

African Development Bank Group



# Development Effectiveness Review 2013

ZAMBIA

Country review



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# The 2013 Zambia country review in numbers



**6%**

is Zambia's average annual GDP growth over the past decade, making Zambia the fastest-growing economy in Southern Africa



**15%**

is Zambia's share in total world copper production. Zambia is the largest copper producer in Africa



**8%**

is the current level of unemployment in Zambia, one of the lowest in Africa. However, with an average salary of around \$100 per month, more than 50% of workers live under the national poverty line (the "working poor")



**\$100 million**

is the estimated increase in the value of trade, thanks to the construction of a railway bridge, access roads and a one-stop border post connecting Zambia to south-western African countries



**200 MW**

is the power capacity installed by the Victoria Falls-Katima Mulilo Interconnection Project, enough to supply around one million people living in Western Zambia



**1.5 million**

is the number of people enjoying improved access to water and sanitation, thanks to the Bank's investments in Zambia



**11 000**

is the number of teachers trained or recruited; 60 000 is the number of textbooks and other teaching materials provided; and 70 000 is the number of new students enrolled in the last three years, thanks to the Bank's interventions in Zambia



**19**

is the number of highly skilled staff based in the Bank's recently established office in Lusaka, managing a current portfolio of more than \$415 million





### **Solid economic growth**

With an economy that grew at an average of 6% annually over the last decade, Zambia is among the 10 fastest-growing economies of Africa. The country has attained lower-middle-income status, with a nominal per capita income of \$1469 in 2012. Investor confidence has been high, as evidenced by the successful issue of the \$750 million eurobond

# Foreword

Growing the Zambian economy inclusively and sustainably

**T**he Zambian economy has developed significantly in the last decade: the country's national income almost doubled in real terms between 2002 and 2012. Growth has been built on a foundation of macroeconomic stability, with inflation down to single digits and a positive current account. As a result, the country has graduated from low-income to lower-middle-income status. Over the coming period, we are confident that Zambia will continue to build on its achievements and sustain a high pace of change.

Zambia's strong economic performance is due to a combination of factors: improved macroeconomic management; high prices for commodities, especially copper; economic liberalisation; and more effective policy implementation. Copper accounts for a sizable proportion of the economy, generating more than two-thirds of the country's export earnings, although it creates relatively few jobs. To reduce Zambia's exposure to fluctuating copper prices, it is essential that the country diversify its economy into other sectors. There are already good signs of diversification, with nontraditional exports – gemstones, copper wire, cement, sugar, maize and other agricultural products – becoming more prominent in regional markets. The country also needs to push ahead with its efforts to transform and diversify its local production capacity.

Despite improvements in economic performance, Zambia has yet to achieve significant gains in social and human development. The poverty headcount remains high, with around 60% of the population still living below the poverty line in 2010; thus Zambia's strong growth performance has not yet benefitted the vast majority of the people, particularly those in rural areas. If the population at large is to participate fully in national development and share in Zambia's growing prosperity, the country will need to focus on creating jobs and expanding employment opportunities – particularly by creating a more conducive business environment.

The African Development Bank is one of the largest providers of development finance to Zambia, with current total commitments of more than \$415 million. In accordance with the Government's priorities and the Country Strategy Paper, the largest share of our investment goes towards reducing poverty by strengthening infrastructure, mainly transport and energy. But we also support a range of other sectors, including agriculture, the private sector, health and education.

We remain a strong supporter of Zambia's national development agenda and will continue to work in close partnership with the Government in pursuit of its goal of greater prosperity for all Zambians.



A stylized, handwritten signature in dark ink, appearing to read 'Z. Sakala'.

Zondo Thomas Sakala

Operations Vice Presidency in charge  
of Country and Regional Programs





### Connecting Zambia to the world

The Bank supports the Government's Nacala Corridor Phase Road project, which is constructing 1033 km of roads in Zambia, Malawi and Mozambique, as well as two border posts. Besides promoting regional integration in the Southern African Development Community, the project is contributing to poverty reduction and the empowerment of women and other disadvantaged groups through better socioeconomic infrastructure along the road. The Nacala Corridor is expected to boost Zambia's exports through the port of Nacala and expand markets beyond national boundaries, promoting continued growth in the sub-region.



# Executive summary

**The Development Effectiveness Review on Zambia** provides an overview of Zambia's development progress and of how the African Development Bank (the Bank or AfDB) is contributing to this progress. This report takes inclusive and sustainable growth as its guiding theme. It examines Zambia's progress in placing its current strong growth performance on sustainable foundations, and it looks at how the Bank is contributing to this ambitious development agenda.

The Country Review on Zambia reports against the four levels of the One Bank's Results Measurement Framework, complemented by country-specific indicators designed to provide a fuller picture of our operations in the country. **Level 1** presents Zambia's progress over the past five years towards its national development goals, comparing Zambia's rate of progress to the average among African countries. **Level 2** reviews the Bank's contribution to Zambia's development progress, using aggregate outcome indicators from all ongoing operations and those completed between 2008 and 2012; it discusses the progress we have made and presents some innovative aspects of our work. **Level 3** assesses how well we manage our portfolio, and **Level 4** describes our efforts to strengthen our organisational capacity in Zambia.

## Zambia's development progress

**Impressive growth** — Zambia is growing fast. During the last decade, Zambia has continued to achieve high levels of growth, averaging over 6% per year. By 2010, this strong growth performance had moved Zambia from the ranks of least developed countries to lower-middle-income status – a remarkable achievement. Ten successive years of growth have seen GDP per capita increase from \$330 in 2002 to \$1469 in 2012. The economic prospects for the future appear bright. In the coming three years, it is expected that Zambia will achieve growth rates of 7%.

Zambia's strong growth performance is by no means fortuitous. It has been underpinned by sound macroeconomic management, with tight control over inflation and a stable currency, and supported through strategic investments in overcoming transport and energy bottlenecks.

**Good governance** — Since independence in 1964, Zambia has maintained peace and political stability, despite an often volatile region. While challenges remain, Zambian institutions are becoming stronger over time, and there is every reason to expect that Zambia will continue to consolidate its democracy in

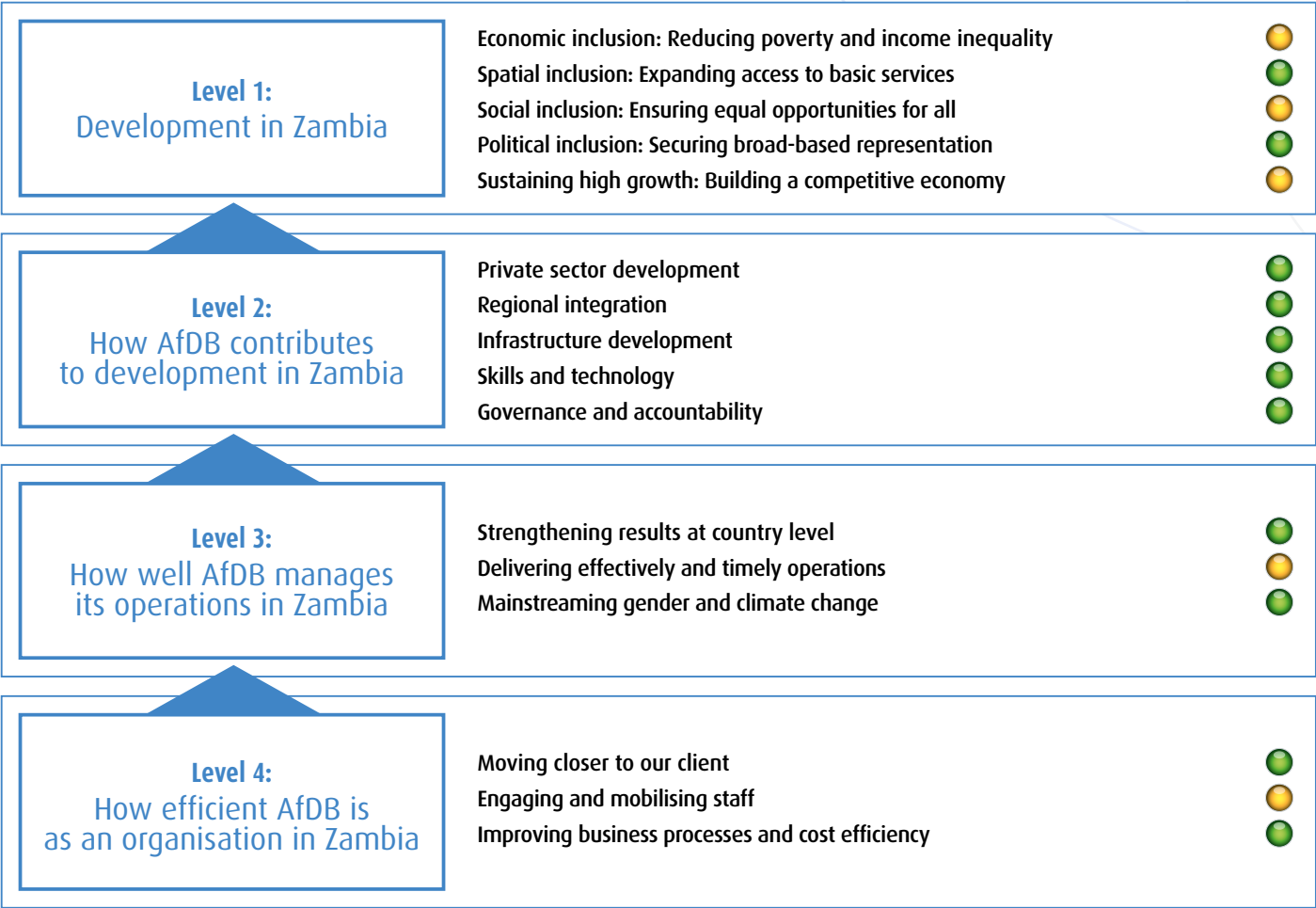
the coming years. Governance indicators are moving in a positive direction. Zambia ranks 12<sup>th</sup> out of 52 African countries on the Ibrahim Index of African Governance – above the average for Southern African countries.

**Reducing poverty and income inequality** — Zambia's high levels of economic growth have yet to make major inroads into poverty reduction. Sixty percent of the population lives below the poverty line, and 42% are considered to be in extreme poverty. Moreover, the absolute number of poor has increased from about 6 million in 1991 to 7.9 million in 2010, primarily through population growth. The urban picture is far better than the rural: in Copperbelt and Lusaka, for example, poverty incidence is fairly low (22% and 34% respectively), whereas in the rest of the country, which is dominated by agriculture, poverty rates are above 70%. Almost 90% of Zambians who live below the extreme poverty line are concentrated in rural areas, and the poverty gap ratio (a measure of how far average incomes fall below the poverty line) is far higher for the rural population than for their urban counterparts. While economic growth is indispensable to lifting more Zambians out of poverty, it is clearly not sufficient. Zambia also needs to pay close attention to the quality of development, to promote more inclusive growth that generates opportunities for all Zambians and enables its resources to be used sustainably.

*During the last decade Zambia's economy has registered impressive levels of growth, averaging over 6% per year, an indispensable condition to lift more and more Zambians out of poverty*

**Employment and income generation** — Zambia's population is young and growing fast. It is projected to almost double by 2030. In 2010, 130 000 young workers entered the labour force; in 2030, as many as 300 000 will be added. At present, despite strong growth rates, the Zambian economy is not creating formal wage jobs at the rate required to absorb the new cohorts of youth entering the labour market each year. A large number of Zambians are already working – so unemployment per se is less of a development concern – but with an average salary of \$100 per month, most workers live under the national poverty line. The working poor are concentrated mostly in farming and, to a lesser extent, in nonfarm self-employment. It is, therefore, a development priority to improve the earnings of the working poor by enhancing their productivity, particularly in agriculture. Transforming agriculture is essential to achieving Zambia's vision of becoming a prosperous middle-income country.

Summary performance scorecard 2013



For Level 1 Zambia's relative performance is measured by comparing its progress with progress in peer ADF countries; for Level 2 the Bank's performance is measured by comparing expected and actual achievements for all operations that have a Project Completion Report or interim progress report; for Levels 3 and 4 the Bank's progress is measured against the targets set out in our Results Measurement Framework.

- Made progress:** More than half of the indicators in the group improved over baselines or reference groups.
- Little progress:** Results are mixed, with equal numbers of indicators showing improvement or little/no progress.
- Progress stalled or regressed:** More than half of indicators in the group stalled or regressed over two or more review periods.
- Progress could not be measured**

The challenge for the Government is to accomplish a shift towards more commercial production and greater diversification, for small-scale farmers as well as larger producers. This requires appropriate use of technologies and better infrastructure to allow better access to inputs and basic services.

**From a landlocked to a "land-linked" country** — Enhancing regional and national infrastructure is key to Zambia's transformation, enabling Zambian producers to access larger markets and become more competitive, while ensuring better access to basic services. Other priorities include continuing progress

on improving the business environment and improving access to transport, energy and water for both businesses and households. The Government has made a strong commitment in these areas. It has developed ambitious plans for public infrastructure investment between 2013 and 2017; its \$5.4 million "Link 8000 Road Project," for example, will build or upgrade over 8000 km of roads and bridges across the country, reducing travel costs and promoting economic growth poles in rural areas.

**Ensuring equal opportunities for all** — Solid infrastructure and regional integration are also key to social inclusion, allowing

all Zambians to contribute to and benefit from growth. In the last 10 years, expenditure on public health has remained at a significant level – around 6% of GDP, compared with the 3% average for Sub-Saharan Africa – leading to steady progress on maternal and child mortality and HIV/AIDS prevalence. Zambia has also made major progress towards universal primary education, with impressive completion rates and gender parity at the primary level. However, it needs to enhance the quality of education in order to equip young Zambians with the skills they need to succeed in the labour market or in self-employment. This is key not just to growth, but to improving the livelihood opportunities of Zambia's working poor, especially in rural areas.

**Sustaining high growth: building a competitive economy** — Zambia needs to sustain high growth to lift more people out of poverty. This in turn requires a vibrant private sector, competitive on a regional and global scale. The Government has been working with the private sector under its Private Sector Development Reform Program, with some promising results. The time and costs involved in starting a business have been significantly reduced. These successes have contributed to a significant improvement in Zambia's Global Competitive Index, from 3.2 in 2005 to 3.8 in 2012 on a scale of 1-7; this rate of improvement is above the African average. Much more remains to be done, however, to sustain high growth, particularly in diversifying the economy. In recent years, there have been encouraging signs of diversification, with good performance in light manufacturing, services and agriculture. As a result, non-traditional exports have doubled over the past two years. Domestic demand is also playing an important role, as the urban middle class continues to develop and expand. Foreign investment is at historically high levels, at around 10% of GDP in 2011 compared to 5% in 2005, and is targeting an increasing range of export sectors. The Government has been supporting this diversification with a number of export-led growth policies, such as multi-facility economic zones and investment tax incentives. Growing investor confidence in the Zambian economy was also evidenced by 2012's successful eurobond issue.

## Our contribution

AfDB has supported Zambia's national development since 1971 with over \$1.4 billion in investments. Through our portfolio of lending operations and our many other activities, we are promoting growth that is both inclusive and sustainable. The results reported in this Country Review are based on the priorities set out in our two latest Country Strategy Papers (2007–2010 and 2011–2015): building critical infrastructure, supporting regional integration, strengthening institutions, and fostering private sector development. The Bank has a strong track record of supporting investments in Zambia that boost the prospects for growth. In recent years, we have broadened our approach to ensure that we promote growth that is inclusive across social groups and geographical areas. Our challenge now is to help Zambia achieve development pathways that are sustainable in economic, social and environmental

terms. We have already begun to make progress in this direction, based on our comparative advantage in sustainable transport, smart agriculture and integrated land and water management.

**Private sector development** — To enable more people to lift themselves out of poverty, Zambia needs to create jobs and income-generating opportunities in the private sector. Private sector development is therefore at the core of the Bank's strategy in Zambia. To this end, our budget support interventions in the country have included building public-sector capacity, reducing transaction costs for businesses and easing the burden of regulation. Improving the regulatory environment reduces production costs, creating an environment in which existing and new producers can flourish and grow, generating jobs and incomes. We have also deepened access to capital and financial markets through lines of credit and credit guarantees. We have facilitated longer-term credit for both large and smaller businesses. Overall, our investment projects over the past four years have created over 2500 total jobs, of which two fifths were jobs for women.

*Improved access to water has a transformative effect on the lives of rural women and children: through four large-scale projects, totalling \$120 million, AfDB provided 1.52 million Zambians with new or improved access to water and sanitation.*

**Agriculture** — Agriculture, on which 60% of Zambians depend, is a proven driver of inclusive growth and poverty reduction. In Zambia, four-fifths of the working poor are engaged in farming. Improving agricultural productivity is therefore key to increasing their earnings and tackling rural poverty. Our agriculture operations aim to increase productivity and enhance incomes and food security, while improving the management of natural resources. We have recruited and trained over 34 500 people to use improved technology through our support to Government extension programmes. Overall, our support to agriculture and food security has benefitted 680 800 people.

**Regional integration** — We have tailored our support for regional integration to the needs of Zambia. The core of our strategy is investment in regional transport infrastructure, to boost regional trade. We are helping Zambia and its neighbours develop transport corridors. These combine major infrastructure investments with trade facilitation and other "soft" infrastructure, together with initiatives that promote socioeconomic development in adjacent areas. As part of this process, we supported the development of one-stop border posts, offering streamlined delivery of services and reducing the time and cost of shipping goods across national borders. The Chirundu one-stop border post on the Zambia-Zimbabwe border has since become a model for other border posts. Another of our flagship regional operations is the Nacala Road Corridor Project. This included the



development of the Great East Road in Zambia and two one-stop border posts, providing improved road access to the Nacala Port, while helping local communities have better access to markets and services. Overall, during this period, we have delivered on our target to construct or rehabilitate more than 110 km of cross-border roads.

**Infrastructure development** — Infrastructure is, then, the backbone of our portfolio. We have undertaken a series of major road projects, providing over 430 000 people with improved access to transport. We have helped build the policies and institutional capacity required for effective management of the national road network.

In the energy sector, the Bank has financed the installation of 200 MW of generation capacity. Our projects are helping Zambia develop its substantial hydropower resources, with a new 120 MW hydropower plant planned at the Itezhi-Tezhi dam on the Kafue River. This investment will provide both Zambia and the surrounding region with improved access to reliable, affordable, and environmentally sustainable electricity.

The Bank has also helped fund the Government's investments in water and sanitation across the country, so as to improve health outcomes and promote socioeconomic development. Improving water and sanitation reduces waterborne and hygiene-related diseases, particularly when the provision of new facilities is combined with public health education. Improved access to water can have a transformative effect on the lives of rural women and children, who often spend many hours each day collecting water. Over the last few years, we have built or rehabilitated 5800 boreholes and wells, constructed 440 km of water pipes and created 53 000 m<sup>3</sup>/day of drinking water capacity in service reservoirs. Overall we provided 1.52 million people with improved access to water and sanitation.

*Through closer supervision and other management tools, we have improved the performance of our Zambia portfolio over the last few years, reducing by half the share of our operations at risk in the country.*

**Skills and technology** — AfDB has been a strong supporter of the Government's efforts to achieve education for all. With the success of Zambia's enrollment efforts came the need for more classrooms, teachers and teaching materials. We have therefore constructed or rehabilitated 365 classrooms and educational support facilities. We supplied over 60 000 textbooks and teaching materials and recruited or trained nearly 11 000 teachers and other educational staff. As a result of our investments, nearly 70 000 students were newly enrolled. We have been also working with the Government to develop new policy responses to the challenge of youth unemployment, including through better education and vocational training.

**Governance and accountability** — In the governance arena, we focus on our areas of comparative advantage: revenue systems, public finances and the equitable delivery of public services. This includes helping the Government align its Medium-Term Expenditure Frameworks with its policy priorities and strengthen budget execution. A new financial information system is being introduced, to promote more efficient use of public resources and increase transparency.

