 1998-2004²⁵, to be compared with an average of 1.1% in Sub Saharan Africa in 2000²⁶.

The large increases in growth that would be required suggest that finding a more pro-poor growth path is a priority for public policy. The FNDP general analysis and approach is assuming this need. It is in principle focused on alternative growth options, in particular through an agriculture-led development strategy²⁷. Zambia has an abundant resource base such as land, water and rural labour. The majority of

²² Beginning 2007, the exchange rates are approximately : 1 USD = 4,200 ZMK, 1 EUR = 5,500 ZMK

²³ In particular residential urban housing and facilitating mining sector investment

²⁴ The FNDP document indicates that if the country continues on the current growth path, it is projected that headcount poverty will only marginally decline to 62.3 percent by 2010 from 68.0 percent in 2004

²⁵ Lundstol O, *Key issues for economic development in Zambia-part 1*, Norwegian Embassy, Lusaka, November 2006

²⁶ *Growth and poverty reduction: inequalities matter*. Jean-Pierre Cling, Philippe De Vreyer, Mireille Razafindrakoto and François Roubaud, DIAL, Research unit CIPRE, April 2003

²⁷ Different recent studies insist on the necessity to ensure improvements and further support for the labour-intensive agricultural sector as the best way to attain the most vulnerable and to reduce extreme poverty. They point out the need to

rural and urban households rely on incomes from agriculture and agro-related industries or consume domestically produced food. Agriculture and related industries, such as manufacturing, tend to be more labour intensive and also have strong linkages with the rest of the economy. Rural and agricultural development are, therefore, considered indispensable for accelerating pro-poor growth.

But rural and agricultural development alone cannot achieve the FNDP objectives. Structural inter-sector transformation and urban growth are also essential for the long-term development process, not least for providing markets for agricultural products. However, such growth largely depends on the private sector and, therefore, requires a supportive environment under the FNDP. Structural reforms promoting private sector diversification and competitiveness of the non-traditional exporting products are required. Although the FNDP does not focus on achieving pro-poor growth through mining and other capital-intensive sectors, these sectors will continue to be important for maintaining high overall growth in the country and in terms of foreign exchange earnings. In addition, more investments in the energy sector are required to add capacity to the existing energy sources, especially in the light of a looming power shortfall in the region by 2008.

If the FNDP intended focus on broad based growth is very explicit, what is more unclear is the strategic consistency between this global objective and the policy responses and instruments to be used. The FNDP does not go far enough in prioritising the different policies and programs, taking account the potential feedback effects of different policy instruments and spending programs on the pro-poor growth rate and on employment creation.

If the main assumption is that growth in agricultural sector will lead to poverty reduction, the FNDP would need to spell out how this will actually happen. How to raise and sustain the annual agriculture growth rate to more than 7% from the current low level (average of 2.6 % during the period 2002-2005), how to reduce vulnerability to external shocks (recurrent droughts, involving negative sector growth rates and food insecurity) and how to increase the extremely low sector productivity (67% of the national labour force contributing to 15-20% of the GDP). It should also define how the different programmes will affect different groups (commercial farmers, subsistence small holders, out-growers...) and therefore what the overall impact on poverty will be.

Agriculture's response to the changing economic environment is contingent on overcoming low productivity and weak market access. So far, the main instruments of the agriculture policy, in particular

target both traditional (staple crops) and non traditional (cash crops) agricultural products, as well as to increase local value added and market access, this latter through improving the rural road infrastructure network.

One of the studies carried out to prepare the Fifth National Development Plan (*Pro-Poor Growth through Rural Development, Job Creation and Technological Advancement, Research brief prepared by the Macro Sector Advisory Group*. Compiled and developed by Justin Mubanga (Ministry of Finance and National Planning) and James Thurlow (International Food Policy Research Institute)) gives some projections of the Zambian economic growth for the period 2006-2010 and its repercussion in reducing the percentage of people living below the poverty line. This study estimates an average GDP growth of 6.1% under the current growth scenario for the period 2006-2010 and then establishes a number of FNDP priority sectors that need further support and growth in order to reduce poverty more consistently. At current growth rates, the proportion of population living below the poverty line is expected to decline to not less than 62.3 percent by 2010.

The priority sectors identified include all the sub-sectors of agriculture (divided in three groups: staple crops, cash crops and other agriculture) as well as food manufacturing. On the basis of the expected average growth of the mentioned priority sectors (4.7% at present), a simulation is made for predicting the impact of higher growth rates in these sectors on the overall economic growth as well as on the proportion of poor people. Doubling the growth rate in the FNDP priority sectors (to 9.4%) would decrease the proportion of population below the poverty line to 52.2%. Only with an ambitious 150% increase (to 11.6%) of the average growth in the NDP priority sectors, one could reach the goal of less than 50% of the population living below the poverty line in 2010. Under this optimistic scenario, the overall average 2006-2010 GDP growth rate would be 8.6%.

in terms of public expenditure²⁸, have been input subsidies (mainly the FSP, Fertiliser Support Programme) and public intervention in the maize market through the Food Reserve Agency (FRA). There is a strong case for a policy change and the phasing out of these instruments. Based on past failures, the government should limit intervention in commercial markets, especially in ways that directly distort prices. But the FNDP remains relatively uncertain²⁹ about these issues and imprecise on alternative policies to increase productivity-enhancing investments and to facilitate the presence of private operators in the input/output agricultural markets³⁰. In general terms private sector is considered as an urban issue while agriculture role is seen just as providing food and at best export crop, with very little added value.

Considering the still severe resource (human and financial) constraint, public interventions and investments in the agriculture sector should be adequately prioritized and programmed in the numerous areas that the FNDP considers: agricultural technologies, development of rural markets, establishment of marketing chains, provision of agricultural services (including research, extension and livestock production), provision of credit, provision of infrastructure (including land and irrigation development, and rural roads)... If the smallholder productivity is to be improved, there is a need for a larger share of public expenditures for agriculture to be allocated to the provision of public goods and services, such as extension, agricultural research, and productive investments in rural areas (e.g., irrigation and feeder roads). The FNDP last financial projections for agriculture a step in this direction, which obviously will have to be translated into the annual budget allocations.

Improved agricultural competitiveness will benefit not only urban consumers, but also the relatively wide agro-related manufacturing sector (that represent more than 80% of the total manufacturing output), as well as some of the more dynamic non-traditional exporting lines. Expansion and diversification of these latter can play an strategic medium-term role, given the current narrow export base, the dependence on mining (copper) and the vulnerability to terms of trade shocks. But for that, genuine and consistent implementation of key reforms facilitating private sector investment and activities is still required (in particular under the Private Sector Development Programme and the Financial Sector Development Plan). The creation of the Zambian Development Agency seems to address some of these constrains by targeting the elimination of redundancies and streamlining trade promotion and facilitation of investment. Other priority policy measures will include supporting trade logistics and facilitation, strengthening transport infrastructure, and further addressing other areas that can create anti-export bias, including corruption and exchange rate instability.

As already indicated, continued expansion of copper production reflecting the high levels of investment in the sector during the past five years can continue to provide a boost to GDP. However, the sector will remain vulnerable to possible production disruptions and world copper prices. In addition, investment is expected to begin to slow as many of the mining projects that are at the development stage reach completion and because of the likely downwards trend for copper prices³¹. Is realistic in these conditions to project a 10.7-10.6% growth (baseline and accelerated scenario) in the mining sector during the FNDP?

²⁸ The Fertiliser Support Programme alone absorbed in 2006 50% of the total budget for the Ministry of Agriculture, while investments critical for increasing farm productivity, such as irrigation infrastructure, received only 5% of the budget. Operating costs under which research and extension fall received only 10% of the budget in 2006.

²⁹ Nevertheless, according to both the final FNDP financial projections and the MTEF 2007-2009, these costly programmes (FSP and FRA) will be removed from the budget (at least under the current form) from 2009.

³⁰ Zambia's own experience (in particular for cotton) indicates that cash-crop expansion for small farmers requires substantial investment, establishing credit and input supply-chains, and promoting institutions to represent farmers and provide marketing assistance.

³¹ *Background Paper. The Outlook for Metals Markets prepared for G20 Deputies Meeting Sydney 2006*, The World Bank Group, Washington., September 2006

The other important question is the referred limited impact of mining growth on poverty and employment. One possible adjusting effect would be the expansion of the current weak linkages between the mining sector and the rest of the economy (local upstream and down stream enterprises). Some action by the government could be possible in this area, requiring in the future contractual agreements with the mining companies (under the expected review) that preference is given to the use of Zambian service sub-contractors and to the purchase of goods available in Zambia at international competitive conditions. But such a provision, while useful for encouraging the development of linkage, will be difficult to enforce in practice. What is more under public leverage and responsibility is to ensure that there is an equitable sharing of benefits from the exploitation finite mineral resources, while maintaining a globally competitive climate. To this effect, the fiscal regime is the major instrument to achieve two policy objectives: the first one is to encourage and attract mining investment through the provision of incentives; the second objective is, of course, to raise public revenue to fund national development policies. A balance should be achieved between these two objectives, bearing also in mind the volatile nature of international metal prices. Zambia, currently at the lowest effective tax rate on the mining sector compared with other countries in the region, should devise and implement this more balanced and equitable fiscal regime.

Financial viability

Two broad questions can be raised regarding the projected FNDP funding scheme: its sufficiency in relation to the intended targets and its feasibility taking into account real financing possibilities.

Some recent studies have tried to estimate the required additional resources for Zambia to meet the MDGs in 2015. One of them (2005)³² concludes that Zambia would need to invest from 1 US\$ billion (2005) to US\$1.5 billion (2010) per year on MDG-targeted interventions. The intervention areas considered by this study can be very well associated to the priority sectors in the FNDP (core FNDP). The projections for the core FNDP (total ZMK 36.9 trillion for 2006-2010) are consistent with the mentioned estimates, both in absolute terms and in annual progression. Other more recent study³³ estimates an average 2006-2015 of public expenditures to achieve the MDGs in Zambia equivalent to more than 35% of GDP, what is not obviously under the FNDP reach.

The expansion of public expenditures under the FNDP accelerated growth scenario is quite substantial: the annual average would amount to ZMK 12.5 trillion (more than 26% of expected GDP at the end of the period) to be compared with an effective amount of ZMK 9.2 trillion spent in 2006 (23.3% of GDP). According to the revised and final FNDP financial projection, this increase will require: a) achievement of the targeted growth rate (7%), above the current trend; b) additional domestic revenue (from 16.9% of GDP in 2006 to 18.8% in 2010) and c) a significant scaling up of external grants (from 4.1% of GDP in 2006 to 6.5% in 2010), also to cover the financing of the projected residual gap. According to these FNDP projections, domestic and external borrowing will be contained to approximately 2% of GDP.

The initial FNDP financial projections (June 2006) were based on the assumption that there would be an even more important scaling-up of donor aid over the baseline projections (by 78 % for external grants). In these conditions, the implementation of the FNDP would have required that the volume of external grants increases from 4 % of GDP (baseline) to 8 % of GDP. Cooperating partners asked whether the scaling-up scenarios presented in the FNDP were realistic and to consider alternative funding sources, in particular strengthening revenue generation in Zambia. If recent pledges from cooperating partners (second half 2006) involve a certain degree of scaling up, they are far from attaining the level indicated under the revised financial projections.

³² Mphuka, C “*The cost of meeting the MDGs in Zambia*”, commissioned by the Civil Society for Poverty Reduction (CSPR), the Jesuit Centre for Theological Reflection (JCTR) and the Catholic Centre for Justice, Development and Peace (CCJDP), October 2005

³³ Weeks J and McKinley T, *Does debt relief increase fiscal space in Zambia ? The MDG implications*. International Poverty Center, UNDP, September 2006

The adjustment of external funding from the initial projections has been compensated by a slight reduction of the total FNDP projected cost and by a marginal increase in domestic funding. This latter is in fact the other critical and problematic aspect of the FNDP financial prospects. To meet the mentioned targets, the government must drastically reverse the 2005-2006 negative trend of domestic revenue over GDP. The IMF has recently assisted by way of a study to initiate a comprehensive tax policy and administration review. But the recommendations from this study have created a hot controversy, with very negative reactions from different social and economic segments, forcing the government to announce the rejection of the fiscal reform proposals. The government has also indicated its intention to review the fiscal regime for the mining sector. Very favourable fiscal obligations were conceded to foreign investors under the depressed copper market conditions that prevailed during the privatization process some years ago. But the timing and possible revenue consequences of the intended review are uncertain for the moment.

ANNEX 12 - ROAD TRANSPORT

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 - 1.2) Road Sector objectives and programmes
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 - 1.4) Sector finances and Sector Performance
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- 2) **EC cooperation in the sector**
 - 2.1) Project Support as financing modality
 - 2.2) Sector Budget Support as financing modality
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 - 2.4) Lessons learnt
- 3) **Response strategy and programme under EDF10**

Resources used:

- ROADSIP II bankable document, 2003
- Quarterly ROADSIP II progress reports
- Annual report road agencies
- Road User Charges Interim Implementation Study, 8 Dec 2006 (Allan Kennaird Consulting Limited)
- Monitoring & Evaluation System for the Road Sector (study), July 2006, (COWI A/S)
- Quarterly Progress Reports on capacity building interventions under EC SPSP (EDF9) (Roughton International)
- Feasibility Study and Detailed Design for the Rehabilitation and Maintenance of Feeder Roads in Zambia (EDF9), Nov 2005 (WSP International Management Consulting),

1) Overview of the road sector

This chapter provides a brief overview of the road sector in Zambia and its relevant reforms and activities that have been taken over the previous years.

1.1) Road network

Road Network:

Zambia has 37,000 km of gazetted roads and 30,671 km of ungazetted roads (classified as feeder, park and estate roads). A core road network of 40,113 km has been identified as the minimum network required to be maintained continuously.

The Definition of the core road network is: ‘the bare minimum road network that Zambia requires to be maintained continuously and on a sustainable basis so as to unleash the potential in the country and its people to promote self-development as the only approach to poverty alleviation for economic growth.’

Table 1.1: Road Network (2002)

Road type	Total estimated network (km)	Core Road Network (km)
Trunk	3,088	3,088
Main	3,691	3,691
District	13,707	13,707
Urban	5,294	5,294
Primary feeder	15,800	14,333
Primary tourist*	-	
Secondary feeder	10,060	
Tertiary feeder	4,424	
Park	6,607	
Community	5,000	
Total	67,671	40,113

Source: ROADSIP II Bankable Document.