We have also focused on improving the business environment. Reducing the regulatory burden on business helps lower the costs of goods and services, enabling producers to become more competitive and thereby create more jobs. In addition, the Bank has helped the Government simplify procedures at the borders. Through these and other initiatives, the time and cost involved in starting a business have declined considerably and Zambia's ratings for budgetary and financial management and the business environment have improved steadily.

## The management of our portfolio

**Strengthening results at the country level** — The quality of our portfolio in Zambia has steadily improved since we first opened our Zambia country office in 2006. An overall performance review of the portfolio found it to be satisfactory, with implementation progress and development outcomes of 2.42 and 2.56 respectively, on a scale of 0 to 3. The number of ageing operations has been reduced by four-fifths, while the number of projects at risk has been reduced to zero. Our projects are now supervised more regularly and rigorously. With annual portfolio reviews and implementation support workshops, the Bank has invested in developing the capacity of its staff and counterparts to manage key business processes. We also meet regularly with the Government to discuss the health of our portfolio and address any implementation bottlenecks. Our quality-at-entry tools, including a project readiness filter, help ensure that new projects have sound technical designs and significantly reduce the delays involved in getting new projects operational. Environmental and social impact assessments on all our projects are published on our website, providing affected communities and other stakeholders with the opportunity to raise any concerns.

**Timely and effective delivery** — The Bank continues to make good progress on its aid effectiveness commitments. Our disbursement predictability has significantly improved over the last three years, reflecting the progress we have made in simplifying conditions and streamlining procedures. However, our use of country procurement systems has declined as the proportion of budget support in our portfolio has fallen. We have an ambitious programme of knowledge work: over the coming three years we plan five major studies addressing such topics as the state of the private sector, new approaches to mobilising domestic resources, a transport master plan and the potential for farm blocs in Zambia. These studies will generate knowledge to inform the Government's policy and provide a platform

for dialogue. Until recently, AfDB ran a Joint Development Information Centre with the World Bank, where members of the public (especially young people) could access information on national development priorities and challenges. The information centre, which attracted more than 3000 visitors in 2012, has now relocated to the University of Zambia to increase accessibility.

**Mainstreaming gender and climate change** — The Bank has successfully "climate-proofed" its entire Zambian portfolio, ensuring that climate resilience is incorporated into the design of all projects. We have also begun to integrate gender targets into our new projects. We believe that without achieving greater equality between women and men, Zambia will not be able to sustain its growth and meet its development goals. While gender equality is a development objective in its own right, it is also smart economics – investing in women and girls boosts the pace of development progress and has a powerful impact on both women and men.

## The management of our organisation

**Moving closer to our client** — Our country office, established in Lusaka in 2006, continues to grow and develop. In keeping with the Bank's ambitious decentralisation programme, we have built up a strong team of professionals in-country, supplemented by additional expertise from our South Africa Regional Centre. More than 90% of our management functions are now managed within the team, and our country staff lead the majority of our knowledge work. Our office is linked to AfDB headquarters through an effective communications network. We are now increasingly able to operate as "One Bank," with the different departments working together as an integrated whole.

**Energising our staff and our partners** — Having a strong country team has also enabled us to become more active in country-led development processes. We have strong dialogue with the Government, both on development policy and on improving the implementation of our operations. We are very active in collaborative work with other development partners. The Bank served as chair of the Cooperating Partners Group in 2011, through which we convened a series of meetings to discuss pressing national development challenges. We also chaired both the Water and Sanitation and the Agriculture Cooperating Partners Working Groups in 2012, and we currently chair the Transport and Infrastructure Working Group.

**Improving business processes and cost efficiency** — We have worked closely with the Government to streamline our business processes. We have introduced regular fiduciary seminars for both our own staff and our counterparts, offering training in financial management, procurement and audit. As a result, our procurement and disbursement processes are improving in quality and efficiency. We have some way to go, however, in ensuring the timely delivery and adequate quality of our audits.

## Conclusions and the way forward

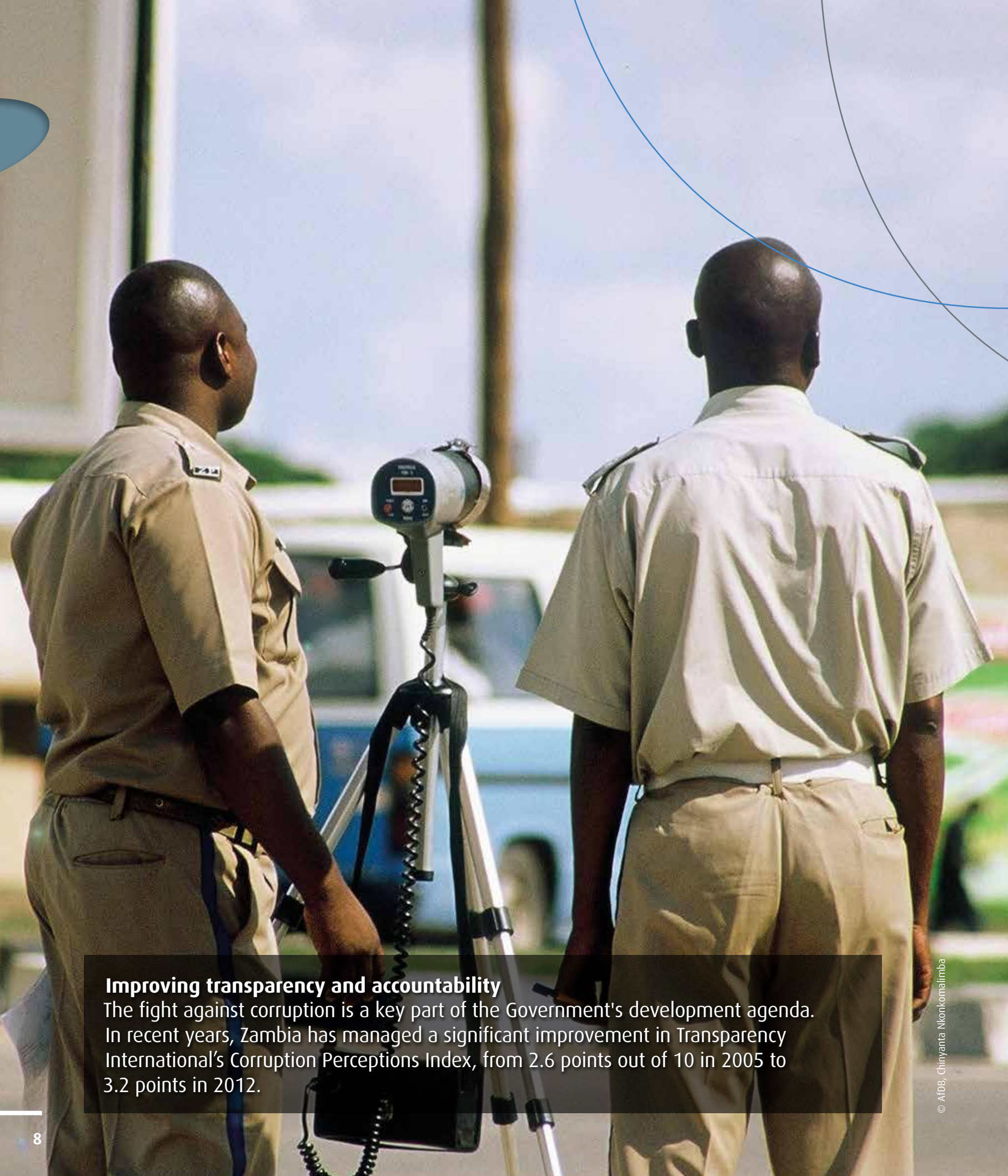
During the last decade, Zambia has continued to achieve high levels of growth, averaging over 6% per year. And economic prospects for the future appear bright. However, growth has yet to make major inroads into poverty. Inequality is rising, and the percentage of people living below the poverty line has decreased just slightly, with the majority of working Zambians engaged in low-productivity activities in the informal sector. The economy is not creating jobs at the rate required to absorb the growing numbers of young Zambians entering the labour market each year. Zambia therefore urgently needs to press ahead with structural change in its economy, through greater diversification towards labour-intensive sectors such as manufacturing and commercial agriculture. There are some encouraging signs of improved performance in light manufacturing, services and agriculture, but so far without the employment creation that Zambia needs.

*Decentralisation has enhanced the efficiency of our business processes: in 2012, nearly half of our project tasks were managed from our country office in Lusaka, exceeding our target of 35% and enabling more cost-effective project delivery*

In addition, for a landlocked country that is trying to become land-linked, regional integration is a key priority, to give producers access to larger markets and enable them to participate in regional and global value chains. The Bank has been one of the major investors in Zambian infrastructure, helping overcome its isolation as a landlocked country and to take advantage of its natural resources.

Overall, we have made a significant contribution to Zambia's impressive economic growth over the years, providing over \$1.4 billion in investments since 1971. However, we recognise that rapid growth is not enough. We are paying increasing attention to the quality of growth, ensuring that it is inclusive of all Zambians across different social groups and geographical areas. In the coming three years, the Bank will intensify its efforts to promote social inclusion, with a particular focus on pressing social challenges, such as low earnings from work and youth unemployment. We will continue to develop key infrastructure, including transport, power, and water and sanitation, across the country. We will also support Zambia's transition towards a green growth pathway through improved management of its natural resources and increased use of clean energy technology.

Though Zambia has some serious challenges still to overcome, the African Development Bank believes it to be a country with enormous development potential. And we look forward to our continuing partnership ■



### **Improving transparency and accountability**

The fight against corruption is a key part of the Government's development agenda. In recent years, Zambia has managed a significant improvement in Transparency International's Corruption Perceptions Index, from 2.6 points out of 10 in 2005 to 3.2 points in 2012.



# Preamble

## A prosperous middle-income nation by 2030

Zambia's vision for its future is a bold one. We Zambians pride ourselves on setting, and achieving, ambitious goals for the development of our country.

Zambia's vision is to become a prosperous middle-income nation by 2030. This means that by 2030 we expect to live in a strong and dynamic middle-income industrial nation that provides opportunities for improving the well-being of all, embodying the values of socioeconomic justice and underpinned by solid principles: strong democracy; respect for human rights; gender-responsive sustainable development; good traditional and family values; positive attitude towards work; peaceful coexistence; and public-private partnerships.

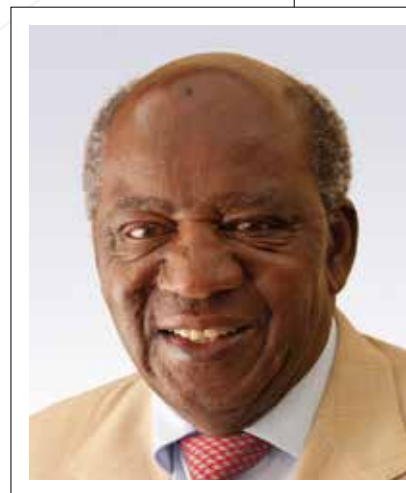
Zambians also aspire to a shared destiny, united in diversity, equitably integrated and democratic in governance as they seek to promote patriotism and ethnic integration. The nation is transitioning towards devolved political systems and structures while retaining the roots and positive aspects of its own social, cultural and moral values.

The socioeconomic development objectives enshrined in our strategic framework are to attain and sustain solid annual real growth while maintaining a moderate inflation rate; to reduce the national poverty headcount to less than 20% of the population and shrink income inequalities; and to provide the entire population with access to water and sanitation facilities, health care, and education. This socioeconomic transformation is on track, and the Government continues to pursue policies that directly address the needs of our entire population.

Since 1971 the African Development Bank has been Zambia's valued partner, making a major contribution to our national development. It has been among the major investors in infrastructure, helping Zambia build its network backbone so that we become better connected. The Bank has helped boost our agricultural production through investments in livestock and related facilities. It has also invested directly in the Zambian people through its support to science and technology. It has provided technical and financial support on macroeconomic reform and improvements to the business environment. The Bank's Zambia country team has provided valuable advice and has helped improve aid coordination and strengthen our policy dialogue with development partners.

We will continue to foster and leverage our relationships with our development partners. Our joint strategy with the African Development Bank, in particular, will continue to focus on economic transformation for rapid growth, rural development, productivity and youth employment, and accountable governance – all areas that will contribute to fast and sustained poverty reduction for our population.

We look forward to the continuing advice and support of the African Development Bank as we strive to build on our earlier successes. I am convinced that, with the support of the African Development Bank and our other international partners, we will achieve our national vision of prosperous middle-income status by 2030.



A blue ink signature of Hon. Alexander B. Chikwanda, MP.

Hon. Alexander B. Chikwanda, MP

Minister of Finance  
ZAMBIA



### **Education is a priority for Zambians' future skills development**

Between 2011 and 2040, Zambia's youth population is projected to grow by 15.5 million, more than the current population of the country. These youth need the educational qualifications to improve their choices. AfDB works with the Government to improve access to good-quality education, which will go a long way in not only supporting the country's growth but also improving earnings from work.

# Introduction

**The Development Effectiveness Review on Zambia** is the second in this series to focus on the operations of the African Development Bank (AfDB, or the Bank) in a particular country. It examines Zambia's development challenges in recent years and assesses the Bank's contribution to addressing them. It also looks at how effectively we manage our operations and own organisation in Zambia.

We are very pleased to have been able to collaborate closely with the Government of Zambia in producing this Country Review. The Bank has been an active partner of Zambia since 1971, helping the country achieve impressive growth rates, particularly in the last decade. This review analyses the sources and pattern of growth, with a particular focus on two dimensions: inclusiveness and sustainability. The report provides evidence that the quality of growth is as important as the pace of growth in creating more and better jobs and economic opportunities and lifting more Zambians out of poverty.

Achieving inclusive and sustainable growth is a challenge with many dimensions. Spiralling demand for Zambia's natural resources, particularly copper, has been one of the drivers of economic growth over the past decade. If Zambia's natural resources are to be a driver of growth for future generations, they need to be managed so as to minimise waste and maximise the development return. And the revenues need to be channelled into investments that create the foundations for sustainable growth into the future.

The report relies on the One Bank's Results Measurement Framework, which tracks 88 performance indicators organised into four levels. The four chapters of this Country Review match the four levels of our Results Measurement Framework. We discuss these results and their significance, using traffic-light indicators that show progress towards our targets.

**Chapter 1** explores Zambia's development progress and the challenges it confronts. It looks at the factors behind Zambia's impressive economic growth rates, and its progress on improving the business climate and overcoming infrastructure deficits.

**Chapter 2** looks at the Bank's contribution to Zambia's development results. It presents the aggregate outputs from our operations and provides examples of our portfolio in action.

**Chapter 3** reports on at the health of our portfolio in the country and at some of the management tools we have implemented to enhance the quality of our operations.

**Chapter 4** assesses the Bank's efficiency as an organisation in Zambia, presenting some of the actions we have taken in recent years to ensure that our capacity continues to develop.

Finally, this Country Review explores the structural transformations that Zambia will need to make to move to a more inclusive and sustainable growth pathway.

This report is written in a non-technical style, so as to be accessible to our stakeholders and support transparency and accountability. It is also an important management tool for us as we strive to ensure that our operations, our portfolio and our own organisation are continuously improving ■

## AfDB's Results Measurement Framework





WILEY

### **Inclusive business: smallholder outgrower schemes**

AfDB has pioneered the development of outgrower schemes. The Kaleya project, the first such scheme, now includes over 160 smallholder farmers (20% women), farming on 1070 hectares and producing around 200 000 tonnes of sugar annually. Following the success of this model, about a third of Zambia's 800 000 smallholders have decided to participate in some form of outgrower scheme.

# Level 1: Development in Zambia

**Z**ambia is growing fast. During the last decade, despite the turbulence in global economy, Zambia has continued to achieve high levels of growth, averaging over 6% per year. In the coming years it is expected that Zambia will achieve growth rates of 7%. Growth is indispensable, if more Zambians are to be lifted out of poverty. But it is not sufficient.

While sustaining its high growth, Zambia needs to pay close attention to the quality of development. It needs to be more inclusive, generating opportunities for all Zambians and creating economic structures that use resources effectively.

This chapter takes stock of the current state of development in Zambia. It is organised in five sections: the first four sections seek, directly or indirectly, to capture progress against the four dimensions of inclusive growth: economic inclusion, social inclusion, spatial inclusion and political inclusion. The last section of the chapter examines Zambia's efforts to sustain strong growth by building a more competitive economy.

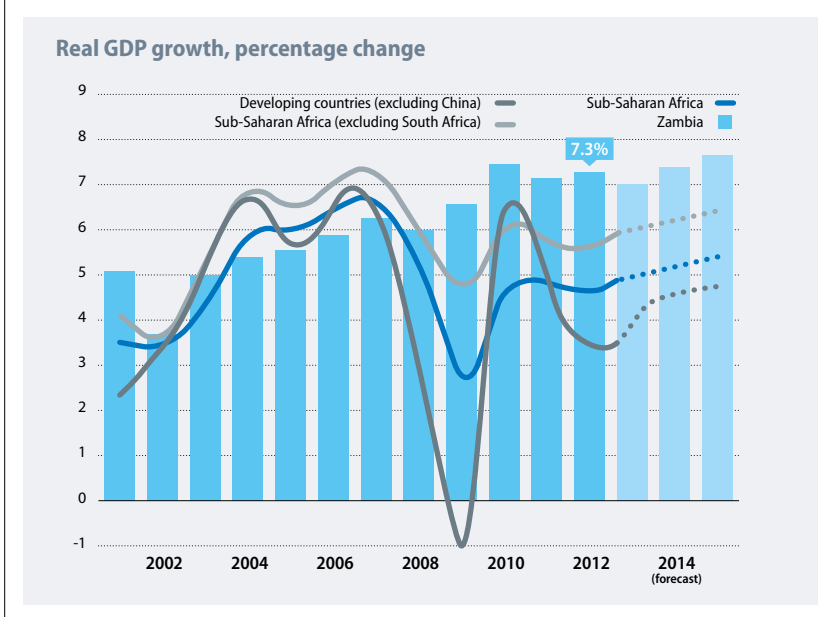
Each of these five areas is explored through indicators of progress, which are allocated a "traffic light" score, showing Zambia's progress since 2005 relative to other low-income African countries (ADF countries). A green rating indicates strong performance equal to or better than that of the comparison countries, while yellow indicates progress but less than average.

## Economic inclusion: reducing poverty and inequality

Zambia is going through a dynamic growth period. Having achieved ● **GDP growth**<sup>1</sup> rates above 6% for most of the past decade, Zambia is one of Africa's – and the world's – fastest-growing countries. By 2010, this strong growth performance had moved Zambia from the ranks of least developed countries to lower-middle-income status – a remarkable achievement. Ten successive years of growth have seen ● **GDP per capita** increase from \$330 in 2002 to \$1469 in 2012. And economic prospects for the future appear bright (see Figure 1.1).

Zambia's strong economic growth has been by no means fortuitous. It has been underpinned by sound macroeconomic management, with tight control over inflation and a stable currency. It has also been supported through a series of strategic investments in overcoming transport and energy bottlenecks. With these foundations in place, Zambia was able to take advantage of the global copper boom. Zambia is the biggest copper producer in Africa; production in 2012 was around 720 000 million tonnes and is projected to double by 2015. This is largely due to investment in new mines and the expansion of capacity at existing plants.

Figure 1.1 Zambia's impressive economic growth







Source: World Bank, 2013

<sup>1</sup> A green bullet indicate that progress is strong and better than in other ADF countries.

Table 1 Development in Zambia (Level 1)








Table 1 summarises Zambia's development progress between 2005 and 2012. The indicators of the One Bank's Results Measurement Framework have been complemented by country-specific indicators designed to capture areas in which AfDB provides support and advice to Zambia – economic growth, regional integration, and so on. For each indicator, progress is measured by comparing Zambia's progress with progress in all other African countries receiving support from the African Development Fund (ADF countries).