Note: The length of 2,065 km for primary tourist roads is included in the lengths for district and primary feeder roads.

Of the gazetted roads, 17.5% (6,476 km) have an asphalt surface, 23.0% (8,478 km) are gravel and 59.5% (21,967 km) are earth.

Out of the core road network, 7,250 km are unpaved and 32,863 km are paved roads.

The density of the core road network is 0.053 in km/square and 0,029 in km/capita.

The percentage of international and domestic passenger and freight services carried by road is above 80%. The percentage of statal, parastatal and private services is 84.6 % for private and 15.4 % for parastatal.

Current State of the Road Network:

Table 1.2a shows the estimated condition of the paved road network. The overall condition mix for the paved network as at December 2005 is 60% good, 19% fair, 21% poor.

Table 1.2: Condition of the Paved Core Road Network (7,250 km)

Condition	2002	2003	2004	2005
Good	59%	56%	57%	60%
Fair	22%	27%	22%	19%
Poor	19%	17%	21%	21%

Source: National Roads Board and National Road Fund Agency annual reports.

The condition of the unpaved core road network indicates for 2005 the following situation (based on subjective approach to determine the condition of the road based on investment, type of works and length of network under maintenance):

Table 1.2b: Condition of the Unpaved Core Road Network (32,863 km)

Condition	2004	2005
Good	11%	16%
Fair	12%	15%
Poor	77%	67%

The overall network condition for the entire core road network in 2005 is thus:

Table 1.2c: Condition of the Overall Core Road Network (40,113 km)

Condition	2004	2005
Good	19%	25%
Fair	14%	16%
Poor	67%	59%

A regular annual road condition survey has started in 2006 under EDF9 funding in the framework of the sector budget support programme. Roads under survey are related to Trunk, Main and District Roads, excluding Feeder Roads of some 14,000 km.

The analysis of the above 2006 survey for which results for the paved road network are (i) still awaited for and (ii) show figures that 22% of the unpaved Trunk, Main and District network is in good condition, 29% in fair condition and 49% is in poor condition. If feeder roads had been included, the percentage of the unpaved road network in poor condition would even be higher.

Registered vehicles and services:

The number of domestic registered road vehicles in Zambia currently recorded in ZAMTIS is shown in Table 1.3. Other non-government domestic registered vehicles are on manual registers of the Road Traffic and Safety Agency (RTSA). Government vehicles are registered by the Ministry of Works and Supply on a separate manual register. RTSA estimates that there is a total of about 500,000 registered vehicles in Zambia. The numbers will be known once ZAMTIS is rolled out to all registration centres.

Table 1.3: Number of Domestic Registered Vehicles, October 2006

Category	Number in ZAMTIS
Motorcycle	3,847
Motor Tricycle	67

Light Passenger Vehicle	87,224
Heavy Passenger Vehicle	3,099
Light Load Vehicle (GVM 3,500 kg or less)	32,962
Heavy Load Vehicle (GVM > 3,500 kg)	19,070
Agricultural Tractor	651
Agricultural Trailer	88
Trailer	2,122
Government and Diplomatic Vehicles	-
Total	148,130

Source: Road Traffic & Safety Agency RTSA – ZAMTIS.

1.2) Road Sector objectives and programmes

Poverty Reduction

Improvement to the road sector has been identified in Zambia's Poverty Reduction Strategy Paper (PRSP) in 2002 as the single most important means to address and combat poverty.

As mentioned above, the PRSP focussed Government into identifying the core road network of 40,113 km as being the minimum road network needed to be effective in combating poverty through improved accessibility, connectivity and job creation.

Also the FNDP places priority attention to those sectors that maximise growth stimulation such as transport infrastructure. The provision of well maintained strategic economic and social infrastructure is amongst others regarded as key to pro-poor growth and poverty alleviation.

Transport Policy

The transport sector is a top priority in the development agenda of the Government. The latter is demonstrated by the approval of the Transport Policy Document by Cabinet in May 2002 as response to the aforementioned PRSP, followed by the submission to the Cooperating Partners (CP) of a Letter of Road Sector Policy signed by the Minister of Finance and in December 2003.

Chapter 4 of the document sets out the goals, policy objectives and strategies for road transport, road infrastructure and road safety. Strategies are provided for: licensing; regional road transport; overload control; land use and urban road transport; involving and strengthening the private sector; strengthening the Road Fund; involving local communities; addressing environmental issues; and improving road safety, road standards, contract documentation, project assessment methods and road asset management methods.

The set out priorities for investment and goals for the road sector under the National Transport Policy are:

(i) Goals:

- To provide a nation-wide, well maintained, safe and sustainable road network in order to promote national socio-economic development
- To develop an institutional framework able to offer competitive terms and conditions of employment and
- To develop an appropriate organisational structure for an economically, financially and institutionally sustainable management of the road sector

(ii) Priorities for investment:

- Roads that aid economic recovery and development
- Roads that bring environmental and social benefits
- Preservation of investment already made in roads through maintenance

Road Sector Investment Programme (ROADSIP)

The GRZ developed a road sector investment programme (ROADSIP) initially covering 1997 to 2007. The first phase of ROADSIP I came to an end in December 2003. The second phase of ROADSIP covers

2004-2013. The principle objectives of ROADSIP II are in line with the Transport Policy and include, but are not limited to:

- rehabilitation, periodic and routine maintenance of the core road network
- improvement of road conditions for Trunk, Main, District, Primary feeder roads, tourist roads and selected urban roads through full accessibility improvements according to need and priorities
- institutional strengthening of the construction industry
- employment creation
- improvement of road safety
- improvement of environmental management by building capacity
- improvement of rural transport mobility through road improvements
- improvement of management of community roads
- addressing poverty and HIV/AIDS countrywide.

The intention of ROADSIP II is to systematically upgrade, rehabilitate and maintain the core road network so as to bring it to a maintainable condition by 2013. The aim is also to clear the backlog of periodic maintenance.

Three expenditure scenarios have been prepared and are shown in Table 1.4. The High Case Scenario is utilising the original programme budget as set out in the document, the Low Case Scenario is utilising a revised low case programme based on a reduction of the upgrading element in the Road Rehabilitation Programme. The Mid-Case Scenario is utilising an intermediate programme with the scope of works between the High Case and the Low Case which comes closest to the actual situation.

HIPC funding made available to GRZ in 2004 and 2005 was released to Provinces and districts to address rural roads, particularly community roads and feeder roads. This funding was separate from the funding for ROADSIP II, and was a one-off event.

Table 1.4: Road Sector Investment Programme, Total Expenditures 2004 - 2013, US\$ million

Component	High Case	Mid Case	Low Case
Trunk, Main and District Roads	854.27	805.52	690.26
Urban Roads	176.94	176.94	176.94
Feeder Roads	257.24	205.11	185.53
Tourist Roads	40.43	40.43	40.43
Rural Accessibility and Mobility	108.57	108.57	108.57
Bridges and pontoons	51.69	51.69	51.69
Road Safety	15.77	15.77	15.77
Environment / HIV/AIDS	3.45	3.45	3.45
Poverty Impact Assessment	0.14	0.14	0.14
Local Construction Industry Development	27.50	27.50	27.50
Financial and Institutional Studies	0.50	0.50	0.50
Road Agency Operations	105.34	105.34	105.34
Total ROADSIP II budget	1,641.84	1,540.96	1,406.12

Source: ROADSIP II Bankable Document – Cash flow scenarios.

The Rural Accessibility and Mobility Programme (RAMP) under ROADSIP II has the objective of improving accessibility and mobility in rural areas. The programme contains two major components:

- Community transport infrastructure (CTI) aiming at improving rural infrastructure
- Intermediate means of transport (IMTs) aimed at improving the mobility of rural communities.

RAMP is managed by a coordinator under the MLGH.

Planned funding for the 10 years of ROADSIP II from 2004-2013 is shown in Table 1.5. This funding requires some significant increases in the rates of fees and charges compared with the current levels. The intention is that, over the 10 year programme, government contributions will reduce as income from the fuel levy and other road user charges is increased. The share of GRZ funding over the first 5 years is planned to reach 67% and 60% over the entire duration of the programme. The reduction is explained

through increased cash inflows generated from the fuel levy and road user charges during the second part of the programme.

Table 1.5: Planned ROADSIP Funding 2004 - 2013, US\$ million

Funding	10 Year Total
Domestic	
Government	259.43
Fuel Levy	272.97
Transfer of Excise Duty	77.56
Licence Fees	272.69
Road Hauler Tariff	77.66
International Transit Charge	27.37
Sub-total	987.68
Donors	
European Union	195.50
DANIDA	106.48
World Bank	130.90
JICA	51.00
BADEA / KFAED	42.50
KfW	42.50
NORAD	42.50
AfDB	35.00
Sub-total	646.38
TOTAL	1,634.06
Percent GRZ (over 10 yrs)	60.44%

Source: ROADSIP II Bankable Document – Cash flow scenarios.

Sustainable Road Maintenance

The yearly targets for maintainable roads are given in Table 1.6.

The sustainable annual cost of routine and periodic maintenance to preserve the core road network asset is estimated in section I of the Addendum to the ROADSIP II Bankable Document at some US\$110 million.

Under ROADSIP II, all roads in good and fair condition will get routine maintenance. Roads in good condition will get full routine maintenance; roads in fair condition will only get off-carriageway maintenance as they are due for periodic maintenance.

Table 1.6: Yearly Targets of Maintainable Roads

Year	Paved Roads (7,250 km)			Unpaved Roads (32,863 km)		
	Percent in good and fair condition	Km of good and fair roads receiving maintenance	Km of good and fair roads receiving maintenance	Percent in good and fair condition	Km of good and fair roads receiving maintenance	Km of good and fair roads receiving rehabilitation
2006	85.3%	6,184	152	48.2%	15,840	2,432
2007	87.4%	6,337	153	55.6%	18,272	2,432
2008	89.5%	6,489	152	63.0%	20,704	2,432
2009	91.6%	6,641	152	70.4%	23,136	2,432
2010	93.7%	6,793	152	77.8%	25,567	2,432
2011	95.8%	6,946	153	85.2%	27,999	2,432

2012	97.9%	7,098	152	92.6%	30,431	2,432
2013	100%	7,250	152	100%	32,863	2,432

Source: RDA Quarterly Report: July-September 2006.

1.3 Sector Reform – institutional arrangements

Institutional Reform

Zambia has been at the forefront of institutional arrangements for road sector financing and management in Africa, having joined the Road Management Initiative, under the auspices of the Sub-Saharan Transport Policy programme (SSATP), in 1993. A Road Fund and National Road Board were established in 1994.

The enabling legislation for three new autonomous road sector agencies was enacted in December 2002:

1. The National Road Fund Act, 2002 – creating the National Road Fund Agency (NRFA) under the Ministry of Finance and National Planning (MOFNP) and the National Road Fund.
2. The Public Roads Act, 2002 – creating the Road Development Agency (RDA) under the Ministry of Works and Supply (MWS), providing for the care, maintenance and construction of public roads, and regulating maximum weights on roads
3. The Road Traffic Act, 2002 - creating the Road Transport and Safety Agency (RTSA) under the Ministry of Communications and Transport (MCT), providing for a system of road safety and traffic management, licensing of drivers and motor vehicles, registration of motor vehicles and trailers, promotion of road safety, regulation of road transport between Zambia and other countries, and implementation of SADC and COMESA protocols

Each of the agencies reports to the Committee of Ministers of the Road Maintenance Initiative.

The Boards of the agencies were inaugurated in December 2004.

The NRFA assumed the responsibilities of the National Roads Board. NRFA's first year of operations was 2005. The NRFA's main objectives for 2006 are to ensure that all new staff members are in place, common basket funding is implemented, the National Road Fund is broadened by including road user charges other than the fuel levy and that there is a transparent and effective system put in place for collection, receipting, banking and monitoring all road user funds.

The RDA is responsible for all public roads, having assumed the functions of the Roads Department of the MWS and the Department of Infrastructure Support Services of the Ministry of Local Government and Housing.

The RTSA assumed all the functions of the former National Road Safety Council (NRSC) and the Road Traffic Commission (RSC).

All roads are in fact being brought under the Ministry of Works and Supply and managed through the RDA. There is one integrated programme for roads. The Ministry of Communications and Transport (MCT) has responsibility for overall policy formulation and monitoring of the transport sector. It oversees a number of corporate bodies and institutions on behalf of the GRZ.

The Department of National Parks and Wildlife in the Ministry of Tourism is responsible for roads in national parks.

Cooperating Partners (CPs)

The key CPs active in the road sector in Zambia are:

With representation in Zambia:

- European Union
- The World Bank (WB)
- Danish International Development Agency (DANIDA)
- Norwegian Development Agency (NORAD)
- JICA
- KfW
- African Development Bank (soon to open)

Without representation in Zambia:

- Arab Bank for Economic Development in Africa (BADEA)
- Kuwait Fund for Arab Economic Development (KFAED)
- Organisation of Petroleum Exporting Countries (OPEC)
- Nordic Development Fund (NDF)

The objective of the CP assistance is support the road sector in line with ROADSIP II priorities.

Decentralisation – rural roads management

The GRZ has a decentralisation policy that is encapsulated in the Decentralisation Act and also in the Public Roads Act, 2002. The Public Roads Act provides for the Minister of Works and Supply, on the recommendation of the RDA, to appointment a road authority in respect of secondary and tertiary public roads. The RDA intends to use this provision to “devolve” the construction, care and maintenance of particularly rural roads to District Councils as local government develops the capacity with technical support from provincial RDA offices. The concept of Road Authorities is new to the sector and has taken off in 2006 with support from CPs such as Danida, EC and KfW in the framework of rural roads (feeder and district roads) interventions.

1.4) Sector Finances and Sector Performance

1.4.1) Sector Financing

Funding for the Road Sector is supposed to arrive from the following main sources to the National Road Fund (NRF):

Domestic Funding:

- GRZ (consolidated fund)
- Fuel levy
- Road User Charges other than fuel levy (road hauler tariff, licence fee, transit fee, excise duty on fuel levy, weighbridge charges, overloading fees)

Foreign Funding:

- Cooperating Partners

However, looking at the domestic funding for the sector, the full remittances from the ‘fuel levy’ and funding from the GRZ consolidated fund are presently the sole income sources to the Road Fund.