-  Progress is strong and better than in other ADF countries;  
 Regression against the baseline;










-  Progress is positive but less than in other ADF countries;  
 Data is not available to measure progress.

INDICATOR	ZAMBIA		LOW-INCOME AFRICAN COUNTRIES (ADF)	
	Baseline 2005	Latest 2012	Baseline 2005	Latest 2012






#### ECONOMIC INCLUSION - SHARING PROSPERITY WITH ALL

 GDP growth (annual %)	5.3	7.3	5.2	5.4
 GDP per capita (current \$)	626	1469	480	894
 Population living below the national poverty line (%)	62.8	60.5	54.0	39.0
 Income inequality as reflected by Gini Index (100: high - 0: low)	51 <sup>1</sup>	55	42	45
 Unemployment (% of total labour force)	23.4	7.8	..	..
 Agriculture, value added (% of GDP)	22.8	19.5 <sup>B</sup>	30.5	30.3 <sup>B</sup>
 Agricultural land (% of land area)	31	32 <sup>B</sup>	42	43 <sup>B</sup>





#### SPATIAL INCLUSION: EXPANDING ACCESS TO BASIC SERVICES

 Road density (km of road per 100 sq. km of land area)	4 <sup>1</sup>	12 <sup>A</sup>	52	65 <sup>A</sup>
 Paved roads (% of total roads)	8 <sup>1</sup>	22 <sup>A</sup>	14	17
 Informal controls and checkpoints on road (average number per 100 km)	2.1	1.5	2.3	1.8
 Access to improved water source (% of population)	58	61 <sup>B</sup>	56	59 <sup>B</sup>
 Access to improved sanitation facilities (% of population)	47	48	27	28
 Access to electricity (% of population)	11	19	27	30
 Renewable electricity (% of total electricity output)	99.4	99.7	65.0	64.0
 Mobile cellular subscriptions (per 1000 people)	83	606	86	415
 Internet users (per 1000 people)	29	135	19	99

#### SOCIAL INCLUSION: ENSURING EQUAL OPPORTUNITIES FOR ALL

 Mortality rate, under-5 (per 1000 live births)	127.0	88.5	124.0	93.8
 Maternal mortality ratio (per 100 000 live births)	500	440 <sup>A</sup>	610	513 <sup>A</sup>
 Prevalence of HIV (% of population ages 15-49)	13.9	12.5 <sup>B</sup>	4.3	3.8 <sup>B</sup>
 Primary completion rate (% of relevant age group)	87	103 <sup>B</sup>	70	73 <sup>B</sup>
 Ratio of girls to boys in primary and secondary school (%)	91	92 <sup>B</sup>	85	88 <sup>B</sup>

#### POLITICAL INCLUSION: SECURING BROAD-BASED REPRESENTATION

 Worldwide Governance Indicators avg. score (-2.5=low to 2.5=high)	-0.56	-0.30	-0.84	-0.84
 Country Policy and Institutional Assessment Index (1=low to 6=high)	3.3	3.9	2.3	2.4
 Corruption Perception score (0=highly corrupt to 10=highly clean)	2.6	3.2	2.5	2.7
 Ibrahim Index of African Governance (1=low to 100=high)	54.0	59.6	44.8	48.5



INDICATOR	ZAMBIA		LOW-INCOME AFRICAN COUNTRIES (ADF)	
	Baseline 2005	Latest 2012	Baseline 2005	Latest 2012
<b>SUSTAINING HIGH GROWTH: BUILDING COMPETITIVE ECONOMIES</b>				
● Foreign direct investment inflows (% of GDP)	4.9	10.3 <sup>B</sup>	3.1	3.2 <sup>B</sup>
● Global Competitiveness Index (1 to 7)	3.2	3.8	3.1	3.5
● Cost of business start-up (% GNI per capita)	30.3	26.6	218.0	78.7
● Time required for business start-up (days)	35	17	58	30
● Economic Diversification Index (0 =high to 1=low)	0.87	0.84	0.77	0.76
● Inter-African trade (%)	2.5	6.6	1.0	1.5
● Logistics performance index (1=low to 5=high)	2.4	2.3	2.3	2.4

.. = data not available; AfDB = African Development Bank; GDP = gross domestic product; GNI = gross national income; PPP = purchasing power parity; \$= United States dollars. Available baseline year is <sup>1</sup> 2004, <sup>2</sup> 2006. Latest data available are for <sup>A</sup> 2010, <sup>B</sup> 2011.

**Notes:** The methodology has been adjusted to better describe the progress Zambia is making. Improving indicators are green or yellow, depending on whether Zambia performs better or worse than other ADF countries. Lapsing indicators are red or yellow, depending on whether Zambia performs worse or regresses less than other ADF countries. ADF countries are the 39 lower-income AfDB member countries that qualify for concessional funding: Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo Republic, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, South Sudan, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. Cape Verde is in transition.

**Source:** Government of Zambia, African Development Bank, Food and Agriculture Organisation of the United Nations, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations Educational, Scientific and Cultural Organisation, World Bank Group, and International Energy Agency.

However, as mining employs only 60 000 people and until recently has contributed less than 2% of GDP in tax (4% of GDP in 2012), it has meant little for the rural areas where two-thirds of Zambians live. Zambia's high levels of economic growth have yet to make major inroads into poverty reduction. The ● **share of population living below the national poverty line**<sup>2</sup> has in fact decreased just slightly, from 62.8% to 60.5%.

Inequality has increased, with the ● **Gini coefficient**<sup>3</sup> (a standard measure of income inequality) rising from 51 in 2004 to 55 in 2012. This suggests a growing divide between those who benefit from the high economic growth rates and those who remain trapped in poverty. Poverty and inequality are closely related to the issue of jobs. Most Zambians are employed, with more than 60% working on farms; and thus ● **unemployment**, standing at just 8% of the total labour force, is in itself a lesser challenge (see Figure 1.2). Yet a large number of Zambian workers remain mired in poverty because their earnings from work are low – the "working poor".

The unemployed are mostly youth in urban areas. Some 12% of those aged 15 to 19 years and 15% of those aged 20 to 24 years are actually unemployed. There are gender disparities, with more women than men looking for work. With few employment

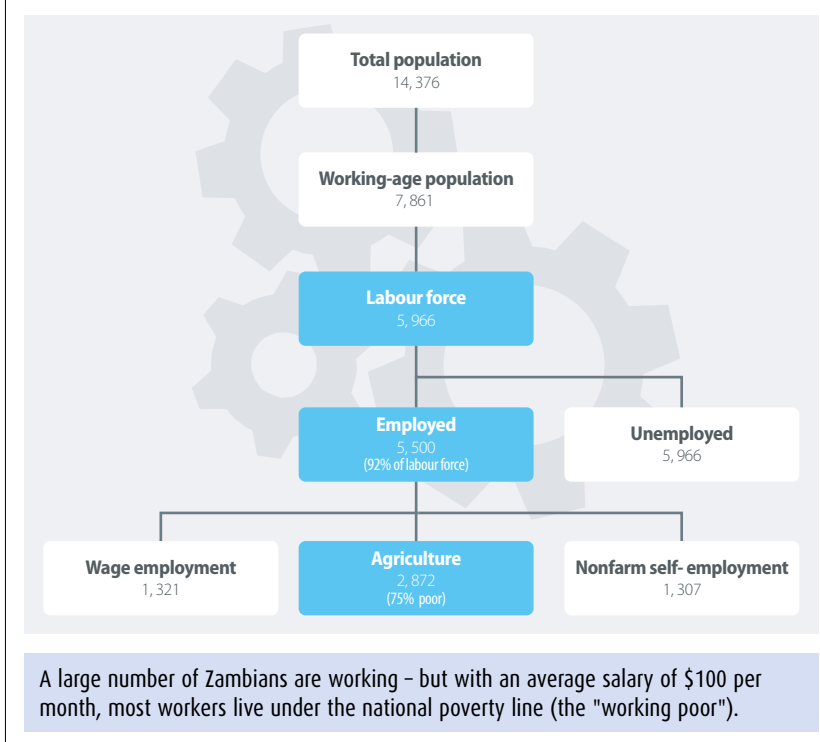
opportunities awaiting the 130 000 young people who enter the labour market each year, disillusionment and frustration have become a pressing social challenge.

So, while creating more job opportunities, especially in the private sector, is a priority, an equally important development priority is to improve the living standards and earnings of working Zambians by boosting their productivity, particularly in agriculture. Indeed, agriculture plays a critical role in the Zambian economy, contributing nearly a fifth of GDP and two-thirds of employment. But agricultural productivity remains very low – output is valued at \$221 per worker, compared to \$900 across sub-Saharan Africa – and the sector is growing at just 7%. ● **Agricultural value added** has actually decreased, from 22.8% of GDP in 2005 to 19.5% in 2011. This partly reflects the low usage of inputs, such as fertiliser, relative to other African farmers. Transforming agriculture is essential to achieving Zambia's vision of becoming a prosperous middle-income country. The Government has embarked on initiatives to diversify crops by including products such as soya, cotton, sunflower and rice under the Farmer Input Support Program. Other improvements include restocking livestock, scaling up extension services and increasing investment in both irrigation and research. An expanded e-voucher system is encouraging the private sector to supply agricultural inputs.

<sup>2</sup> A yellow bullet indicates that progress is positive but less than in other ADF countries.

<sup>3</sup> A red bullet indicates regression against the baseline.

Figure 1.2 Employment and poverty



Source: AfDB's calculations based on the Labour Force Survey 2012

Overall, the challenge for Zambia is to accomplish a major transformation towards more commercial production and greater diversification, for small-scale farmers as well as larger producers. This will require appropriate use of technologies and better infrastructure to enable enhanced access to inputs and basic services.

### Spatial inclusion: expanding access to basic services

Spatial inclusion is about ensuring that everybody has access to basic services that create economic opportunities – including transport, electricity, water and communications.

**Access to transport** — Because Zambia is a landlocked country with a small domestic market, access to transport is the key to boosting demand for the country's goods and services. It would provide Zambian businesses with the scope to expand and diversify into new products and more sophisticated value chains, making the economy less dependent on a narrow range of exports.

*At regional level*, improved transport connections between Zambia and its neighbours are facilitating the movement of goods and people. Zambia is crossed by seven trade corridors linking it to regional centres of economic activity and to ports in Mozambique, Angola, Namibia, Tanzania and South Africa (see Figure 2.2 in the next chapter). These transport corridors also generate benefits along the route in the form of increased economic activity and improved access to services.

One factor that has hindered transport and trade across Zambia is the number of checkpoints. In recent years the country has made marked progress in addressing this problem, reducing the **number of informal controls and checkpoints** from 2.1 per 100 km in 2009 to 1.5 in 2012. This has provided individuals and businesses using the roads the benefits of reduced journey times and lower costs.

Zambia is also improving its "soft" or institutional infrastructure through measures to simplify administrative procedures at the borders with neighbouring countries and reduce delays and costs for traders. At Chirundu on the border with Zimbabwe and at Kasumbalesa on the border with the Democratic Republic of Congo, the Government has introduced one-stop border posts where traders can access services from different Government agencies through a single window. It has also launched a Simplified Trade Regime with Malawi at the Mwami border post.

*At national level*, the country's internal transport network has deteriorated over the last decades through lack of resources. In the 1970s, Zambia had one of the best highway networks in sub-Saharan Africa; and by 1991, the National Road Fund Agency estimated that 80% of the road network had deteriorated. Of total road assets valued at \$2.3 billion, \$400 million had been lost to neglected maintenance. The poor quality of the road network hinders rural entrepreneurs' access to their local markets and to the main transport corridors connecting to larger regional markets and ports. It also makes it more difficult for people to access local services, which are often some distance from their homes. Over half of rural households are more than 16 km from schools and health facilities, and the distance is strongly correlated with poverty levels.

The Government responded by introducing a road fund levy on fuel which, together with international aid, has enabled it to improve the highway network. The **road density** is now 12 km per 100 km<sup>2</sup> of land area, which is a fourfold increase since 2005, but still behind the sub-Saharan African average of 65 km. In addition, although a quarter of **roads are paved**, only 57% of those roads are in good condition.

The Government has also developed ambitious plans for public infrastructure investment between 2013 and 2017 with its \$5.4 billion "Link 8000 Road Project." This project will build or upgrade over 8000 km of roads and bridges across all ten Zambian provinces, reducing the costs and time of travel and promoting economic growth poles in rural areas. The investment will also benefit the local contracting industry and create 24 000 jobs, particularly for young people.

Finally, the Minister of Finance has recently indicated the intention to further develop air transport, to support tourism and the private sector, and to develop rail links, especially by opening the north-western corridor to promote trade in oil and other products with Angola and beyond. The planned linking of Mchinji in Malawi to the Tanzania-Zambia Railway (Tazara) will also enhance the eastern corridor with Mozambique and Malawi (see Figure 2.2).

**Access to power and clean energy** — Zambia's impressive growth in recent years has led to an increase in demand for power. As a result of expansion in economic activities, especially in the mines, the peak demand for electricity in Zambia increased from 1460 MW in 2005 to 1700 MW in 2012, while the country's installed generation capacity is less than 1800 MW. Because the growth in demand is estimated to be 150 MW per year, the demand for electricity in the country is expected to grow to nearly 3000 MW by 2020 (see Figure 1.3).

The Government recognises, indeed, the importance of improving access to low-cost and reliable energy, for both households and businesses. Zambia aims for universal access to electricity by 2030; plans centre on Zambia's abundant hydropower resources, of which only a third has been developed, leaving an estimated potential 6000 MW yet to be harnessed. For the time being, only 25% of Zambians have **access to electricity**, but this share is up from 10% only a few years ago. If the economy is to diversify beyond the mining sector, power supplies are essential. Zambia also has an opportunity to respond to the growing regional demand for power, making energy infrastructure an attractive investment. Several private sector electricity generation projects are under way and due to come on stream by 2018.

#### Box 1.1 Biofuels in Zambia: both cost-effective and sustainable

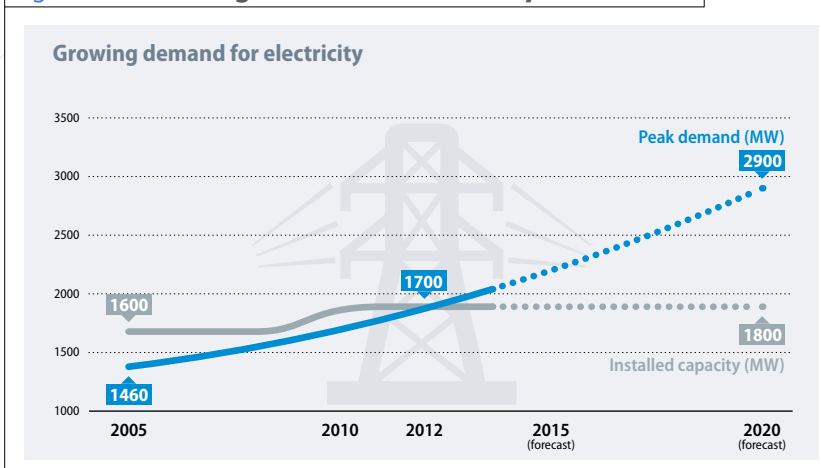
Biofuels are a relatively new industry in Zambia, with only a handful of producers operating. Yet Zambia's climate is well suited for biofuel crops. The country has ample land and water resources. Projections show that only 11% of the arable land (about 46 000 km<sup>2</sup>) would be required to replace the country's diesel consumption of 360 million litres per annum with bio-diesel.

The Government has declared biofuels are "priority sector", allowing investors benefit from Zambia Development Agency incentives, including tax waivers on capital equipment.

Petroleum, which accounts for about 9% of the nation's total energy requirements, plays a crucial role in the running of Zambia's economy, particularly in the agriculture, transport and mining sectors. All petroleum products in the country are imported, at an annual cost of more than \$700 million. With the ever-rising cost of crude oil and increasing demand for energy, there is substantial demand for cheaper, quicker and more environmentally friendly forms of energy that can be produced locally.

Geothermal sources, for instance, are currently being surveyed: Zambia has more than 80 hot springs that can be tapped as an energy source, although the costs are high. At present there is only one small geothermal generation plant at the Kapisya hot springs, installed in the mid-1980s through an Italian-sponsored initiative. Two 120 KW turbines were installed in 1987; the plant fell into disrepair, but recent estimates suggest that it could be upgraded to produce 2 MW of electricity. The Government has begun to work on a 22 km, all-weather access road, so that construction work on the plant can commence.

Figure 1.3 Growing demand for electricity



Source: AfDB estimate, 2013

Biofuels also offer the potential to reduce Zambia's petroleum import bill and increase the affordability and accessibility of fuel. They could also stimulate rural employment and development (see Box 1.1).



Overall, there is increasing awareness in Zambia about carbon emissions, with analysis and activity undertaken by various public and private organisations. In the last 10 years the Government has implemented a number of CO<sub>2</sub> emissions mitigation measures in both the domestic and industry sectors. All these efforts are reflected in a significant reduction in CO<sub>2</sub> emissions per GDP, from 0.32% in 2005 to 0.25% in 2011.

*In recent years there have been encouraging signs of diversification in the Zambian economy, with a fivefold increase of nontraditional exports, from \$566 million in 2005 to \$2852 million in 2012.*

**Access to water and sanitation** — Water supply and sanitation in Zambia are characterised by both achievements and challenges. Among the achievements are the creation of regional commercial utilities for urban areas, replacing fragmented service provision by local governments; the establishment of a regulatory agency that has substantially improved information on service provision in urban areas; and an increase in water supply in rural areas.

Among the challenges are low rates of cost recovery, despite tariff increases in urban areas; limited institutional capacity in the sector; slow progress on sanitation; lack of cost recovery in urban water systems; a high rate of non-functioning rural water systems; and insufficient investment levels despite substantial foreign aid.



In 2011, 61% of the population of Zambia had  **access to an improved water source**, and only 48% had  **access to improved sanitation facilities**, according to data calculated on the basis of national surveys, including most recently the Demographic and Health Survey.

Concerning water supply, there is a stark contrast between urban areas (78% access, according to the regulator) and rural areas (46%, according to the UN). For sanitation, access rates are only slightly higher for urban areas (54%) than for rural areas (43%). In urban areas, only 41% have access to water connections in their house or yard, and the rest rely on water kiosks and standpipes. With rapid urbanisation, the share of those with access to household connections has in fact declined.



Concerning sanitation, only 29% of the urban population is connected to sewers, and 30% are served by septic tanks or improved household latrines. While these figures are low, they are higher than the average in sub-Saharan Africa. A recent study by the World Bank estimates that Zambia loses \$181.5 billion annually because of poor sanitation. Lack of access to water and sanitation also has significant negative social impact, particularly on girls and women, who are often required to walk long distances to collect water.


**Access to ICT services** — Zambia is experiencing extraordinary growth in mobile phone usage.  **Mobile subscriptions** increased from 83 per 1000 people in 2005 to 606 in 2012, transforming the way individuals and businesses communicate. Internet usage has also increased, with  **internet users** rising almost fourfold since 2005 to 115 per 1000 people, despite bottlenecks in the ICT infrastructure.



With the landline network limited mainly to urban centres, however, the rise in internet usage depends on internet cafés and telecentres. In addition, since Zambia depends on satellite links or agreements with neighbouring countries to access international telecommunications networks, internet access remains expensive. To benefit from the fibre-optic cables that have been installed along Africa's eastern and southern coasts, Zambia needs improved national and regional fibre-optic cable backbones and greater liberalisation of its telecoms market. Some national broadband networks are now under construction, but these separate ventures will need to be coordinated with each other if they are to provide comprehensive coverage.

Over the last few years, Zambia has made progress in implementing e-government, which it hopes will promote improved interaction with citizens around public goods and services. This in turn will require not only adequate internet connections, but also a cultural shift by Government officials and the public. Zambia is also bringing public sector information systems online in areas such as health and immigration.

## Social inclusion: ensuring equal opportunities for all

Zambia has made marked improvements in social inclusion since 2002. In the past decade, the Government has continued to invest an average of 6% of GDP in health. The  **mortality rate for under-five-year-olds** has improved strikingly, from 127 per 1000 births in 2005 to 88.5 in 2012. Over the same period the  **maternal mortality ratio** also decreased, from 500 per 100 000 live births to 440 in 2012, as a consequence of an increase in skilled birth attendance. Investments in improved health care training and management and greater rural coverage by health facilities are helping improve health outcomes further.

HIV/AIDS has taken a heavy toll in Zambia, exacerbating poverty and reducing skilled labour. While the disease remains a major public health challenge, the situation has started to turn around: the  **prevalence of HIV** has fallen to 12.5% of 15-49 year olds, compared to 13.9% in 2005 (see Figure 1.4). Mortality rates from HIV/AIDS are also declining through improved access to anti-retroviral treatment.

Zambia has also made dramatic progress towards universal education, with the  **primary completion rate** rising from 87% in 2005 to 103%<sup>4</sup> in 2011. Gender parity has been achieved in primary school, and the Government is now actively promoting secondary education for girls by providing boarding facilities, increasing the number of female teachers and training teachers on girls' learning and safety. Raising parents' awareness of the value of education is another key initiative, with adult literacy programmes for parents playing an important role. However, girls drop out from high school at high rates, despite programmes encouraging young mothers to return to school after giving birth. As a result, the  **ratio of girls to boys in primary and secondary school** has increased only slightly, from 91 in 2005 to 92. At the same time, Zambia's public spending on education has fallen by 35%. This is reflected in progressive deterioration in the quality of education and eventually in a lack of the skills that employers look for.

In addition, Zambia's population is overwhelmingly young; 82% of the labour force (roughly 5 million people) is 35 or younger, and 66% (about 3 million) is 24 or younger. Between 2011 and 2040, the youth population of Zambia is projected to increase by 15.5 million, more than the current population of the country. The youth bulge is an opportunity that can drive dynamism and competitiveness. But young people need the right skills to get access to the national and international job market. This situation points toward the need to improve access to good-quality basic education, which will go a long way in not only supporting the country's growth but also improving earnings from work, particularly for the working poor.

4 The ratio exceeds 100% because of over-aged and under-aged children who enter primary school late/early and/or repeat grades.

## Political inclusion: securing broad-based representation

Political inclusion requires robust and accountable institutions that ensure the democratic and broad-based representation of citizens.

Since independence in 1964, Zambia has maintained peace and political stability – a remarkable achievement in a historically troubled region. Zambia's vision for its future is a bold one. At the turn of the millennium, Zambia set itself the goal of becoming a prosperous middle-income country by 2030, while making its growth more inclusive and sustainable, generating opportunities for all Zambians, and creating economic structures that use resources effectively. This goal is reflected in both the Fifth (2007–2010) and Sixth (2011–2015) National Development Plans (see Box 1.2).

While challenges remain in the political landscape, democratic institutions are becoming stronger over time, and there is every reason to expect that Zambia will continue to consolidate its democracy in the coming years. Governance indicators are, indeed, moving in a positive direction.

### Box 1.2 National priorities: becoming a prosperous middle-income nation by 2030

The Sixth National Development Plan (SNDP) 2011–2015, the successor to the Fifth National Development Plan, is aimed at actualising the Vision 2030 aspirations to become "a prosperous middle-income nation by 2030".

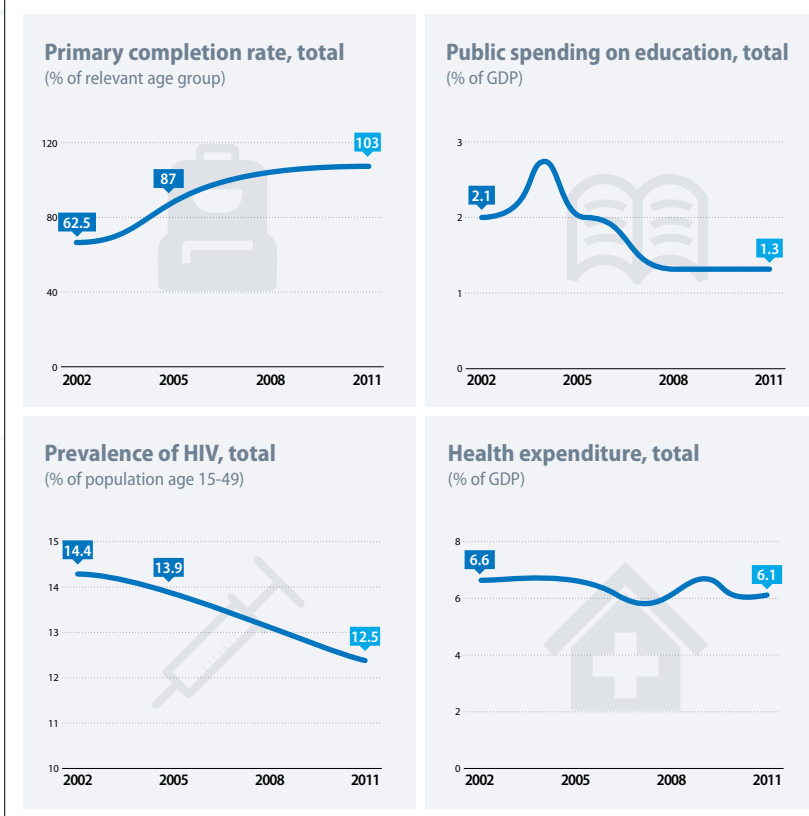
The theme of the SNDP is "Sustained economic growth and poverty reduction". In line with this theme, the SNDP focuses on policies, strategies and programmes that are expected to contribute significantly to addressing the challenges of realising broad-based pro-poor growth, employment creation and human development.

Thus, the strategic focus of the SNDP is "infrastructure and human development". The focus is guided by the principles of accountability, decentralisation and efficient resource allocation.

The **Ibrahim Index of African Governance** increased from 54 in 2005 to 59.6 in 2013, placing Zambia 12<sup>th</sup> out of 52 African countries, above the average for Southern African countries. Zambia's **Country Policy and Institutional Assessment score** increased also from 3.3 to 3.9 over the same period, in response to improvements in budgetary and financial management and in the business regulatory environment. It registered no change in public administration and social inclusion. The **World Governance Indicator** increased from -0.56 in 2005 to -0.3, on a scale of -2.5 to 2.5, reflecting enhanced political stability, reduced violence and improved administrative effectiveness.

The Government is pressing ahead with bold measures to tackle corruption and improve governance and transparency: a Task

Figure 1.4 A decade of progress in education and health

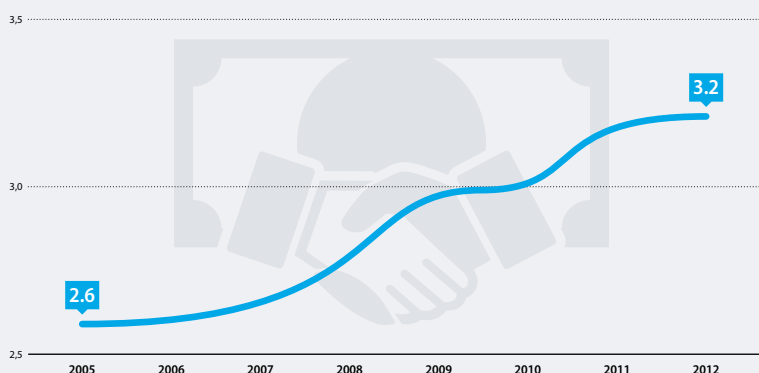


Source: WHO and UNDP 2011

Force on Economic Plunder, a corruption prevention strategy, and continuing investments in strengthening institutions such as the Auditor General and the Anti-Corruption Commission. In 2012, the Government also enacted a new Anti-Corruption Commission Act, reintroducing prosecution for abuse of office, which had been repealed by the former Government in 2010. As a result, Zambia has moved from 2.6 in 2005 to 3.2 in 2012 (3.7 in 2013) on Transparency International's **Corruption Perception Index (CPI)**, on a scale of 1–10 (see Figure 1.5). This progress stands out among African countries, where the average CPI score has remained static at 2.9.

Broadening the tax base and improving tax administration, a high priority for the Government, has also met with some success (see Figure 1.6). More revenue has been collected from mining taxes and the value-added tax. In addition, the Government continues to expand its non-tax revenues, including royalties, concessions, fees and development assistance.

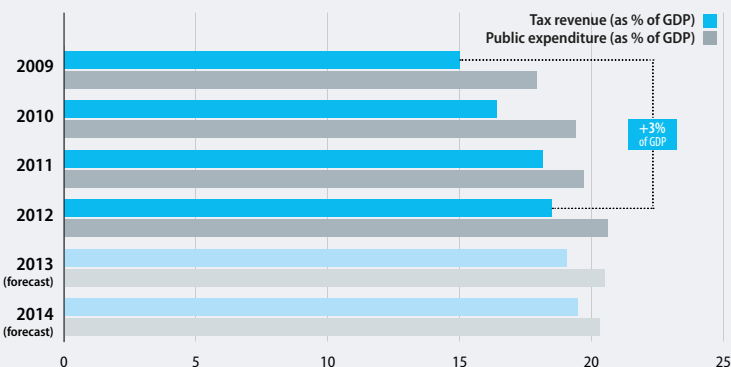
Zambia's prudent macroeconomic policies have allowed pursuing pro-development spending plans. Under the National Strategy for Industrialisation and Job Creation, expansionary fiscal policy will target sectors with the highest potential for employment creation. The aim is to achieve economic transformation towards more inclusive growth.

**Figure 1.5 Improvement in perception of public administration transparency****Corruption Perception Index (CPI)**

Zambian's perceptions of the transparency of the public administration have improved significantly over the past 10 years, suggesting that the fight against corruption is making a real difference. It has been estimated that a country's GDP growth increases by 1.7% for every unit increase in its CPI score.

Source: Transparency International, 2013

The \$750 million in proceeds from the 2012 eurobond (see Box 1.3) will be used to ramp up infrastructure spending on transport and energy, with the aim of focusing on productive investments that offer long-term returns and the potential to create sustainable growth and jobs. Infrastructure investments will also target the agriculture and health sectors. Some of this finance will be used to establish medium- and long-term finance instruments through the banking sector, to support small and medium-sized enterprises (SMEs).

**Figure 1.6 Increasing Government's resources****Tax revenue vs. public expenditure**

Over the last three years, the Government has significantly broadened the tax base and improved tax administration, while keeping public expenditure under tight control.

Source: AfDB estimate, 2013

Since benefitting from debt relief under the Heavily Indebted Poor Countries and Multilateral Debt Relief initiatives in 2006, Zambia has continued to pursue a conservative debt policy. Borrowing has been restricted to mainly concessional loans from multilateral creditors and inexpensive commercial sources. Public sector external debt, which averaged 10.8% of GDP for the last five years, will now increase to 14% as a result of the eurobond issue; however, the risk of debt distress remains low.

**Box 1.3 Zambia: an African economic trendsetter**

In 2012, Zambia achieved a \$750 million return on its debut eurobond issue – considerably more than the \$500 million that had been anticipated – demonstrating investors' confidence in the country's economic policies. The 10-year eurobond with a yield of 5.6% received orders of more than \$11 billion, and market sources described it as a major success.

Zambia plans to use the proceeds from the issue to upgrade its infrastructure, particularly for tackling gaps in transport infrastructure and funding new power generation projects.

Generally, Zambia's macroeconomic management has been sound, with tight monetary policy ensuring single-digit inflation – 7.3% in 2012. This, together with a flexible exchange rate, has helped the country absorb external shocks, while ensuring that the real effective exchange rate remains stable.

**Sustaining high growth: building competitive economies**

While improving the quality of its growth, Zambia needs to sustain high growth to lift more people out of poverty. Achieving this requires a vibrant private sector that is competitive on a regional and global scale.

In the Zambian private sector, large businesses are the key drivers of national economic growth. In the 1990s, the Government undertook rapid privatisation of state-owned enterprises, resulting in an active, formal private sector. However, SMEs find it hard to thrive in Zambia. Many are still poorly served by infrastructure – energy supply, transport, telecommunications and water – and face high costs for insurance, marketing and professional services.

Domestic markets are small, and there are limited opportunities for producing at scale. High production costs therefore limit competitiveness and hold back job creation. Other constraints SMEs face include a lack of access to financial services and essential skills such as financial management, record-keeping and use of technology (see Box 1.4).

To improve the business environment, the Government has been working with the private sector under its Private Sector Development Reform Program, with some promising results. The time required for business start-up has been halved to



17 days, the **cost of business start-up** has decreased by 13%, and the number of licences required to set up and own a business has been reduced. Clearance of goods across borders is now more efficient. These successes have contributed to a significant improvement in Zambia's **Global Competitive Index**, from 3.2 in 2005 to 3.8 on a scale of 1-7. This exceeds the average increase across Africa. Much more remains to be done, however, to improve the investment climate.

#### Box 1.4 Light manufacturing in Zambia: the cotton case

Zambia produces a range of light manufactured goods. In recent years, a vibrant informal trading and manufacturing sector has arisen, together with new formal sector firms. So far, however, only a modest share of Zambia's raw materials is processed domestically, and the processing technology is often outdated. This results in products that are inferior in quality to the imported competition.

Cotton is a good example. Zambia produces good-quality cotton, but because it lacks high technology and skilled labour, it exports three-quarters of its cotton after ginning, mainly to South Africa. This leaves only a quarter for the first intermediate stage of the value chain (spinning). After spinning, the higher-quality yarn is exported, while inferior yarn is woven into cloth in the second intermediate stage. As a result, the fabric that is produced domestically is of poor quality and cannot support a competitive apparel market.

Developing integrated supply chains will be the key issue for Zambian manufacturing in the future. This calls for both technology and skilled labour, and therefore requires foreign investment and targeted support from the Government. By developing its supply chains, Zambia could capture more value from its raw materials and generate more employment and foreign exchange.

At the macro level, Zambia's net inflows of **foreign direct investment**, as a share of GDP, have increased to 10.3% in 2011, with an average over the past decade of 6.4% of GDP. In the past, foreign investments have been destined mainly for the extractive sectors, but they are now increasingly targeting manufacturing and other exports.

Zambia is fostering export-led growth policies through tax incentives, and it has developed multi-facility economic zones, which blend high-quality physical infrastructure with streamlined rules and regulations to attract both domestic and international investors. These measures have significantly strengthened investor confidence in the Zambian economy.

Zambia is a member of two regional trade blocs, the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). It is part of the Tripartite Free Trade Agreement, which is combining three free-trade areas into a single economic space, to create a market of 600 million people. **Zambia's trade with other African countries** has increased from \$2.45 billion in 2005 to \$6.6 billion in 2012 and, within this, its total trade with COMESA countries has increased fourfold.

In recent years, there have been also signs of economic diversification, with good performance in light manufacturing, services and agriculture. As a result, Zambia's nontraditional exports have doubled over the past two years (see Figure 1.7). The Government has been supporting this diversification with a number of export-led growth policies, such as multi-facility economic zones and investment tax incentives.

Thanks to these efforts the **Economic Diversification Index**<sup>5</sup> has improved in the last five years, standing at 0.84, but still below the African average (0.76).

Investment in agricultural processing, services and manufactures will help further diversify the economy. The economic partnership agreements signed with China in late 2012 will allow duty-free access for 95% of Zambian export products. This should help diversify Zambia's trade and provide greater returns to SMEs.

Zambia also faces other obstacles to trade. Its **logistics performance index** has decreased from 2.37 to 2.28 on a 5-point scale. This index covers areas such as customs procedures, the ability to track and trace shipments, timeliness in reaching destination and the competence of the domestic logistics industry.

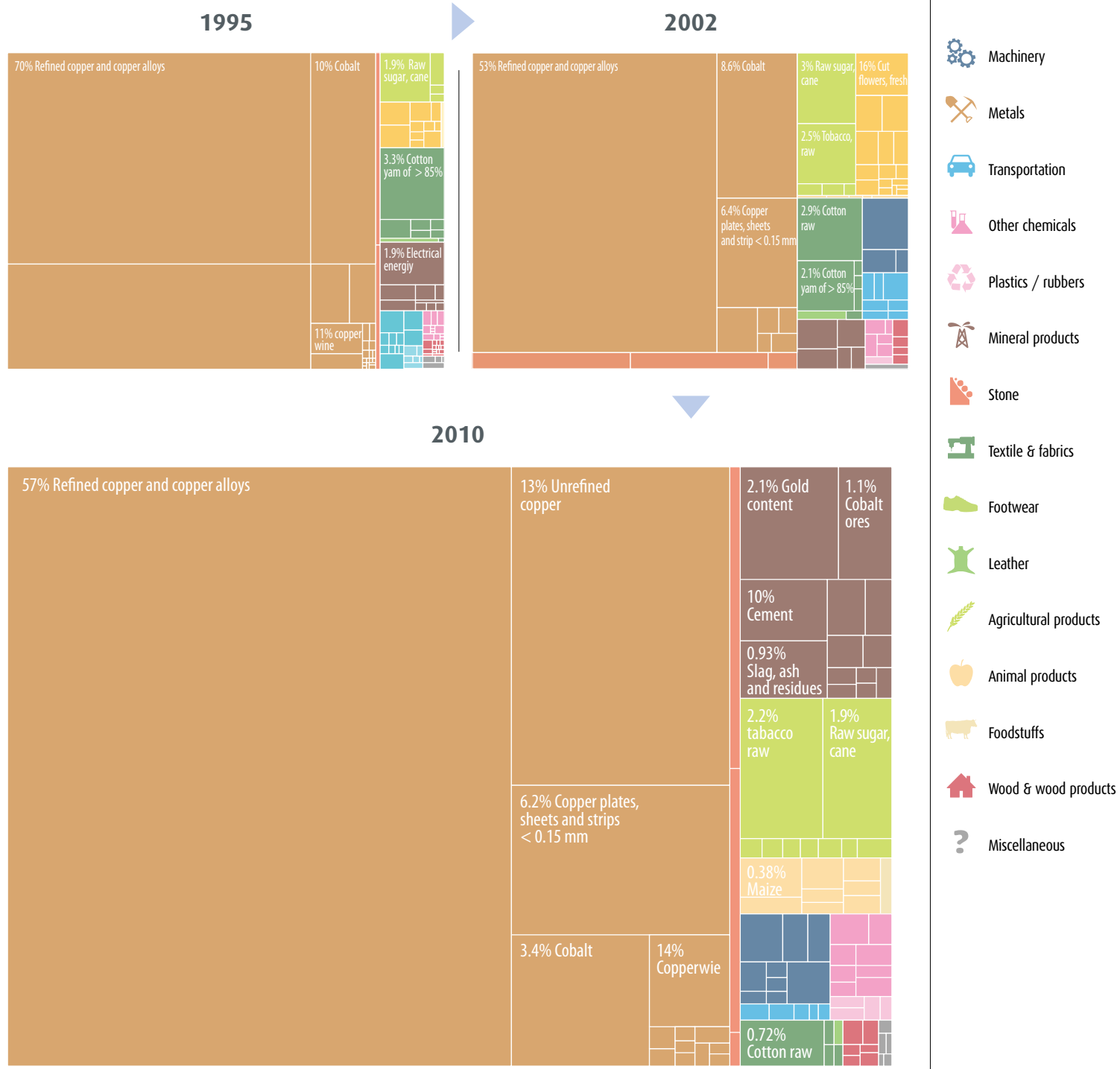
*Investors' confidence in Zambia's economic growth and political stability is evidenced by the success of the 2012 issue of a \$750 million, 10-year eurobond at a relatively low yield of 5.6%*

For a landlocked country, improving trade logistics is critical to improving trade and reducing the cost of imports and exports. Among landlocked countries, studies indicate that transport prices amount to 15-20% of the cost of imports, which is 3-4 times the level for developed countries.