To that end a ‘Road User Charges Interim Study’ agreed upon by GRZ and CPs was carried out in the 4th quarter 2006 which delivered useful recommendations on how to improve domestic sector financing regarding GRZ funding and funding through Road User Charges (RUC). The latter will be subject to follow-up discussion for decision-making under the GRZ-CP sector dialogues in 2007 and has to be seen under the critical aspect of presently insufficient sector financing mechanisms referred to in subsequent chapters.

Annual Works Plans (AWP) from Road Development Agency for Road Programmes

As mentioned under 1.2, the ROADSIP II financing plan has a total budget of some 1,6 bn US\$. In terms of expenditure on road programmes under ROADSIP II this would broadly mean some 160 m USD 160 million/year. The internally generated income in Year 10 of the programme would be adequate to sustain Routine and Periodic Maintenance thereafter and is in the magnitude of 110 m US\$. The percentage of GRZ funding over the first 5 years is planned to reach 67% and 60% over the entire duration of the programme.

As experience has shown over the last years, the Annual Work Plans (AWP) of the Road Development Agency were overambitious and unrealistic. The planned amount were in excess of the ROADSIP financing plan of USD 160 million, but actual disbursements have fallen far behind. By comparing the disbursement of the AWP against its annual target it becomes apparent, that over the last years only some 30-40% of the envisaged amounts were actually disbursed (see table 1.7). For 2006, achievements are expected in the magnitude of 60%.

Table 1.7: AWP disbursements 2003-2006

Funding Source	2003 (US\$ m)	2004 (US\$ m)	2005 (US\$ m)	2006 (US\$ m) planned	2006 (US\$ m) achieved by 3rd quarter 06
Road Fund	10,37	15,00	24,52	42	31
GRZ	9,37	9,37	25,11	68	12
CPs	51,6	20,50	24,18	130	97
Total	71,34	41,50	73,81	239	139
AWP	211,52	196,9	198,58	239	239
% disbursed	34	21	37		58

Source: AWP 2006 - RDA

Note: EC sector budget support tranches are reflected in the CP budget line. The release of the first tranche of 25,4 m EURO at the end of 2005 is apparently not adequately reflected in the 2005 figures. CPs contribution are thus expected to be higher with effects on ‘total’ and ‘% achieved’

Domestic releases from the GRZ consolidated fund show that in Financial Year 2005 only 55% of the commitment was released while the commitments as of October 2006 show only releases up to 17% of the planned commitment.

In 2006, the planned share from domestic funding is 46%, actual figures suggest that the real share of domestic contribution will drop to some 30% only. Previous years show real shares of domestic funding to the sector in the magnitude of 30-50% (see note on table 1.7 for 2005).

The fuel levy is set as a percentage of the wholesale price of petrol and diesel (presently 15%) which has given increased revenue to the NRF as the wholesale price of fuel has gone up in recent years. Income stemming from the fuel levy shows thus a satisfactory trend over the last years. The released amounts are in excess of the programmed amount in the ROADSIP II financing plan. 100% of the collected fuel levy is transferred to the Road Fund.

The Annual Work Plan for 2006 from the RDA shows planned expenditure on routine and periodic maintenance measures in the magnitude of 90 m USD which amounts to some 40% of the total budget (see table 1.8). The planned funding level from the GRZ treasury and the Road Fund (fuel levy) could cater for 100% of Routine and 40% of the periodic maintenance expenditures planned for 2006. Capital expenditures on rehabilitation, reconstruction etc. amount to some USD56 million with a share of some 56% of the total AWP sum.

Table 1.8 AWP 2006 provisions

AWP Analysis AWP 2006			
Intervention	US\$	bn ZMK	% of total
Routine Maint.	9	33	3.9
Periodic Maint.	84	303	35.2
Capital	134	482	56.1
Emergencies	1	2	0.3
Consultancy	6	21	2.4
Cap. Building	5	17	1.9
Total	239	859	100

However, bearing in mind that it is expected that only some 60% of the planned disbursement will be available in 2006, the preservation of the road asset cannot be entirely achieved which becomes apparent when comparing ROADSIP II targets on maintenance and rehabilitation in the next chapter.

1.4.2) Sector Performance

Table 1.9 provides an overview of the achievement of key indicators under ROADSIP II for 2005 and 2006 (as of Oct 2006) mainly derived from table 1.6. The same sets of indicators are also used under the SPSP to assess the releases of tranches.

Table 1.9 sector performance in 2005 and 2006 against ROADSIP II indicators

Indicator	2005		2006		Comments
	target	actual	target	Actual (as of Oct 06)	
1) Three Road Agencies established	50% of posts filled, offices occupied	Seconded staff	80% of posts filled, offices occupied	70%	Progress on course. Recruitment 4 th tier staff RDA and 3 rd tier staff RTSA expected completion by Feb 2007
2) EDF funded TA services under SPSP	TA contract ongoing	met	TA contract ongoing	met	Support to NRFA and RDA
3) Annually available	25 +	23,09	31,25 +	12	1 st tranche released

funding source GRZ budget (m US\$)	1 st tranche	(92%)	2 nd tranche	(38%)	beginning of 2006, 2 nd tranche release in Nov 06
4) Annually available funding source fuel levy (m US\$)	21,675	24,52 (113%)	22,10	31 (140%)	
5) Rehabilitation paved (km)	152	297 (195%)	152	272 (178%)	
6) Maintenance paved (km)	6,032	6,426 (106%)	6,184	4121 (67%)	
7) Rehabilitation unpaved (km)	2,433	1,153 (47%)	2,433	1,393 (57%)	
8) Maintenance unpaved (km)	13,407	6,332 (47%)	15,840	4,445 (28%)	
9) Regular Periodic Audits	Quarterly + annual audit of Road Fund	met	Quarterly + annual audit of Road Fund	met	

Source: RDA Quarterly Report: July-September 2006

As it can be seen as a consequence of the insufficient sector funding against the AWP, the road programme cannot be undertaken to its full extent and the Zambian road network will continue to deteriorate and the backlog will roll over to the subsequent year. Whereas the road programme for the paved network, mainly trunk and main roads is performing, the unpaved road network mainly concerning district and feeder roads is suffering from insufficient maintenance and rehabilitation.

Apart from funding constraints, capacity constraints, long tendering procedures regarding foreign aid have also contributed to the insufficient overall progress of the annual work programme.

If the third tranche for sector budget support measuring the sector performance of 2006 would have been released as of Oct 2006, only 50% of the amount of 16,9 m EURO would be freed since indicator 3 and 8 would score "0".

The recently released MTEF for 2007-2009 programmes GRZ and fuel levy contributions clearly exceed the figures of the domestic funding under the ROADSIP II financing tables. If these MTEF amounts were materialising, the present adverse effects on the network could be mitigated and the backlog reduced assuming that the absorption capacity of the sector allow for. The total domestic contribution to the road sector in relation to the GDP is in the magnitude of 1,06 to 1,3% in 2009.

1.5) Sector challenges and findings

General findings:

Improvement to the road sector has been identified as the single most important means to realise poverty reduction in the PRSP, Transport Policy and FNDP.