<sup>5</sup> The Economic Diversification Index, which signals ranges from 0 to 1, reveals the extent of the differences between the structure of trade of Zambia and the world average. A value close to 1 indicates a bigger difference from the world average, and thus very low diversification, while a value close to 0 indicate a highly diversified economy.

Figure 1.7 Need to accelerate Zambia's export diversity

This figure maps Zambia's export diversification over the past 15 years. Each box represents a product, and the size of the box indicates the product's share of Zambia's exports. In 1995, Zambia's exports consisted mostly of refined copper and copper alloys (70%). Although Zambia's economy has shown some sign of diversification since then, by 2010 refined and unrefined copper, other copper-related products (copper plates, sheets and strips) and cobalt still represented around 80% of exports. Zambia therefore needs to press ahead with structural change in its economy, through greater diversification towards labour-intensive sectors such as manufacturing and commercial agriculture.



Source: Government of Zambia, 2012

## Conclusions and outlook

Zambia has made striking progress in achieving high growth over the last decade, with sound economic management and strategic investments in infrastructure enabling it to realise the benefits of the global copper boom. Its prospects for continued growth remain strong, with some positive signs of a more diverse economy.

Zambia is now in a position to translate this strong growth performance into sustained poverty reduction. With six in every ten Zambians living on less than \$1.25 a day, there is an urgent need to address the factors that are preventing a more equitable distribution of the benefits of growth. In particular, there is a need to create opportunities through job creation and income-generating activities in the private sector.

The Government that took office in 2011 has retained the broad development policy framework laid out by its predecessor – that is the National Vision 2030 and the Sixth National Development Plan 2011–2015. It has also presented its own strategy, which still prioritises rapid economic growth, but emphasises the equitable distribution of growth, mainly by creating jobs for women and young people and by providing income, education, and training and improved services to all. These goals are outlined in both the ruling party's Manifesto and the 2013 Budget, which was presented to Parliament under the theme "delivering inclusive development and social justice" (see Box 1.5).

### Box 1.5 Delivering inclusive development and social justice

The main goal set out in Zambia's Vision 2030 is to become a prosperous middle-income country by 2030.

The 2013 Budget builds on the National Vision and introduces new government priorities, with a view to putting the economy on a path to sustainable and inclusive growth through job creation and enhanced basic services.

The 2013 budget main objectives are:









- ▶ Achieving real GDP growth of above 7%.
- ▶ Ensuring inflation of no more than 6%.
- ▶ Achieving domestic revenue of at least 20% of GDP.
- ▶ Limiting the overall fiscal deficit to 4.3% of GDP, of which 1.5% will be domestic borrowing and 1.2% will be grants from development partners.
- ▶ Maintaining at least four months of import covered by gross international reserves (more than \$2 billion).
- ▶ Creating at least 200 000 decent jobs.

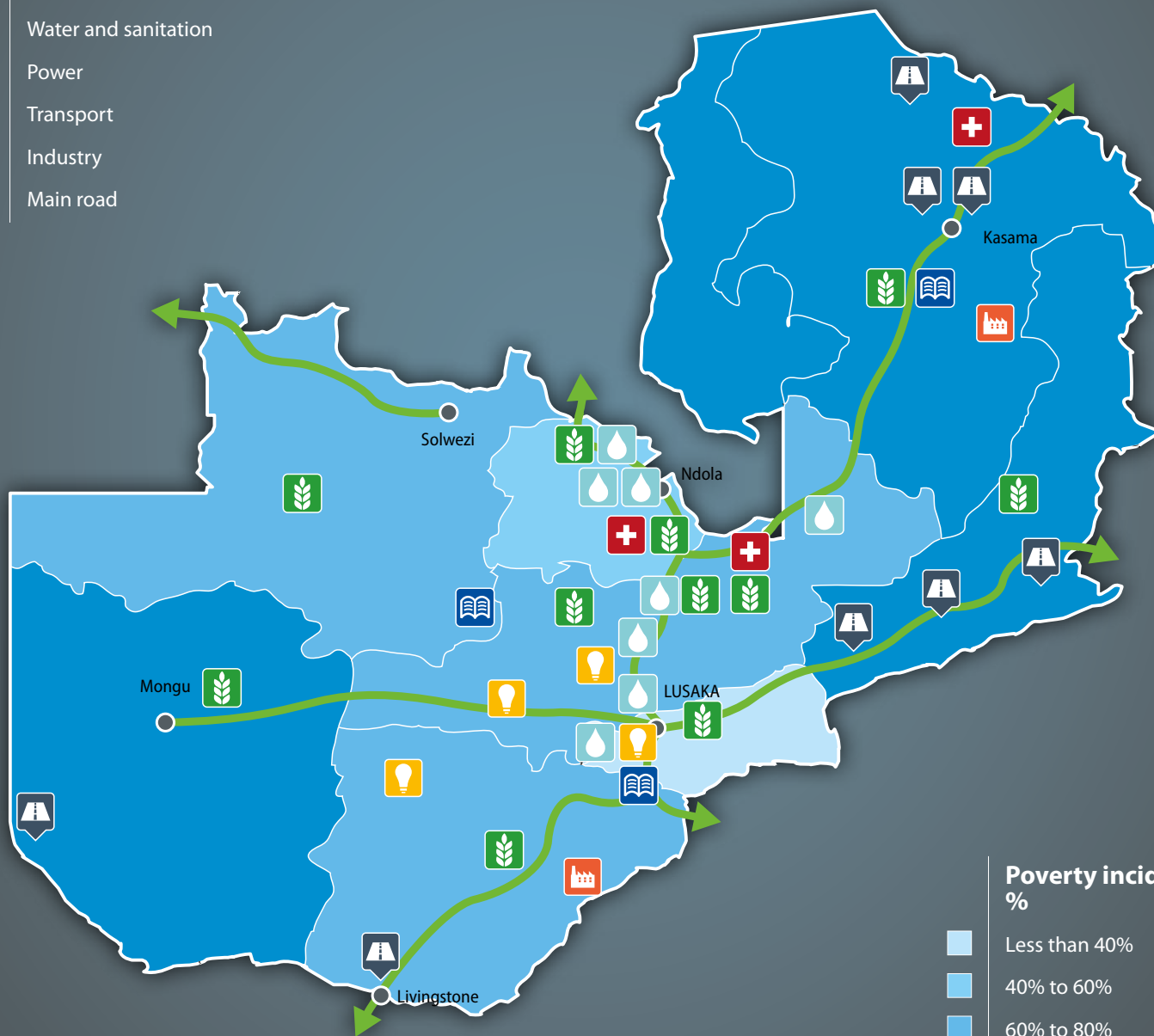
In the next chapter, we look at what the Bank is doing to help Zambia meet its goals ■







# Bank operations approved between 2000 and 2012 in Zambia

## AfDB projects in Zambia<sup>1</sup>

-  Health
-  Education
-  Agriculture and rural development
-  Water and sanitation
-  Power
-  Transport
-  Industry
-  Main road



## Poverty incidence %

-  Less than 40%
-  40% to 60%
-  60% to 80%
-  More than 80%

<sup>1</sup> The map doesn't show those projects that cannot be pinned to a geographic location, such as general budget support, institutional capacity building and technical assistance.

# Level 2: How AfDB contributes to Zambia's development

**L**evel 2 of our Results Measurement Framework measures the Bank's contribution to advancing Zambia's development in key areas that contribute to more inclusive and sustainable growth. The African Development Bank is one of the largest providers of development finance to Zambia, with current total commitments of more than \$415 million.

In accordance with the Government's priorities and the two latest Country Strategy Papers (2007–2010 and 2011–2015), the largest share of investment goes towards strengthening national and regional-level infrastructure, mainly transport and energy, to improve access to services and regional integration. But we also support a range of other sectors, including private sector development, governance and accountability, and skills and technology – the areas where the Bank has the greatest comparative advantage and a proven track record.

It is very difficult to attribute overall development results to the work of a single institution: development is the combination of countless decisions made by governments, firms and households. To assess the Bank's contribution, results are built up from the project level. The 28 indicators in Level 2 capture aggregate outputs from Bank projects for which we have Project Completion Reports or interim progress reports. Together, they provide a picture of our progress against the Country Strategy for Zambia and of our contribution to Zambia's National Vision 2030.

## Aligning with national priorities

We have been a partner in Zambia's development for more than three decades, with a permanent presence in the country since 2006. We offer financing,<sup>1</sup> policy advice and technical support to help the country achieve its national development goals.

The joint 2011–2015 Country Strategy Paper (CSP) and its predecessor set out the priorities that have been agreed with the Government for the Bank's support to Zambia. It is aligned with Zambia's National Vision 2030, which provides the overall framework for Zambia's development and for its Fifth and Sixth National Development Plans (see Box 1.2), which set out medium-term priorities. In 2012, we carried out a CSP mid-term review and a country portfolio review, which provided an opportunity to achieve even closer alignment with the Government's priorities (see Box 2.1).

In line with national priorities, the largest share of our support to Zambia has gone towards strengthening infrastructure for transport and energy. In particular, we have promoted regional integration through the development of transport corridors, such

as the Nacala Road Corridor, which includes cross-border trade facilitation measures. These investments are designed to promote the structural transformation of the economy, a goal that is at the heart of the Bank's Strategy 2013–2023 for Africa as a whole, and that the Government of Zambia recognises as essential to achieving inclusive and sustainable growth.

### Box 2.1 Working together for the Zambian people

The Zambia 2011–2015 Country Strategy Paper (CSP) is built around two pillars: support to economic diversification through infrastructure development, and support to economic and financial governance.

A Mid-Term Review of the CSP, conducted jointly with the Country Portfolio Performance Review, has ensured the alignment of the priority areas of the Bank's strategy with both the priorities of the new Government and the Bank's new Strategy 2013–2015.





























For the rest of the CSP period, 2013–2015, the Bank will continue to focus on the two pillars, with an enhanced focus on Zambia's transformation toward inclusive and sustainable development.

<sup>1</sup> Over the last three years, we committed \$162 million to Zambia. This was a slight decrease from the previous commitment of \$182 million, reflecting the strong performance of the Zambian economy. The lower ADF allocation has, however, been supplemented by funds from other AfDB resources.

**Table 2 How AfDB contributes to Zambia's development (Level 2)**

The table below presents the contribution<sup>a</sup> the Bank is making through its operations in Zambia. The Bank's performance is measured by comparing expected and actual achievements for all ongoing operations and those completed between 2008 and 2012.

-  Bank operations achieved 95% or more of their targets;  
 Bank operations achieved 60–94% of their targets;  
 Bank operations achieved less than 60% of their targets;  
 Data are not available to measure performance.

INDICATOR	2008–2012		
	Expected	Delivered	Percentage delivered
<b>PRIVATE SECTOR DEVELOPMENT</b>			
 Private sector – Government revenue from investee projects and sub-projects (million \$)	47	47	100%
 Private sector – Foreign exchange saved (million \$)	50	50	100%
 Private sector – Jobs created (number)	2510	2510	100%
of which for women (%)	40	40	100%
 Agriculture – Land with improved water management developed or rehabilitated (ha)	695	695	100%
 Agriculture – Land whose use has been improved: replanted, reforested, landscaped, etc. (ha)	5400	5400	100%
 Agriculture – Rural population using improved technology (number)	34 300	34 500	100%
 Agriculture – People benefiting from improvements in agriculture (number)	680 700	680 800	100%
<b>REGIONAL INTEGRATION</b>			
 Cross-border roads constructed or rehabilitated (km)	115	115	100%
 Border transit time (hours)	60	6 <sup>b</sup>	..
<b>INFRASTRUCTURE DEVELOPMENT</b>			
 Transport – Roads constructed, rehabilitated or maintained (km)	430	430	100%
 Transport – Staff trained/recruited for road maintenance (number)	5040	5040	100%
 Transport – People with improved access to transport (number)	433 300	433 300	100%
 Energy – Power capacity installed (MW)	40	200 <sup>c</sup>	..
 Energy – People with new or improved electricity connections (number)	176 000	880 000 <sup>c</sup>	..
 Water – Boreholes and wells drilled/rehabilitated and equipped (number)	5700	5800	100%
 Water – Drinking water transmission and distribution pipes constructed (km)	530	440	80%
 Water – Drinking water capacity created (m <sup>3</sup> /day)	64 000	53 300	84%
 Water – Workers trained in maintenance of water facilities (number)	7380	7380	100%
 Water – People with new or improved access to water and sanitation (number)	1 876 372	1 527 163	81%
<b>SKILLS AND TECHNOLOGY</b>			
 Education – Classrooms and educational support facilities constructed/rehabilitated (number)	320	365	120%
 Education – Textbooks and teaching materials supplied (number)	63 600	63 600	100%
 Education – Teachers and other educational staff recruited/trained (number)	10 520	10 550	100%
 Education – New students (number)	66 600	66 500	100%
 Health – Primary, secondary and tertiary health centers constructed/equipped (number)	60	68	110%
 Health – Workers trained (number)	1250	1250	100%
 Health – People with access to better health services (number)	80 060	80 060	100%
<b>GOVERNANCE AND ACCOUNTABILITY</b>			
 Quality of budgetary and financial management rating (1=low to 6=high)	3.0 <sup>c</sup>	3.48	..
 Business regulatory environment rating (1=low to 6=high)	3.0 <sup>c</sup>	3.53	..

.. = data not available; ha = hectares; km = kilometres; MW = megawatts; m<sup>3</sup> = cubic metres; NGO = non-governmental organisation; SME = small and medium-sized enterprise.

<sup>a</sup> For ongoing operations we used prorated data to estimate the results achieved.

<sup>b</sup> Result expected by 2015.

<sup>c</sup> Baseline before the Bank's intervention in 2000.

**NB:** UA figures from material converted at 1 UA = \$1.53

**Source:** African Development Bank.



Other operations have helped improve the business environment, support agriculture and rural development, foster better governance and increase access to health, education, water and sanitation services. We have helped the Government introduce some important innovations. In rural water and sanitation, we have introduced best practice in involving communities in planning and implementing projects and ensuring that village committees take responsibility for ensuring sustainable services. Our support for public financial management reform has helped promote greater transparency and accountability in the use of public resources.

## Private sector development

To enable more of the population to lift themselves out of poverty, Zambia needs to create jobs and income-generating opportunities in the private sector. More of its workforce needs to move from low-productivity subsistence agriculture to areas that generate greater value.

Private sector development is at the core of the Bank's mandate. We are helping develop the "soft" or institutional infrastructure for private sector development, including the regulatory environment and the capacity of government institutions. This is as important as physical infrastructure in ensuring a vibrant ecosystem of private enterprises and financial intermediaries, linked together in efficient value chains.

To this end, our budget support interventions to Zambia have included building public sector capacity, reducing transaction costs for businesses and easing the burden of regulation. Improving the regulatory environment reduces production costs, helping existing and new producers flourish and grow, and generating jobs and incomes. We have also deepened access to capital and financial markets through lines of credit and credit guarantees (see Box 2.2), and we have facilitated longer-term credit for both large and smaller businesses.

Overall, our investment projects over the past four years led to ● **foreign exchange**<sup>2</sup> savings of \$50 million and additional ● **government revenues** of \$47 million. They created 2510 ● **total jobs**, of which two-fifths were ● **jobs for women**.

Formal job creation in the private sector continues to be one of the greatest challenges facing Zambia. It is of vital importance, particularly for the growing numbers of young Zambians who are unemployed or underemployed in low-paying jobs in the informal sector.

Agriculture, which supports the livelihoods of and provides employment for over 60% of Zambians, is a proven driver of inclusive growth and poverty reduction. In Zambia farming accounts for about 81% of the working poor (see Figure 2.1).

To escape poverty they must derive greater earnings from their work. Research shows that improving agricultural productivity plays a big role in increasing labour earnings and reducing poverty.

### Box 2.2 Enhancing SMEs' competitiveness and promoting women's empowerment

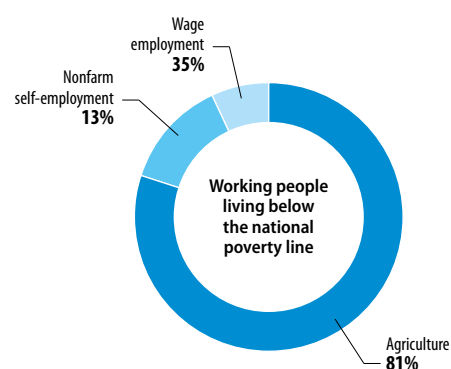
AfDB helps small and medium-sized enterprises gain access to finance by providing lines of credit and a partial credit guarantee facility. We also provide technical assistance to build capacity in Zambian financial institutions, business development service providers and SME associations.

To promote lending to women entrepreneurs, a tool called the Female and Male Operated Small Enterprise (FAMOS) was developed to help financial institutions balance their support for women and men. This tool is now incorporated into the Zambia Development Agency's website, so that SMEs can do their own assessment before asking the Bank for financial assistance.

AfDB also supported the development of a new system for assessing SME credit applications, and provided management and financial training for 30 business development service providers and training for 74 SMEs. We also trained 12 business associations, creating a forum between bankers and SMEs to provide greater mutual understanding of customer needs and bank procedures.

Our agriculture operations aim to increase productivity, enhance incomes and improve food security, while improving the management of natural resources. We work within the framework of the National Agriculture Policy 2004–2015, which sees agriculture as a key driver of inclusive growth. To improve agricultural productivity we recruited and trained over 34 500 of the ● **rural population to use improved technology** through our support for Government extension programmes. To promote agricultural trade, we built or rehabilitated over 500 rural marketing and production facilities.

Figure 2.1 Distribution of working poor by employment category



Source: AfDB's estimate based on the Living Conditions Monitoring Survey V (Government of Zambia)

2 A green bullet indicate that Bank operations achieved 95% or more of their targets.

Our experience is that projects that take an integrated approach to rural development offer the best value for money. For example, our Small Scale Irrigation Project combines the construction of irrigation facilities in drought-prone areas with measures to link farmers to agriculture companies, enabling them to grow higher-value crops. The project thereby generates a range of benefits. It has increased food security for 1600 households, while helping feed Zambia's growing urban population and generating valuable export trade. Our investments in rural roads have also played a central role in opening opportunities for agricultural trade.

*When completed, the Kazungula Project will reduce transit time across the border from 60 to 6 hours and double the number of vehicles travelling between Zambia and Botswana.*

The Bank has also supported the Government in strengthening the sustainable management of renewable natural resources, both to enhance livelihoods and for environmental protection. Our investments produced nearly 700 hectares of **land with improved water management developed or rehabilitated** and over 5400 hectares of **land whose use has improved through replanting, reforestation or landscaping**.

For example, the Lake Tanganyika Integrated Project helped to improve management practices around the lake basin for farming and fishing, and to develop tree nurseries for the reforestation of degraded lands. The four countries bordering the lake harmonised their systems for managing and monitoring fisheries and forestry resources. Zambia's Village Community Development Committees provided local governance structures for training and communications related to this and other development activities.

Overall, our support to agriculture and food security has reached 1700 rural households and benefitted around 680 800 of the **total population**, in line with our targets.

We also work closely with the Government to enhance agricultural productivity through innovation and applied research. In collaboration with the International Institute for Tropical Agriculture (IITA), we fund the global agricultural research partnership, CGIAR, and its initiative "Support to Agricultural Research for the Development of Strategic Crops in Africa". The research results will help promote increased productivity, food security and nutrition. The IITA is building a cassava processing and trading centre in Zambia to promote trade in higher-value cassava products.

## Regional integration

AfDB has always been a strong advocate for regional economic integration across Africa. Our goal is to promote the free movement of goods, services, capital and people by reducing barriers between countries and harmonising economic and financial policies.