The GRZ Transport Policy document is intended to guide development of the transport sector

GRZ has prepared a road sector investment programme (ROADSIP) that sets out the strategy for road works and associated activities including a 10 years financing plan

A core road network of 40,113 km, from a total of 67,671 km, has been defined on which road works will be concentrated until 2013 under ROADSIP II

The cost of ROADSIP II, for the ten years 2004-2013, is approximately US\$1.6 billion

Funding for ROADSIP II requires significant increases in the current rates of road transport related fees and charges

Enabling legislation for three new road sector agencies was passed in December 2002 and the Boards for the agencies were inaugurated in December 2004

Staffing of the sector agencies was initially delayed but has satisfactorily progressed concerning recruitment of 1st, 2nd and 3rd tier management staff in 2006. Performance of agencies is expected to further improve with full staff capacity in 2007. The management capacity of particular the RDA for the management of the road programme will have to be closely monitored in 2007.

The National Road Fund Agency (NRFA) assumed the responsibilities of the National Roads Board and its first year of operations was 2005

The Road Development Agency (RDA) is responsible for all public roads in Zambia, having assumed the functions of the former Roads Department of the Ministry of Works and Supply (MWS) and the Department of Infrastructure Support Services of the Ministry of Local Government and Housing (MLGH)

The RDA intends to “devolve” the responsibility for rural but intends to continue to consolidate road work programmes for all roads

The Road Transport and Safety Agency (RTSA) commenced operations in 2006 having assumed responsibilities of the former National Road safety Council (NRSC) and the Road Traffic Commission (RSC)

A number of Cooperating Partners are active in the road sector in Zambia. The objective of the assistance from international development agencies in the road sector is to help the GRZ address the needs identified in ROADSIP II

Sector Financing & Sector Performance findings

Annual Work Plans for the Core Road Network have proven to be overambitious and thus unrealistic. The total real income arising from the different sources against the planned disbursements is insufficient to preserve the road asset of particular unpaved roads (maintenance and rehabilitation). The income from the fuel levy can presently cater for 100% of routine and some 40% of the periodic maintenance needs.

Under ROADSIP II and its AWP, focus has been given to date to the paved core road network of 7,250 km. While performance on the paved road network is satisfactory, the unpaved road network of particularly feeder and district roads has been neglected so far. The latter is mirrored in the road condition and the unsatisfactory achievement of indicators on maintenance and rehabilitation. This has been recognised by GRZ and focus should thus be given to the unpaved (rural) network in the coming years to contribute to the improvement of social activities and economic growth at rural level.

The issue of sector financing is regarded as a critical point for the future sector dialogue between GRZ and the Cps. It is subject to an issue paper to the new Government after Election in Sept 2006 and has been brought to the attention to the MOFNP during joint CP/NRFA/MFNP meetings under the lead of the EC. Fact is that the so far promising sector reforms are put at risk if the vision for the sector is not maintained by the sector financiers. GRZ has thus to take a firm stand on financing of the sector.

The recently released MTEF for 2007-2009 programmes GRZ and fuel levy contributions clearly exceed the figures of the domestic funding under the ROADSIP II financing tables. A close monitoring will thus

be required. The percentage in relation to the GDP is between 1 and 1,3%. By comparing it to the NEPAD infrastructure goals stating that between 2005 and 2015 Sub-Saharan Africa needs to spend approximately 5% of its GDP on infrastructure investment and a further 4% on operations and maintenance to contribute effectively to economic growth (see COM (2006) 376 final, EU-Africa Partnership on Infrastructure), additional expenditure would definitely be needed.

A joint CP-GRZ Mid Term Review of ROADSIP II is envisaged in 2007. Presently ongoing/completed studies on Monitoring & Evaluation of the road sub-sector, road classification, Road User Charges Implementation Study will further enhance ROADSIP II implementation and will deliver further important information for a continuation of the fruitful CP-GRZ dialogue

The 2002 reform of the road sector funding and managing in Zambia has moved towards a “commercial” market for roads with road user charges (RUC) as the source of dedicated funding for the NRF. The National Road Fund Act provides for a range of income sources for the NRF, including a “fuel levy” and various forms of other RUC

The only current source of RUC revenue to the NRF is the “fuel levy”. The current “fuel levy” is assessed and collected by the Customs and Excise Department of the Zambia Revenue Authority under the Customs and Excise Act. The fuel levy is set as a percentage of the wholesale price of petrol and diesel – this has given increased revenue to the NRF as the wholesale price of fuel has gone up in recent years. Transfer of a further 5% of the wholesale price of petrol and diesel from excise duty to the fuel levy would greatly reduce NRF reliance on the GRZ contribution from general revenues

Revenues from licence fees, international transit charges, weighbridge charges and overloading fines that are meant to be paid to the NRF are not currently being explicitly remitted to the Fund. Proposed increases in registration and licence fees would be a significant advance toward the contribution to ROADSIP II funding planned from these sources

2) EC Cooperation in the sector

The following chapter provides an overview of present and past EDF intervention in the transport sector and shows the move from classical project financing to sector budget support as financing modality under EDF9 which accounts for some 80% of the sector portfolio.

2.1) Project Support as financing modality

Under EDF8, support to the transports sector has been entirely given via project support.

Concerning the road sub-sector the major road rehabilitation projects completed were the Kabwe-Kapiri Mposhi and Chisamba Trunk Road and the Monze-Zimba Trunk Road for a total funding of some 50 m EURO. Pontoons in Kazungula were also supported by some 380,000 Euro.

The selection of these roads along the main North-South corridor of the Zambian road network has been in line with the priorities of the ROADSIP I sector programme (1997-2003). Already in the past under the project financing modality, the Delegation had been following the dialogue and coordination with the GRZ and CPs through a sector approach in support of an existing ‘sector programme’.

2.2) Sector Budget Support as financing modality

Also under the 9th EDF, the NIP/CSP reflected the European Commission’s willingness to support the Transport Sector in Zambia as a means to develop economic growth, regional and national integration and alleviate poverty. Within the framework of the EDF9 NIP, the focus of interventions in the road sector has been the following:

- Periodic maintenance of trunk, main and district roads
- Rehabilitation of feeder roads
- Rehabilitation of the Zimba-Livingstone Road

With the evolvement of the sector through the aforementioned sector reforms , the move from ROADSIP I to ROADSIP II , the three basic elements to consider ROADSIP II as a ‘sector programme’ according to EC guidelines to consider support to the sector via SBS.

These basic elements were:

- an approved sectoral policy document and an overall strategic framework:
 - > PRSP and Transport policy of 2002
- a sectoral medium term expenditure framework and an annual budget:
 - > included as financing plan in ROADSIP II
- a coordination process amongst the donors in the sector, led by Government:
 - > regular ROADSIP steering committee meetings

In addition, other efforts were made towards the strengthening of the management system of the ROADSIP II sector programme:

- a performance monitoring system in place:
 - > ROADSIP II key indicators established to measure sector performance against targets (mainly related to network management)
- an agreed process for moving towards harmonised systems for reporting:
 - > set out in three road acts in 2002
- a systematic client and stakeholder consultation mechanism:
 - > through ROADSIP steering committees, board members from public and private sector at road agencies

It could furthermore be noted that the supporting conditions for a ‘sector programme’ were in principle met which were:

- A reasonable degree of macroeconomic and political stability
- Consensus between GRZ & CPs over key sector issues
- A strong & effective leadership at sector level
- Commitment in Ministry of Finance and at political level

Consequently and in line with general policy directions on aid delivery and the utilisation of sector budget support as financing modality, the road maintenance support programme which had been initially prepared as ‘classical project’ was ‘retrofitted’ to a ‘sector policy support programme’ in support of ROADSIP II with funding to be channelled through the Treasury to the Road Fund.