We are helping Zambia and its neighbours invest in transport corridors that combine major infrastructure investments with trade facilitation and other "soft" infrastructure, along with initiatives that promote socioeconomic development in adjacent areas. As part of this process, we supported the development of one-stop border posts that provide streamlined delivery of services, reducing the time and cost of shipping goods across national borders. The one-stop border post at Chirundu on the Zambia-Zimbabwe border has become a model for other border posts.

Another of our flagship regional operations is the Nacala Road Corridor Project (see Figure 2.2). This project included the development of the Great East Road in Zambia and two one-stop border posts, providing improved road access to the Nacala Port while helping local communities gain better access to markets and services. Overall, during this period, we have delivered on our target to construct or rehabilitate more than 100 km of **cross-border roads**.

The North-South Corridor is the transport backbone for the Southern African Development Community. Within that corridor, we have begun work on the Kazungula Bridge Project on the Zambia-Botswana border. The project includes the bridge, road and railway connections and a one-stop border post (see Box 2.3).

### Box 2.3 Kazungula Bridge: bridging the regional divide

The Kazungula Bridge is a road and rail bridge crossing over the Zambezi River on the Zambia-Botswana border. It is a component of the North-South Corridor – a key trade route linking the port of Durban in South Africa to the inland countries of Botswana, Zambia, Zimbabwe, Malawi, and Democratic Republic of Congo and to Dar-es-Salaam in Tanzania.

For years, ferries were used to cross the Zambezi River, often causing delays of more than 8 days. AfDB has played a crucial role in making this key bridge construction a reality, financing feasibility and design work, supporting institutional capacity in project management, co-financing the construction work, and mobilising additional resources for the trade facilitation component.

The project is expected to reduce border transit time from as much as 60 hours in 2009 to 6 hours by 2018. Traffic throughput will increase from 116 trucks a day in 2009 to 225 by 2020. The project also provides an interesting example of how two landlocked countries can interconnect for the benefit of a wider region in the hinterland.

Going forward, we are preparing a joint project with the Zambian and Tanzanian Governments to rehabilitate and modernise Mpulungu Port as part of the Lake Tanganyika Transport Corridor. The Bank is also providing technical assistance (\$8.6 million) to the COMESA Airspace Integration Project, which is introducing satellite-based navigation technology to improve air safety in the region. This critical investment will be managed from a single control centre based

in Lusaka, creating a cost-effective solution for the region. A legal, regulatory and institutional framework for its financing and operation will be developed, and the project will attract private investment alongside the contributions from member states.

The Bank is exploring with the Government the possibility of developing the railway link in the North-Western Corridor. This would open up more trade with Angola and would connect Zambia to the port of Lobito on the Atlantic coast, facilitating the transport of bulk cargo such as copper to international markets. With Zambia's increasing investment in copper and scope for trade in oil and other products with Angola, it would be a key infrastructural investment for growth and development.

Zambian trade will also benefit considerably from the first Risk Participation Agreement between AfDB and the Standard Chartered Bank, to support trade finance. At present, because of the small capital base of most African banks, firms across Africa have limited access to trade finance. AfDB is providing \$200 million, with matching contributions from Standard Chartered Bank. This strategic investment will support more than \$10 billion in trade over the next four years.

Furthermore, in support of regional integration, the Bank is helping develop a new Regional Community of Practice on Results for COMESA, of which Zambia is one of the most active members (see Box 2.4).

#### Box 2.4 Strengthening results-based management in Zambia

A new Regional Community of Practice on Results developed by the Bank will focus on facilitating trade, improving the business environment and creating a stronger results orientation.

Zambia and other COMESA countries will each establish a national Community of Practice, with workshops at the highest levels of government, designed to instil a results culture and provide clear leadership for regional integration.

The Community of Practice will help Zambia monitor its progress towards regional integration and build the capacity needed for improved results. Non-state actors will be empowered to hold decision-makers to account for achieving results.

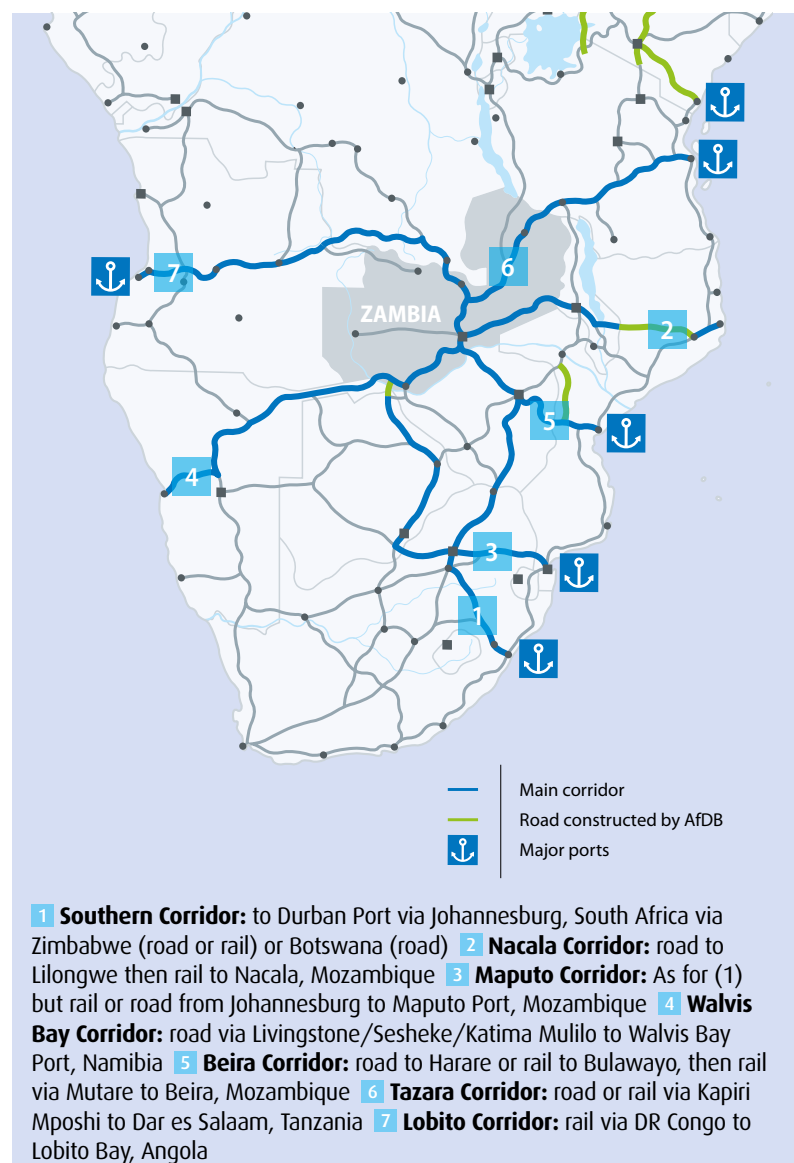
### Infrastructure development

A key pillar of the Zambia country strategy is infrastructure development. Its goal is to promote the private sector activity and economic diversification needed to help Zambians lift themselves out of poverty.

Our support is channelled towards national and regional public infrastructure, including through the use of public-private partnerships (PPPs). To generate greater development impact, we are developing more integrated and multi-sector operations – such as integrated energy development to support agro-processing, rural development, manufacturing, trade and environmental sustainability.

### Figure 2.2 Infrastructure and regional integration

We have tailored our support for regional integration to the needs of Zambia. The core of our strategy is investment in regional transport infrastructure, to boost regional trade. We are helping Zambia and its neighbours develop transport corridors. These combine major infrastructure investments with trade facilitation and other "soft" infrastructure, together with initiatives that promote socio-economic development in adjacent areas.



Source: Government of Zambia, 2012

**Access to transport** — We complement our regional integration programmes with national operations aimed at improving Zambia's national road network. Our operations in the national transport sector aim to provide the internal connectivity that businesses and households need to trade and to access services. Since beginning operations in Zambia, the Bank has supported transport interventions valued at around \$910 million. This included major investments in the rehabilitation of the national railway network and the 187 km



Lusaka-Chipata Road, together with institutional strengthening in the sector and a range of studies.

Over 2008–2012, we helped construct, rehabilitate or maintain 430 km of **main and feeder roads**. We are close to completing the rehabilitation of the 115 km road from Nyimba to Sinda, which is part of the Nacala transport corridor from Zambia to Mozambique via Malawi.

Alongside physical infrastructure, we have helped build the capacity of the Government's road maintenance authority. We have trained or recruited over 5000 **road maintenance staff**. With all our operations on transport infrastructure, we have succeeded in providing more than 433 300 **people with improved access to transport**.

*"Job creation and employment are dependent on a vibrant private sector. If we are to increase business opportunities, we need to work together with governments to find ways in which SMEs get greater access to capital and long-term credit, while removing barriers such as overregulation and controls in the market."*

*Dr. Geoffrey Sakulanda, president of the Zambia Association of Chambers of Commerce, 2012*

In the coming years, we will undertake a sectorwide transport master plan study, building on previous initiatives undertaken by other Cooperating Partners in the sector. We will focus on the construction of new roads and the rehabilitation of existing roads, bridges and ports along the North-South Corridor, as well as improvements to border crossings to allow for the establishment of one-stop border posts. We will also help develop viable PPPs in the road and railway sub-sectors.

**Access to power and clean energy** — AfDB has worked closely with the Government to promote investment in power infrastructure. Our interventions focus on power generation and improving transmission networks to meet both domestic and regional demand, with additional emphasis on clean energy technologies. Over the last few years, the Bank has installed 200 MW of **power capacity**, far exceeding our target.<sup>3</sup> To address the power shortages and unpredictability that are hampering industrial growth, we will help the Government attract private investment into mini-hydropower stations through PPPs.

To address the deficit in generation capacity in Zambia, in 2012 the Bank approved the Itzhi-Tezhi Hydropower and Transmission Line Project to develop, construct and operate

a 120 MW hydropower plant on the Kafue River. The 330 KV transmission line will bring power to new substations at Mumbwa and Lusaka West. The project combines \$50 million from the ADF with funding from the Bank's private sector window, as part of a PPP. It will ensure a cheaper and more reliable power supply for households and businesses. Besides serving the domestic market, it will produce surplus power for export and help the sub-region with its transition to a low-carbon growth pathway.

The Bank is also supporting the Maamba Coal-fired Power Plant Project, which will add 300 MW of generation capacity using low-grade coal from the adjacent mine. At present, this coal is being left to self-combust, adversely affecting the local environment. The energy produced by the plant will be sold to Zambia's national utility company, ZESCO, under a 20-year agreement. It will help ensure that Africa's largest copper producer is able to operate to its full potential.

Besides investing in major power projects, the Government and AfDB are working together on the development of other clean energy technologies. We have helped the Government mainstream clean energy into its national development plans and have developed a methodology for Zambia and other African countries to secure funding from the Clean Development Mechanism.

Many of our projects across the continent are designed to strengthen environmental management and sustainable resource use. Regional power projects, such as the Itzhi-Tezhi Hydropower and Transmission Line Project, will help boost the return on investments in renewable energy. With only a fifth of Zambians currently enjoying access to electricity, developing regional grids can help more people access reliable, low-cost green energy.

With an economy that is dependent on climate-sensitive sectors such as agriculture and natural resources, Zambia is highly vulnerable to climate change. Zambia's rural communities are still largely dependent on subsistence farming and are highly vulnerable to climatic shocks such as droughts and flooding. The continuing rise in global temperatures is expected to have a serious impact on crop yields. The Bank is committed to helping Zambia access international climate change finance with which it can invest in adaptation.

The Bank is implementing a series of pilots in clean technology, sustainable forest management, renewable energy and climate resilience. In one initiative, we are helping the Government develop a strategy on climate resilience, which will set out a policy response to the many challenges facing vulnerable communities, particularly those around major river basins. One

<sup>3</sup> These results are driven by a large-scale project – the Falls-Katima Transmission Project. The initial design comprised the installation of a 132kV/40MW single-circuit overhead line from Victoria Falls to Katima Mulilo via Sesheke. In response to an increase in energy demand, the design was modified in 2004 to a 220kV/200MW configuration, expected to benefit almost one million people.

component focuses on building climate-resilient infrastructure in the Kafue River Basin. The process will lead to new design standards and codes of practice for infrastructure investments.

We worked with the Organisation for Economic Co-operation and Development (OECD) to organise a workshop on "Green Growth in Africa: Concepts, Tools and Strategies for Building Greener Economies and a Sustainable Future". Hosted by the Zambian Ministry of Lands in Lusaka, the workshop attracted over 100 participants from 18 African countries and development partners. The discussions illustrated that promoting green growth is both a necessity and an opportunity for advancing Zambia's development in a sustainable and equitable manner.

**Access to water and sanitation** — AfDB has helped fund Government investments in water and sanitation across the country to improve health outcomes and promote socioeconomic development. Improving water and sanitation reduces water-borne and hygiene-related diseases, particularly when the provision of new facilities is combined with public health education. Improved access to water can have a transformative effect on the lives of rural women and children, who often spend many hours each day collecting water.

We have enhanced our efforts to ensure the sustainability of these investments. For example, we have assessed their impact on water resources and analysed the potential impact of climate change, designing them so as to make them climate-proof. We have also ensured that, in rural communities, village committees are formed to manage the facilities and promote good public health practices.

Over the last few years, 5800 ● **boreholes and wells were drilled or rehabilitated and equipped**. We have trained maintenance staff at the local level and helped ensure the availability of spare parts. We constructed 440 km of ● **drinking water transmission and distribution pipes** and trained 7380 ● **workers in the maintenance of water facilities**. In addition, we created 53 300 m<sup>3</sup>/day of ● **drinking water capacity** in service reservoirs, to improve water security for both household use and economic activities. Through four large-scale water and sanitation projects totalling \$120 million, we provided 1.47 million ● **people with new or improved access to water and sanitation**.<sup>4</sup>

One of our projects helped establish the Lukanga Water and Sewerage Company to manage water and sanitation services in eight towns in Central Province. As a result, the reliability and quality of services has improved, and the incidence of disease has fallen by nearly 50%. Of the people living in the project area, 80% now enjoy access to clean water and improved sanitation.

On the institutional side, we helped prepare guidelines for constructing multipurpose small dams to ensure sustainable results. We are helping Zambia develop a national water resources master plan and meet international standards for the sustainable management of large dams. In the future, we see great potential for helping develop water resources and promoting the development of Zambia's semi-arid areas.

## Skills and technology

We have been a strong supporter of the Government's efforts to achieve education for all. With the success of Zambia's school enrolment drive came the need for more classrooms, teachers and teaching materials. We have therefore constructed or rehabilitated 365 ● **classrooms and educational support facilities**, in partnership with the government. We supplied 63 600 ● **textbooks and teaching materials** and recruited or trained nearly 11 000 ● **teachers and other educational staff**. As a result of our investments, there were nearly 70 000 ● **students newly enrolled**.

In 2012, the Bank hosted a seminar in Lusaka for Southern African countries on how to counter youth unemployment. The seminar assessed the mix of interventions needed to stimulate a dynamic private sector capable of creating jobs. It also looked at measures to prepare and equip young people for work through better education and vocational training.

*AfDB is working with the Government to implement a nationwide programme to scale up the development of the livestock sub-sector and enhance its contribution to the national economy. Our new livestock infrastructure support project will benefit around 800 000 people, including 400 000 women.*

Recently we have undertaken a study on youth unemployment, skills development and entrepreneurship. This will generate recommendations on how to develop the potential of young people and create jobs for them, to inform the Government's job creation plans.

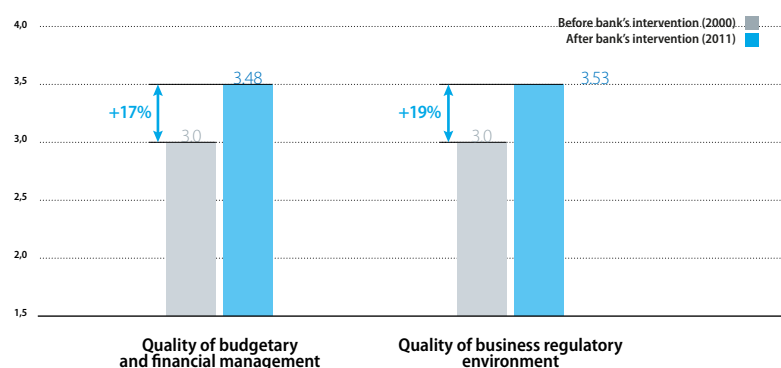
The Bank is also working with the Government to prepare a Higher Education Science and Technology Skills Development Project that will help build the human capital needed for growth and development. In partnership with industry, the project will help the Government review the curricula for higher education, technical education, and vocational and entrepreneurship training, in light of labour market requirements, emphasising science, technology and entrepreneurship.

4 A yellow bullet indicate that Bank operations achieved 60–94% of their targets

There have been some significant improvements in health outcomes, creating a solid foundation for better education. However, the continuing high incidence of preventable diseases suggests that more needs to be done. Zambia faces a shortage of health care professionals, and has limited training capacity; and the coverage of rural areas with basic health services is inadequate, particularly as a result of the limited rural road network.

We have invested \$12 million in the health sector to support government priorities. We have constructed or equipped 68 **primary, secondary and tertiary health centres**, which was well ahead of our target. We also trained 1250 **health workers**. Overall, we have provided over 80 000 **people with access to better health services**, including anti-retroviral treatment for HIV/AIDS.

**Figure 2.3 Improving Zambia's financial management and business environment**



**Poverty Reduction Budget Support Project** – Over the last decade we have supported the Government's agenda by contributing to the development and implementation of serious financial management reforms and by promoting the creation of an enabling business environment for the Zambian private sector to take the lead as an engine of inclusive growth.

Source: CPIA index 2013, World Bank

### Governance and accountability

AfDB is strongly committed to working with the Government to strengthen its institutions and promote more transparent and accountable governance. During the last 10 years, our budget support operations and accompanying policy dialogue have supported the development of public-sector capacity.

Since 2000 we have particularly targeted budgetary and financial management. This includes helping the Government to align its medium-term expenditure frameworks with its policy priorities and to strengthen budget execution. A new financial information system is being implemented to improve public

financial management. It enables public resources to be used more efficiently, while reducing opportunities for corruption. Through these and other initiatives, the **CPIA quality of budgetary and financial management** rating rose from 3.0 in 2000 to 3.5 in 2011, on a scale of 0-6.

We have also focused on improving the business environment. Reducing the regulatory burden on business helps lower the costs of goods and services, enabling producers to become more competitive and thereby create more jobs. We have helped the Government simplify procedures at the borders. The time and cost involved in starting a business have declined considerably. Together, these measures have led to an increase in the **CPIA business regulatory environment** rating, from 3.0 in 2000 to 3.5 in 2011 (see Figure 2.3).

Our governance trust funds have supported the Extractive Industries Transparency Initiative (EITI) in Zambia. EITI strengthens transparency along the entire value chain for mining, from legal and institutional reform to social and environmental safeguards, community rights, mine closures and site reclamation. In 2012, the EITI Board declared Zambia "compliant" with global standards for transparency of revenues from its extractive sector; EITI compliance means that the country has an effective process for disclosure and reconciliation of all revenues from its extractive sector, allowing citizens to see how much their country receives from oil, gas and mining companies. This made Zambia the 15<sup>th</sup> EITI-compliant country worldwide and the first in the south-western Africa region – an outstanding achievement.

### Box 2.5 Lessons learned and recommendations

The recent review of the Bank's partnership with the Government highlights the necessity for the Bank to further support Zambia, particularly by:

- ▶ **Enhancing efforts to improve basic public services**, protect livelihoods and enhance social inclusiveness.
- ▶ **Fostering economic diversification** through catalytic projects for private sector development, focusing on agriculture, particularly livestock infrastructure, natural resources management and climate change initiatives.
- ▶ **Improving access to finance for SMEs**, encouraging private participation in the economy through PPPs, and enhancing skills to supply the job market.
- ▶ **Ensuring better synchronisation** between AfDB's operations and the objectives of the Country Strategy Paper.
- ▶ **Improving knowledge of the country** by conducting economic and sector studies in areas where the Bank has a comparative advantage.