Since the Zambia case was in fact a “retrofit” exercise, a model approach according to the’ 2003 Guidelines for EC support to sector programmes’ has not been entirely followed.

To that end, the seven key areas of assessment (macro-economic framework, sector policy, sector MTEF, accountability and PEM system, donor coordination, programme monitoring, institutional capacity) to decide whether a sector programme and the environment a sector programme is operating in are conducive to follow sector budget support modalities has only been briefly assessed.

Identified weaknesses in the management of the road sector at RDA and NRFA levels were addressed through an accompanying capacity building component under classical EDF procedures.

Under the aforementioned set-up, the SPSP in the magnitude of 70 m Euro for the period 2005-2007 took off in 2005 with releases of the first tranche of 25,4 m EURO end of 2005. The second tranche of 21 m EURO was released to 100% in Nov 2006 after the achievement of 9 indicators specified in the Financing Agreement related to institutional reform, network management, sector financing and financial audit. The indicators chosen are listed in table 1.9 above and are taken from the sector programme ROADSIP II.

The interventions financed from the tranches are related to the periodic maintenance of trunk, main and district roads at the country. From the total funding, some 3,900 km of trunk, main and district roads will be improved organised in '14 work packages' and tendered through national procedures. The majority of the intervention, some 3,700 km will be on the unpaved core road network, mainly on main and district roads and thus being in line with policy directions to improve the unpaved rural road network neglected to date. The works will be carried out under 'output performance based contracts (OPRC)' over a three years duration, where the contractor will bring the road to a maintainable standard under a phase 1 of 6 months and a subsequent phase 2 of 2,5 years where the road has to fulfil the criteria of (i) minimum travel speed of 40 km/h and (ii) all weather access. SBS tranches support phase 1 of the civil works.

The SPSP also supports the axle load control programme 2004-2008 with 2,5 m EURO, co-financed with the Norwegian Embassy.

In November 2006, a rider to the Financing Agreement has been approved to also channel the 20 m EURO for feeder roads rehabilitation via sector budget support. The feeder roads component will thus extend the SPSP under EDF9 from 2007 to 2009 and will be in complementarity to the EDF9 food security programme in the North Western Province. Some 1,320 km of unpaved rural roads district and feeder roads will be improved

In addition to the SPSP, classical project support is also given to the rehabilitation of the Zimba-Livingstone road, the last stretch in poor condition on the North-South axis from Lusaka to Livingstone in the magnitude of some 15 m EURO. Although project support is chosen as financing modality, it will take within the framework of the sector approach and in line with the prioritisation of ROADSIP II.

2.3) Coherence of EDF interventions

All the EDF road transport interventions were programmed to be coherent and in complementarity with (i) other EC interventions in the country and (ii) those of other CPs concerning the development of regional transport corridors in Zambia and the support to the provision of basic access through rural roads interventions (feeder and districts roads).

This becomes particular apparent in the framework of the support to the unpaved rural road network under the SPSP. The programme is similar to the component for trunk, main and district roads accompanied by a capacity building programme to support the set-up and capacity of local authorities to act as Road Authorities (District Council). This approach is new to Zambia and has to be seen in the light of the sector reform concerning the management of the rural road network. Similar interventions and capacity building programmes have been developed by DANIDA and the KfW and we will thus have a maximum of synergies between the three programmes to provide guidance and lessons learnt to the GRZ on the new concept of rural roads management and its progress. The lessons learnt from these three pilot programmes can subsequently be applied nationwide.

The overall effect of the rural roads interventions by the CPs will furthermore contribute of the improvement of the to date neglected rural road network leading to improved basic access to social services and increased economic activities particularly in areas with a high agricultural potential (providing the link to food security).

2.4) Lessons learnt

Generally speaking, it can be concluded that the presently ongoing SPSP is a ‘success story’ concerning an enhanced sector dialogue with GRZ and other sector partners.

Through the followed approach, the EC is contributing to the following objective in the road transport sector of Zambia:

- Broadening ownership by GRZ over decision-making with respect to sectoral policy, sectoral strategy and sectoral spending
- Increase of the coherence between sectoral policy, spending and results through greater transparency, through wider dialogue and through ensuring a comprehensive view of the sector
- Minimisation as far as possible the transaction costs associated with the provision of external financing, by direct adaption of GRZ procedures.

Eventually, the EC approach contributes to the common goal of improving the efficiency and effectiveness with which internal and external resources are utilised in the framework of ROADSIP II. It furthermore improves the predictability of EC finance.

The above is achieved through the intensive sector dialogue the EC Delegation is engaged in with Road Authorities, line Ministries and other sector stakeholders with regard to sector management, sector performance and its monitoring against targets of the sector programme ROADSIP II. This approach is eventually the entry point of looking at the sector at a ‘whole’ in the country and regional context.

To minimise transaction costs, existing steering mechanism such as ROADSIP II steering committee meetings, sector advisory group meetings, Joint Donor Fora etc. are used with participation of high level sector stakeholders. Furthermore, existing reporting structures on ROADSIP II progress, auditing of Road Fund, Annual Reports of Road Agencies are used to measure sector performance with support from the accompanying TA services.

The fact that the EC is also the lead CPs in the road transport sector further contributes to an even enhanced sector dialogue since the latter dialogue with GRZ/CPs on sector issues is virtually using the same agenda as under the SBS dialogue.

As experience has shown, more attention has been given by the road agencies on a sound monitoring and assessment of sector performance and sector financing since SBS is applied since the releases of tranches are triggered and determined by sector performance. The SBS modality has also given the EC the means to quickly react in cooperation with other CPs if sector performance proves to be dissatisfactory. It opens the door to jointly find ways to overcome identified problems and to discuss policy directions. The latter becomes apparent in the present discussion with GRZ on the need to improve and increase domestic sector financing.

The launching of particular sector studies agreed upon and shared with all relevant sector stakeholders, the upcoming joint MTR of ROADSIP II in 2007 under the leadership of GRZ will further contribute to even enhance the sector dialogue.

Certainly, the utilisation of sector budget support can certainly not overcome the problems in sector financing, but it gives the EC the means to make it a top priority of the future sector dialogue between CPs and the GRZ and to jointly discuss the way forward on sector financing enhancement agreed upon by all parties.

Difficulties arise to find the right balance between really looking at the sector as a whole in the spirit of sector budget support and the risk of sliding back in the ‘project mode’ with regard to the physical

interventions and their execution financed under the SBS tranches. To find a right balance is sometimes difficult.

Independent technical audits financed under EDF will be engaged to assess the transparency of procurement procedures used for interventions under SBS funding and to assess whether value for money is delivered looking at the quality of road works against specifications. Since SBS funding is in fact 'GRZ money' and the road interventions are consequently GRZ interventions and no longer EC interventions, efforts will be taken between the EC and the NRFA to audit the projects under the technical audit procedures for GRZ funded project taking off in 2007.