## Conclusions

Over the last few years, AfDB has made a substantial contribution to Zambia's development. Our interventions have helped unlock infrastructure constraints, reduce the costs of doing business and open up access to regional markets.

We have helped the Government develop its systems and capacities for economic management and public services. We have directly targeted poverty, food insecurity and disease, reaching many thousands of Zambians through our investments in water, sanitation, agriculture and health. Moreover, we have supported Zambia's ambitious efforts to achieve education for all, giving many more children the opportunity to attend school.

We have facilitated Zambia's increased access to climate change finance and supported its strategies for responding to climate change. We have also supported the EITI, helping Zambia achieve compliance

in 2012. In addition, we are helping the Government develop its strategy for tackling youth unemployment.

A lesson from our work in Zambia is the importance of developing ownership amongst local communities – a key success factor in our investments in water and sanitation. We also demonstrated how financial management reforms can help foster transparency and accountability in the national budget, improving economic governance.

As the mid-term review of the 2011–2015 Country Strategy Paper found, the Bank still needs to explore new ways of supporting economic diversification and job creation and promoting the sustainable use of natural resources (see Box 2.5)

The next chapter looks at some of the management tools we use to ensure that our portfolio is effective and delivering the intended results ■





### **Encouraging Zambian entrepreneurial spirit**

*"All what you see around is thanks to my own hard work and creativity. But I know that this would never have happened without the support of the African Development Bank. I will be always grateful to the Bank. These tomatoes are the best in the region, please try one!"* This local producer, with 5000 other farmers, benefited directly from the use of improved on-farm water management and low-cost irrigation technologies financed by AfDB in the Mkushi, Kapiri Mposhi, Masaiti and Chingola Districts of Zambia.



# Level 3: How well AfDB manages its operations in Zambia

**T**his chapter reviews how well the African Development Bank manages its portfolio of operations in Zambia, drawing on the 17 indicators from the third level of our Results Measurement Framework. We measure whether our operations are being appropriately managed and supervised. We track disbursement rates to see whether implementation is moving forward as planned, and we keep an eye on underperforming projects to see if the resources can be better used elsewhere. We monitor a number of the commitments we made under the Paris Declaration on Aid Effectiveness – an area on which the Government of Zambia places considerable emphasis. We also look at our contribution to knowledge generation.

Overall, we assess our performance as satisfactory, given our continued efforts to improve portfolio quality through technical and advisory services to project implementation agencies in the areas of procurement, disbursement and financial management. We have also invested in building up the strength of our Zambia country office, increasing its technical expertise in areas such as infrastructure and enabling all aspects of the project life cycle to be managed within Zambia.

## Strengthening results at country level

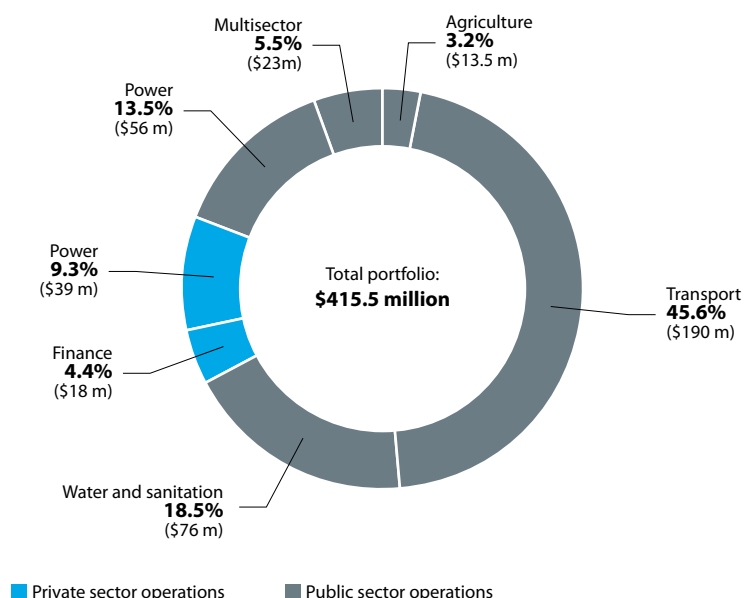
Since the Bank first established a Zambia country office in 2006, we have forged an increasingly close partnership with the Government. This has led to improvements in project identification, loan negotiation and follow-up of mission recommendations, as well as greater efficiency in procurement, disbursement and payments to suppliers and contractors. At least 40% of Zambia's operations now have the principal task manager located in-country, compared to just 20% in 2010. The Government is able to negotiate on new loans with the country team, rather than travelling to the Bank's headquarters in Tunis. A permanent presence in the country also enables us to provide better support to Government project coordinators and contractors.

Our policy dialogue with the Government has deepened over the last few years, supported through the commissioning of new knowledge products to support policy development. We see our role as providing the African voice in dialogue among Cooperating Partners. We are working with a range of other development partners to identify co-financiers for new development projects.

**Performance of Bank's portfolio** — At the end of 2012, our portfolio in Zambia – 14 operations, including 3 regional projects – was valued at \$415.5 million. As Figure 3.1 shows, 87% of the programme was concentrated in three sectors: transport, power, and water and sanitation.

Figure 3.1 Bank's current portfolio

Our portfolio reflects the Government's priorities and the need for selectivity and complementarity with other development partners



**Table 3 How well AfDB manages its operations in Zambia (Level 3)**

This table presents the Bank's progress in achieving its targets for portfolio management in Zambia:

- Good progress has been made, and we are on track to meet our target; 
 ● Little progress has been made, and we are at risk of not achieving our target; 
 ● No progress has been made, or we have moved even further away from our target; 
 ● Data are not available to measure performance.

INDICATOR	ZAMBIA			LOW-INCOME AFRICAN COUNTRIES (ADF)		
	Baseline 2010	Latest 2012	Target 2013	Baseline 2010	Latest 2012	Target 2013
<b>STRENGTHENING RESULTS AT COUNTRY LEVEL</b>						
<b>PORTFOLIO PERFORMANCE</b>						
<span style="color: green;">●</span> Operations formally supervised twice a year (%)	61	88	65	61	64	65
<span style="color: green;">●</span> Operations at risk (%)	14	8	10	22	21	19 <sup>A</sup>
<span style="color: green;">●</span> Problem operations (%)	7	0	5	6	2	5
<span style="color: orange;">●</span> Disbursement ratio (%)	12	17.6	20	18	18	20
<b>QUALITY-AT-ENTRY</b>						
<span style="color: green;">●</span> Budget support disbursed on schedule (%)	92	74	75	60	66	75
<span style="color: green;">●</span> Operations that disclose ESIA on time (%)	100	100	100	82	90	90
<span style="color: green;">●</span> Time elapsed from approval to first disbursement (months)	16	12	11	13	12	11
<b>DELIVERING EFFECTIVE AND TIMELY OPERATIONS</b>						
<b>PARIS DECLARATION INDICATORS ON EFFECTIVE AID</b>						
<span style="color: red;">●</span> Development resources recorded on budget (%)	57	53	85	57	67	85
<span style="color: green;">●</span> Predictable disbursements (%)	54	97	80	54	72	80
<span style="color: red;">●</span> Use of country systems (%)	61	35	62 <sup>A</sup>	39	58	53 <sup>A</sup>
<span style="color: green;">●</span> Parallel project implementation units (number)	0	0	0	113	35	40
<b>KNOWLEDGE MANAGEMENT</b>						
<span style="color: green;">●</span> Exiting projects with a timely PCR (%)	92	100	90	92	91	90
<span style="color: green;">●</span> PCRs rated satisfactory (%)	72	100	80	72	74	80
<span style="color: orange;">●</span> New ESWs and related papers (number)	0	1	6 <sup>A</sup>	..	..	15 <sup>A</sup>
<b>GENDER- AND CLIMATE-INFORMED OPERATIONS</b>						
<b>GENDER MAINSTREAMING</b>						
<span style="color: orange;">●</span> PCRs with gender-disaggregated data (%)	30	50	75	57	67	75
<span style="color: green;">●</span> New projects with at least one gender indicator (%)	59	100	70	61	75	70
<b>CLIMATE CHANGE</b>						
<span style="color: green;">●</span> Climate-proofed projects (%)	..	100	75	0	65	75

.. = data not available; AfDB = African Development Bank; ADF = African Development Fund; CSP = Country Strategy Paper; ESIA = Environmental and Social Impact Assessment; ESW = economic and sector work; PCR = Project Completion Report.

<sup>A</sup> 2016 target

**Notes:** ADF countries are the 39 lower-income AfDB member countries that qualify for concessional funding: Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo Republic, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, South Sudan, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. Cape Verde is in transition.

**Source:** African Development Bank.

We have used a number of management tools to improve the performance of our portfolio over the last few years. In 2012, almost 90% of our ● operations were formally supervised twice a year,<sup>1</sup> compared to just 61% in 2010. This greatly

exceeded the ADF target of 65%. Quarterly progress reports are prepared for each project using a recently revised template that improves results and impact reporting. Our staff from the country office also undertake spot checks by visiting project

1 A green bullet indicates that good progress has been made, and we are on track to meet our target.

### Box 3.1 Concrete actions to further improve our portfolio in Zambia

Since 2010, AfDB has significantly improved the quality of its portfolio in Zambia, thanks to much closer collaboration with the Government. To further enhance our performance, in the coming three years the Bank will strengthen the partnership with the Government to achieve:

- **Enhanced project implementation** – In close collaboration with the Ministry of Finance M&E Department, we will organise a project implementation training workshops in the area of procurement, contract management, and disbursement management for executing agencies.
- **Stronger project monitoring and evaluation and portfolio coordination** – The Bank will track closer the submission of the Quarterly Progress Reports, providing timely feedback to the Government. We will also establish a joint platform with the Ministry of Finance for project monitoring and evaluation, including feedback from executing agencies and line Ministries.
- **More transparency and timely auditing** – The Government's Auditor General Office will prepare an action plan to determine which project audits would be outsourced. And the Bank will provide support to project accountants in preparing high-quality financial reports consistent with our requirements.

locations, in order to verify that projects are being implemented efficiently and effectively.

More frequent supervision has reduced the share of ● **projects at risk in our portfolio**, from 14.3% in 2010 to 8.3%. These are projects for which progress has stalled or the objectives are unlikely to be achieved. There are currently no ● **problem projects**, compared to 7% of the portfolio in 2010.

We track our disbursement performance to assess how effectively our resources are being used. Our target disbursement ratio in ADF countries is 20%, which would indicate that projects are taking five years on average to be implemented. In 2012, our ● **disbursement ratio**<sup>2</sup> in Zambia improved at 17.6%, but still below our target of 20%.

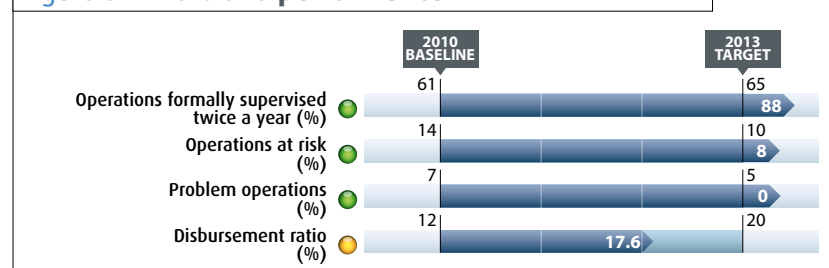
The slow rate of disbursement is a serious challenge affecting the Bank's portfolio in Zambia, especially for infrastructure operations and regional projects. For example, disbursement for the Multinational Lake Tanganyika Integrated Regional Management Programme stands at 32%, the Rural Water Supply and Sanitation Programme 23% and the Nkana Water Supply and Sanitation Programme 19% – all operations that are scheduled to close in 2013 after 7 years of implementation. The poor implementation rate is linked to weaknesses in procurement planning and processing and contract management, non-adherence to implementation schedules and, in some cases, submission of incomplete disbursement applications.

Although supervision of the portfolio by Bank staff has improved considerably, some projects have continued to experience execution problems, affecting our overall performance. In the water and sanitation sector, for example, implementation issues were due to preliminary activities of community mobilisation that took two years to carry out. Delays on regional integration programmes,

such as the Multinational Lake Tanganyika Integrated Regional Management Program, were largely due to the multinational nature of these programmes, encompassing several countries with different regulations.

Despite these setbacks, the portfolio remains healthy and was judged "satisfactory" by our 2012 mid-term Country Strategy Paper review and our Country Portfolio Performance Review (see Box 3.1). There are, however, some areas for improvement: we need to build up Government capacity for managing procurement and contracting, implementing to schedule and complying with fiduciary and audit requirements.

Figure 3.2 Portfolio performance



To address this challenge, we have developed a detailed Country Portfolio Improvement Plan that includes a range of measures to build capacity and strengthen systems. More training will be provided in procurement, contract management and disbursement procedures for executing agencies and the Ministry of Finance's Monitoring and Evaluation (M&E) Department. Quarterly Progress Reports and Implementation Progress Reporting will take priority, with timely feedback to the Government. We will ensure regular communication with the Government to review the progress of projects and agree on follow-up actions.

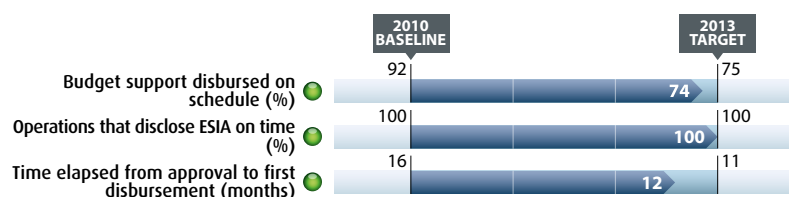
<sup>2</sup> A yellow bullet indicates that little progress has been made, and we are at risk of not achieving our target.



On financial management, we will provide support to project accountants to help them prepare higher-quality reports, while more audit reports will be outsourced to meet Bank requirements.

**Quality-at-entry of Bank operations** — 'Quality-at-entry' is our term for determining whether our projects are technically sound and designed so as to maximise development impact. Quality-at-entry is central to our overall effectiveness, because errors in design are often difficult to correct once implementation is under way.

Figure 3.3 Quality-at-entry



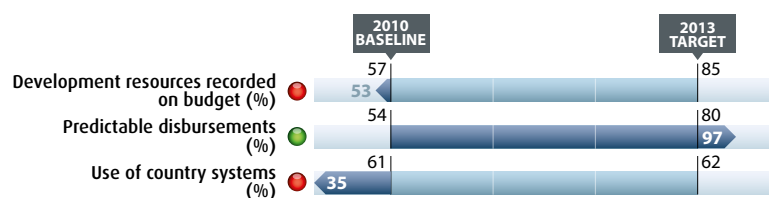
The quality-at-entry assessment draws on a number of indicators.

● **Time elapsed from approval to first disbursement** in Zambia was 12 months, just below our target of 11 months. However, considerable progress has been made since 2007, when the figure was 16 months. We achieved this by supporting Zambian counterparts throughout the ratification process for new loans, becoming more selective with project conditions and allowing accelerated procurement for major contracts. The proportion of our ● **budget support disbursed on schedule** was 74%, compared to 98% in 2010.

*Zambia exercises strong leadership of its development assistance, ensuring that Bank projects are fully integrated into its plans and budgets*

We have ensured that our operations have feasibility studies and detailed designs before they are submitted to the Board for approval. In addition, we have adopted a readiness filter for new projects, ensuring that only those with the necessary background studies and analytical work are eligible for financial support.

Figure 3.4 Paris Declaration indicators on effective aid



Other quality assurance tools – the Implementation Progress and Results Reports and Project Completion Reports – have been reviewed and updated over the past few years. Overall, they indicate that the portfolio is in good shape. Environmental and social impact assessments on each project are systematically published on our website before project approval, providing project beneficiaries and stakeholders the opportunity to raise any concerns.

The country office continues to play a leading role in the implementation of the Bank's work programme throughout the project life cycle, undertaking activities related to project identification, preparation, appraisal, supervision and the preparation of completion reports. Recently, as part of a series of measures to improve quality-at-entry, the country office has been supporting the preparation of a feasibility study and detailed design work for the rehabilitation of the Mpulungu Port. The Bank has recently posted an infrastructure expert to the country office to strengthen its capacity to supervise this key aspect of the portfolio.

## Delivering effective and timely operations

**Performance on the Paris Declaration indicators** — We are committed to improving our development effectiveness, in accordance with the Paris Declaration on Aid Effectiveness and its successors. For this level of the Results Measurement Framework, we measure our aid effectiveness by conducting our own survey of four Paris Declaration indicators. New indicators have recently been agreed for the Busan Partnership for Effective Development Cooperation, and we will incorporate them into the next iteration of our Results Measurement Framework.

We have seen steady improvement on the Paris Declaration indicators in Zambia. Our ● **predictability of disbursements** reached nearly 100%, compared to just 54% in 2010, reflecting important progress in simplifying conditions and streamlining procedures to avoid unnecessary delays. We continue to have no ● **parallel project implementation units**.

Our support to improving the quality of Zambia's public financial management has been delivering results, allowing us to make more use of country systems to deliver our aid, primarily for budget support operations. However, we still have some way to go before we are ready to use Zambia's procurement systems. Overall, therefore, the ● **use of country systems**<sup>3</sup> for our assistance decreased from 61% of the total portfolio in 2010 to just 35%, mainly as a result of a reduced share of budget support. Overall, only 53% of our ● **development resources were recorded on budget**, against the ADF target of 85%.

**Partnership and policy dialogue** — Our enhanced presence in Zambia has allowed the negotiation and signing of new projects

3 A red bullet indicates that no progress has been made, or we have moved even further away from our target.

to take place in Zambia, rather than at the Bank's headquarters, which is preferred by all parties and reduces costs for Government. We have been working to strengthen collaboration with other Cooperating Partners. We serve as the "African voice" in joint discussions on policies and procedures, and we have led sector working groups ("troikas") in the agriculture, transport, and water and sanitation sectors.

Our commitment to donor coordination is ultimately intended to enhance the Government's leadership and ownership of aid-funded activities and investments. Recognising the growing importance of such new donors as Brazil, China, Egypt, India, Russia, Saudi Arabia and Turkey, the Bank has strengthened its cooperation with them.

The Cooperating Partners have agreed on a Joint Assistance Strategy for Zambia (JASZ II) that outlines the actions needed to strengthen mutual accountability and advance the aid effectiveness agenda. JASZ II emphasises the importance of managing and monitoring external assistance in ways that focus on desired results, rather than just outputs. Furthermore, the Division of Labour Matrix allows Cooperating Partners to coordinate and streamline their efforts at the sector level. The selection of Lead Cooperating Partners for each sector allows for effective engagement with sector ministries and Sector Advisory Groups. The Bank is an active participant in the Cooperating Partners Group, as well as close to 20 other micro and thematic Sector Advisory Groups.

During this period, the Cooperating Partners also held a number of important meetings with the Government to discuss national development priorities and the cooperation framework between the Government and Cooperating Partners. We supported a High-Level Policy Dialogue in November 2012, focusing on the diversification and transformation of the economy. We held other discussions with the Secretary to the Treasury on areas of mutual interest, including the follow-up to an Auditor General report on the road sector, the Mutual Accountability Framework, the abuse of office clause, the climate change mechanism, and new Government instruments on public sector salaries and service conditions.

Over the review period, we chaired two of the Sector Advisory Groups. For the agriculture group, we prepared a paper on diversification for the High-Level Policy Dialogue event and also took members to a farm block to increase understanding of a key aspect of government agriculture policy. As chair of the water and sanitation group, we coordinated the preparation of the mid-term review of the National Rural Water and Sanitation Strategy and helped shape the new water and sanitation policy by providing direct inputs and convening discussions.