Difficulties are also arising in view of visibility of interventions carried out under the funding of sector budget support since they are in fact "GRZ interventions".

The EC is the only CP using sector budget support in that magnitude in Zambia. Other CPs are mainly operating in the project mode but within the framework of a sector approach in support of ROADSIP II. Since the EC is the forerunner on the latter, we are closely 'watched' by our partners and if our approach will continue to be successful, there might be the chance that further sector budget support will flow in the sector. DANIDA has already reserved a small amount of SBS for their country programme over the next five years.

Based on the anticipated further success of the SPSP, the EDF10 programme is designed to continue with the support to the sector mainly through SBS. In that context, it will however be important to carry out an assessment of the seven key areas according to the model approach of the relevant EC guidelines. This will be done in the framework of the Mid Term Review of the SPSP which is scheduled for the end of the 2nd semester 2007. A close collaboration between the economic section and the infrastructure section would then be required. The issue of sector financing will have to be critically looked at.

3) Response strategy and programme under EDF10

General:

The proposed programme under the NIP for the EDF10 provides a response to the FNDP priorities with regard to placing priority attention to those sectors that maximise growth stimulation such as transport infrastructure. The provision of well maintained strategic economic and social infrastructure is amongst others regarded as key to pro-poor growth and poverty alleviation.

1) Continuation of sector budget support and enhancement of sector financing

It is a logical consequence that based on the positive experience of the presently ongoing EDF9 SPSP and in anticipation that the assessment study of the 7 key areas will come to the conclusion that the environment is further conducive, sector budget support will be continued in support of the ROADSIP II sector programme from 2009 onwards.

The modality supports the Government decision-making on how the road sector can best respond to economic and social demands with regard to sector priorities on particularly maintenance issues and the provision of basic access.

A critical issue will be the need for an overall enhanced sector financing mechanism.

2) T4 Road from Lusaka to Chipata

National Framework

The Great East Road, is designated as one of the six international trunk routes connecting Zambia with neighbouring countries. The main international routes connecting with the Great East Road included the Great North Road, T2, to Tanzania with a connection to the Copperbelt Province through T3, and the Southern Roads, T1 and T2, to Livingstone and Zimbabwe respectively. Immediately across the border at Mwami, is the existing railway line running to Blantyre and Southern Malawi with an eastern extension connecting to the Mozambican system and the Indian Ocean deep water port of Nacala.

Nationally, the Great East Road is a strategic transport communication link between the capital city of Zambia and the Eastern province Capital of Zambia - Chipata with four more towns in between totally depending on it for road transport to and from Lusaka.

Regional Integration Framework

Zambia is a signatory to the Southern African Development Community (SADC)/ Southern African Transport and Communications Commission (SATCC) Protocol on Transport, Communications and Meteorology. On 15th December 2004, in line with Article 3.5 to that Protocol, Zambia signed a multi-lateral agreement with Malawi, Mozambique and Tanzania to participate in the Mtwara Development Corridor (MtDC) process whose objective is to create a viable development corridor serving the marginalized regional interests for the four participating countries. This objective is to be developed on the interconnection, diversification and consolidation of a combination of existing road, rail, air and lake transport systems driven by business and trade developments in the MtDC region.

Zambia is also participating in the Nacala Development Corridor (NDC), whose focus narrows to areas within the road transport catchment of Chipata railhead in Eastern Province which is considered highly strategic for large movement of high value exports (tobacco) and key imports (fertilizer) along a major regional transport route. The Chipata – Muchinji rail spur is under construction. On completion of the spur the Great East Road Link between Lusaka and Chipata remains the weakest link in the system to cope with the expected increase in traffic volume and loading.

Hierarchical Group and Condition

Trunk roads are highest in hierarchy. The Great East (T4) road is the only remaining Trunk road in the category group that is remaining to be rehabilitated.

The Great East Road is the only trunk road in poor condition other than the T1 (Zimba – Livingstone) road subject to rehabilitation under EDF9

Priority Ranking in the FNDP and ROADSIP

Because of its importance, the Great East Road has featured as a priority in the FNDP and both ROADSIP programmes I and II.

3) Project aid to other small interventions in the transport sector

This programme component should serve for other demand driven transport intervention such as e.g. aviation where for instance additional funding would be required to improve existing infrastructure to further boost tourism as already visible in Livingstone. The component would be generally open for soundly substantiated interventions/studies in the country context under the FNDP across the transport sector.

ANNEX 13 - THE EUROPEAN INVESTMENT BANK. CURRENT PORTFOLIO

As of May 2006 EIB's active portfolio (not reimbursed) in Zambia included 34 loan and three equity operations for a total amount of EUR 428million including the Commission's special loans of EUR 143million and EUR 16.5million under the Small Scale Mining facility stemming from the SYSMIN programme with the Commission. From this a total of EUR 90million was signed under the Investment Facility composed of two major loans (EUR 34 million for Kansanshi and EUR 48million for Mopani) in the copper sector and one loan (EUR 7.6million) in the power sector (ZESCO). The remaining active portfolio was signed under the various Lomé conventions and financed from risk capital.

With regards to the Bank's active portfolio it has committed its funds to a range of sectors, namely 33% to the small and medium sized enterprises through its various global loan lines, 32% to the mining sector, 29% to the energy sector and 6% to private industry projects.

The Bank's focus was and is threefold: support of private sector small and medium sized companies including agriculture and small scale mining mainly through its credit lines it presently holds with eight intermediary banks and one micro finance institution; about EUR 80million were contributed through this channel up to now and a further line of EUR 50million is presently under appraisal to meet the economy's needs. The routing through the intermediary banks permits the identification of interesting projects and close monitoring. Two bigger industrial non-mining projects were signed directly (Gamma Pharmaceuticals, EUR 3million and Swarp Spinning Mills, EUR 13million) under Lomé, which were not very successful due to bad circumstances and management. However, there is room for new projects in the Agricultural and Tourism sector, which promise to be more lucrative given the country's present situation.

The second pillar constitutes the support of commercially-run public sector projects, like the power sector where EIB was involved under Lomé (the contracts were signed with the Zambian Government) in the rehabilitation of the Victoria Falls Power Station (EUR 20.5million) and in the ZESCO Kariba North Power Station (EUR 20million). EIB has also part-financed the respective power rehabilitation study (EUR 175 000). In December 2005 the EIB has signed EUR 7.6million under the Investment Facility directly with ZESCO taking into consideration its commercialisation progress made and to be further made. In addition EIB has signed two loans with the Government for the rehabilitation of the Tazama pipeline (EUR 13 and 18million).

The third pillar supports Zambia's traditional main sector: mining. As mentioned above finance was provided in this sector for EUR 82million from the Investment Facility and EUR 21million from Lomé funds (EUR 14million for the expansion of the Bwana Mkubwa processing plant and EUR 7million for the Lumwana Copper project feasibility study). The Bwana Mkubwa loan was meanwhile reimbursed and the Lumwana study loan (which EIB would have written off if the outcome of the study had been negative) has led to a major copper project, which EIB will again be involved in. Further mining projects might come up in due course.