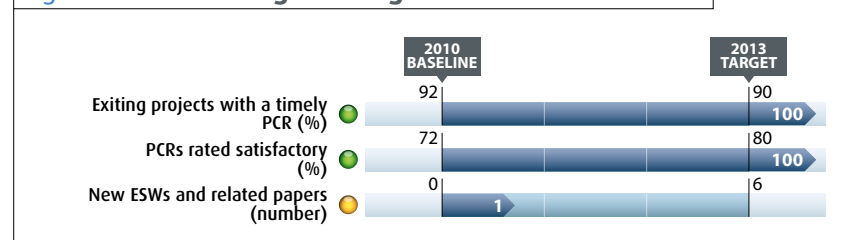
As a member of the troika in the transport sector working group, we played a leading role through our investments in Nacala Road Corridor Phase II and the Kazungula Bridge Project, while also providing support for capacity building and implementation of the Auditor General's recommendations for the sector. Since

2013, we have become chair of the transport sector working group. We have also worked closely with the co-financiers of our road and power projects and our budget support operations.

*During our tenure as Chair of the Cooperating Partners' Group, we led the review of the Fifth National Development Plan, the preparation of the Sixth National Development Plan and the implementation of the Busan Agenda.*

**Knowledge management** — A key element of our support to Zambia is the production of high-quality research and analysis. Our knowledge products generate new knowledge on development challenges and policy options, which we share with the Government and Cooperating Partners. This helps ensure high-quality dialogue on development policy and provides evidence to guide Government decision-making. Moreover, lessons learnt from past operations help us to improve the design of new projects, both in Zambia and across Africa.

Figure 3.5 Knowledge management



We produced one **new economic and social work** study in 2012, and have plans to produce another five by 2015, including inputs for the Zambia Transport Master Plan, a Zambia private sector profile and a study on domestic resource mobilisation for poverty reduction. In addition, we plan to conduct a study on the potential for farm blocks in Zambia as well as various studies that will support the preparation of the next Country Strategy Paper covering 2016 to 2020. Also under way is a study on youth employment, which will help inform the Government's job creation policies.

*We will work closely with the Government on the reforms required to allow the private sector to thrive as the engine of inclusive growth in Zambia.*

Project Completion Reports (PCRs) are the main tool we use to capture experiences and lessons from completed projects and improve the design of future projects. The projects that closed in Zambia over 2010–2012 all produced a **timely PCR**, and all the PCRs over this period were **rated satisfactory**, compared to 72% in the previous period.

In 2008, we worked with the World Bank to establish a Joint Development Information Centre as a hub for information on development. Offering access to publications and online databases, the Centre provided the private sector, civil society and the general public, especially young people, the opportunity to learn about and exchange views on development priorities and challenges. In 2012 it attracted more than 3000 visitors from a wide range of backgrounds and institutions. In mid-2013, the Centre was rehoused in the University of Zambia in order to be closer to its main group of users.

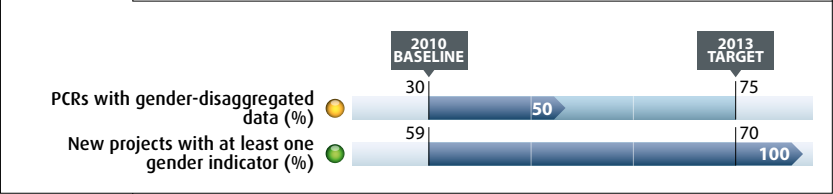
*We have generated policy-relevant knowledge through a range of strategic and technical studies, including a roadmap for establishing the COMESA-EAC-SADC Free Trade Agreement.*

**Mainstreaming gender equality and climate change management**

**Gender** — In line with AfDB and Government policies, we aim to ensure that our interventions benefit all social groups, particularly women and girls. This is a key component in promoting inclusive growth in Zambia. The Bank Strategy 2013–2022 emphasises that gender equality should be a guiding principle for all our policies and projects, to ensure that both men and women benefit equally and that every opportunity is taken to empower women.

To achieve these goals, all of our projects should contain indicators on gender equality, and our results data should be disaggregated to identify different impacts on women and men. In Zambia during 2010–2012, half of the **PCRs had gender-disaggregated data**, which was an improvement on 30% before 2010, though still below the Bank’s average of 67%. This lower average is due principally to a lack of gender baselines and indicators in older projects.

**Figure 3.6 Gender mainstreaming**



Over this period, we approved five new operations: the Nacala Corridor Project Phase III, the Itzhi-Tezhi hydropower transmission, the Kazungula Bridge, the IV Poverty Reduction Budget Support, and the Small Dams Project. All these **new**

**projects have at least one gender indicator**, reflecting an increasing focus on results for women.

**Climate change** — We are determined that our investments across Africa will be able to withstand the impacts of climate change into the future. We have developed staff capacity and tools to assess vulnerabilities and have put in place procedures to screen projects for climate resilience.

Projects that commenced between 2007 and 2009 in Zambia and elsewhere have all been retrospectively climate-screened and, where necessary, adapted, using funds from the Bank and other sources such as the Global Environment Facility. A growing proportion of newly designed projects have had climate resilience built into their design; by 2012, all projects in Zambia were assessed as **climate-proof**.

Over the next few years, we will help Zambia adapt to the impacts of climate change by strengthening the adaptive capacity of poor rural farming communities and agricultural production systems. The principal focus of our efforts will be in the Kafue Basin, where most people remain dependent on rain-fed subsistence farming. We will also continue to support Zambia as it develops its green energy potential, particularly in hydropower, and moves towards a green growth pathway.

**Conclusions**

Overall, the Bank’s portfolio in Zambia is performing satisfactorily and has improved in recent years through more rigorous and frequent project supervision. We have eliminated problem projects and now have fewer projects that are at risk or ageing. Some areas of project management, procurement and finance need further attention, and we have agreed on a Country Portfolio Improvement Plan to build capacity and strengthen systems in those areas.

We have improved our aid effectiveness in line with our international commitments, and have made good progress in incorporating gender objectives into our new projects. The establishment of a Zambian country office has facilitated a stronger development partnership and improved dialogue with the Government, allowing us participate in and at times lead the engagement with Cooperating Partners. It has also increased our capacity to supervise our operations.

Decentralisation of our operations to the country level has been a key element in these successes. This and other aspects of our organisational management are discussed in the final chapter of this review ■





### **Helping Zambia develop its substantial hydropower resources**

We are working to provide both Zambia and the surrounding region with improved access to reliable, affordable, and environmentally sustainable electricity. As part of this effort, the construction of a new 120 MW hydropower plant is planned at the Itezhi-Tezhi dam on the Kafue River.

# Level 4: How efficient AfDB is as an organisation in Zambia

**T**his final chapter reviews how well we manage our own organisation in Zambia. We draw on 11 indicators from Level 4 of our Results Measurement Framework, covering the decentralisation of our operations to country level, the efficiency of our business processes and our progress on information technology, project finances and audit.

The results show that decentralisation has been a key element in achieving a "One Bank" approach in Zambia, enabling us to coordinate closely across the different Bank departments to achieve high-quality results. Our presence in Zambia has allowed us to be more active in policy dialogue with the Government and in joint work with Cooperating Partners. We have also become more cost-efficient in our business processes, although we continue to aim for better performance in a number of areas.

## Moving closer to our clients

In 2006, we established the Zambia country office as part of the Bank's extensive decentralisation process across Africa, responding to the clear preference of African countries for Bank operations to be managed at field office level.

Decentralisation of our staff and management functions brings us closer to the people we serve and the projects we fund. It also enables us to play a greater role in country-level development policy and practice. In Zambia, it has enabled us to work closely with the Government on the design and implementation of our operations, resulting in improved supervision and delivery.

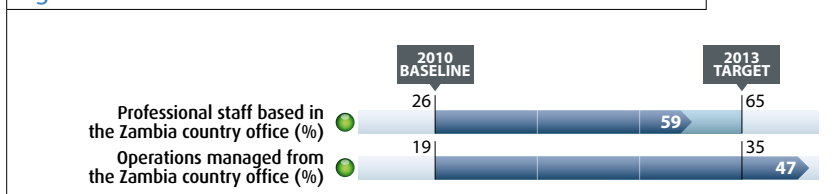
**Effective decentralisation** — Through decentralisation, the Zambia country office is now able to implement the "One Bank" approach – that is, ensuring that our different funding windows and departments work together as an integrated whole. People from different Bank departments located in a small team in one location find it easier to communicate together, as well as to respond flexibly to Government demands.

We have been steadily building the skills of our country team, with the proportion of **professional staff at post**<sup>1</sup> now at nearly 60% compared to 26% in 2010. We have sector specialists to oversee all of our operations. In addition, our regional centre in South Africa supports our Zambian operations with additional expertise as required.

Decentralisation has also enhanced the efficiency of a number of our business processes. In 2012, nearly half of our **project**

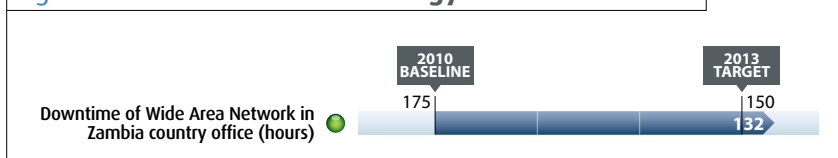
tasks were managed from the field office, including small-value procurement. This exceeded our target of 35% and enabled more cost-effective project delivery. In addition, our local presence has deepened our dialogue with the Government on policy and portfolio issues, and has promoted closer collaboration with other Cooperating Partners.

**Figure 4.1 Decentralisation**



**Efficient information technology** — Effective decentralisation of functions and staff requires excellent IT connections, particularly with the Bank's headquarters. In Zambia, we have installed fibre-optic cabling for the last mile from the country network into the office, enhancing the network speed in the office by three times the previous rate.

**Figure 4.2 Information technology**



<sup>1</sup> A green bullet indicates that good progress has been made, and we are on track to meet our target.

Table 4 **How efficient AfDB is as an organisation in Zambia (Level 4)**

The table below presents the Bank's progress in achieving its targets for organisational performance:

- Good progress has been made, and we are on track to meet our target;  
● No progress has been made, or we have moved even further away from our target;  
● Little progress has been made, and we are at risk of not achieving our target;  
● Data are not available to measure performance.

INDICATOR	Baseline 2010	Latest 2012	Target 2013
<b>MOVING CLOSER TO OUR CLIENTS</b>			
<b>DECENTRALISATION</b>			
<span style="color: green;">●</span> Professional staff based in the Zambia country office (%)	26	59	65
<span style="color: green;">●</span> Operations managed from the Zambia country office (%)	19	47	35
<b>INFORMATION TECHNOLOGY</b>			
<span style="color: green;">●</span> Downtime of Wide Area Network in the Zambia country office (hours)	175	132	150
<span style="color: green;">●</span> Connecting to the Headquarters (% successful videoconferences)	..	100	at least 95
<b>ENGAGING AND MOBILISING STAFF</b>			
<b>HUMAN RESOURCES</b>			
<span style="color: grey;">●</span> Average time to recruit new staff (days)	..	176	160
<span style="color: orange;">●</span> Share of women in professional staff (%)	26	29	33
<span style="color: green;">●</span> Vacancy rate (%)	17	10.5	8
<b>TRANSPARENCY AND TIMELY AUDITING</b>			
<span style="color: orange;">●</span> Timely submission of audit financial reports (%)	29	44	80
<b>IMPROVING BUSINESS PROCESSES AND COST EFFICIENCY</b>			
<b>BUSINESS PROCESSES AND PRACTICES</b>			
<span style="color: green;">●</span> Disbursement request for direct payment processed and paid within 15 working days (%)	48	81	90
<span style="color: green;">●</span> Procurement documents rejected (%)	55	45	40
<span style="color: green;">●</span> Time taken to process procurement documents (days)	12	5	3

.. = Data not available.

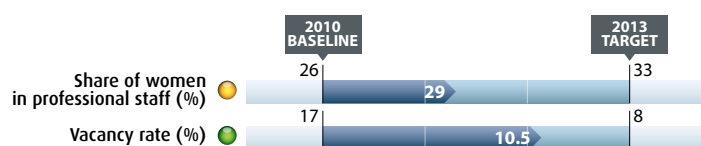
Source: African Development Bank

Confidential Bank communications are routed straight from the country office to the secure Bank-wide area network. Benefits for the end-user are faster internet browsing and a seamless Virtual Private Network (VPN) connection. These investments have enabled our Zambia operations to be fully integrated into the Bank-wide network. The new investments are proving to be more reliable, so that the downtime of the wide area network in the field office in 2012 was 132 hours, ahead of our target of 150 hours.

## Enabling and mobilising staff

**Human resource management** — Highly skilled and well-motivated staff in our country office are essential to achieving our mission in Zambia. We have a growing team, expected to increase from 13 in 2010 to 19 in 2013; our ● **vacancy rate** has significantly improved, reaching 10.5% in 2012. Among our staff, the ● **share of women in professional staff**<sup>2</sup> is just under 30%.

Over the last few years, we have carefully identified the skills required for the additional posts in the country office, working closely with our South African regional office to ensure the right mix of staff to support both country and regional operations. With our expanded team, we are now able to supervise our operations more effectively and to lead on the generation of new knowledge products. To promote professional collaboration and effective teamwork, we held team-building sessions involving our Ethics Officer and Ombudsman.

Figure 4.3 **Human resources**

<sup>2</sup> A yellow bullet indicates that little progress has been made, and we are at risk of not achieving our target.

Through these measures, we are building a highly qualified, dedicated and productive team and ensuring good management processes and a performance-driven, professional culture. The Bank is now reviewing compensation levels for staff based in country offices, to ensure that they are competitive.

**Transparency and timely auditing** — There is still considerable scope for improving the quality, timely delivery and validation of audits. Although the percentage of **project audits submitted on time** rose from 29% in 2010 to 44%, it remained well below the target of 80% for 2012.

In 2012, a stakeholders' consultative workshop was organised to discuss the Bank's portfolio performance. Participants included officials from key Government ministries, project implementation units, the private sector and Cooperating Partners. There was general agreement that a number of challenges – particularly delayed submission of audit reports and noncompliance with fiduciary requirements – still affect the smooth implementation of planned activities.

The Bank's Auditor General's office is to prepare an audit programme to determine which project audits should be outsourced. In addition, the country office will provide support to project accountants in preparing high-quality financial reports in accordance with the Bank's requirements.

## Improving business processes and cost efficiency

**Business processes and practices** — In Zambia, we have worked closely with the Government to increase the quality and speed of project implementation. We meet with the Government three times a year to formally review the portfolio, identify any challenges, and develop joint strategies for addressing them.

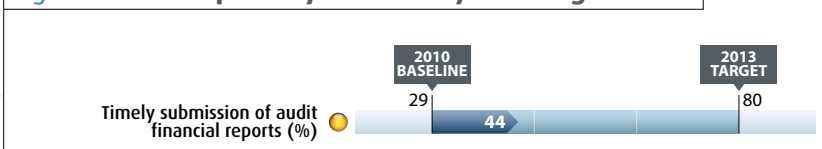
One useful management tool has been fiduciary seminars attended both by our task managers and those in the Government who are responsible for delivering our projects. These seminars have provided training on business processes, leading to marked improvements in financial management, procurement and audit. When staff are given new tasks to perform, it is crucial to ensure that they have the right skills and capacity.

Overall, our cost-efficiency has increased in several ways. For example, the percentage of **disbursement requests for direct payment processed and paid within 15 working days** almost doubled, from 48% in 2010 to 81%, while the **average share of incomplete disbursement requests** fell from 49% in 2010 to 34%.

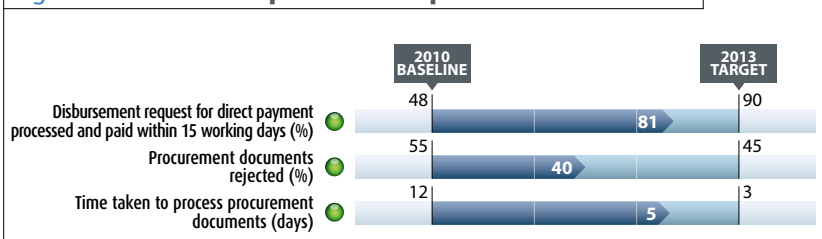
Over the same period, the **percentage of procurement documents rejected** has fallen from 55% to 45%, and the **time taken to process procurement documents** has been dramatically reduced, from 12 days to 5. Some delays are still occurring in the initiation of procurement activities, partly because of poor understanding of the Bank's procurement rules.

Further delays are caused by the need for multiple approvals across Government agencies, including line ministries, the Zambia Public Procurement Authority and the Ministry of Justice. Along with the Ministry of Finance M&E Department, we are planning a project implementation training workshop to strengthen capacity in procurement, contract management and disbursement management for project executing agencies. In addition, our country office will take proactive steps to assist project accountants and procurement officers to spot and address implementation issues immediately.

**Figure 4.4 Transparency and timely auditing**



**Figure 4.5 Business process and practices**



## Conclusions

This review suggests two success factors for our Zambia operations. First, the process of decentralisation has been key. Our Zambia country office now enjoys significantly increased capacity and is taking on increased responsibility for the management of the portfolio. It is also actively engaged in knowledge generation and policy dialogue. This means we are better placed to respond quickly and flexibly to Government requests and to participate in country-led processes for dialogue and coordination. It also helps our different teams to work together as One Bank.

Second, the active participation of the Government of Zambia in the management of our portfolio has yielded substantial dividends. It has enabled us to identify and quickly respond to implementation problems. Through the joint portfolio review processes, we have been able to substantially increase the efficiency of our business processes. We have increased our investment in building capacity among our counterparts in the Government for key project management roles.

We still face some significant challenges in the financial management area, particularly the timely submission of audit reports. It is therefore essential that we continue to press ahead with joint action to improve the management of the portfolio ■





### Water entrepreneurs

Water kiosks, which were first introduced in Zambia in 2005, are operated by private individuals who have signed an agreement with water utilities and municipalities, creating employment and income-generating opportunities. The kiosk operators buy piped water in bulk and sell it at the slightly higher but regulated price of about 1 US cent per 20 litres to customers, who carry the water in jerry cans to their homes. The kiosk operators supplement their income by selling various other items of daily life. In 2010 Zambia had around 270 water kiosks, providing water to 320 000 people.

# Conclusion and outlook

**T**his Development Effectiveness Review of our Zambia country programme demonstrates the progress Zambia has made in recent years towards building a more diversified economy. Sound economic management and investments in key infrastructure have helped the country achieve impressive levels of economic growth and lower-middle-income status.

However, Zambia has yet to make major progress on poverty reduction. The Government is therefore focusing on improving the quality of growth, to make it more inclusive in nature. It is also working to set the country on the path to sustainable growth. AfDB has made a significant contribution to Zambia's development, and it continues to be an active partner in the country's quest for inclusive and sustainable growth. This review sets out some useful lessons, both for the Government of Zambia and for the Bank, on how to ensure that our partnership continues to improve and grow.

## Achieving inclusive growth

Zambia's impressive levels of economic growth, at 6–7% per year, have been achieved through sound economic management and strategic investments in key infrastructure. This has enabled Zambia to take advantage of strong global demand for its principal export, copper, and to avoid the distortions to the economy that are often associated with a strong extractives sector.

Zambia has seen increasing diversification of its economy in recent years, with strong performance in light manufacturing, services and agriculture. Nontraditional exports have quintupled, while domestic demand from a growing middle class is also helping drive growth. Foreign direct investment is at a historic high, and is increasingly targeted towards non-mining sectors. The Government is supporting this trend with export-led growth policies, including its multi-facility economic zones.

In the social sectors, Zambia has made significant progress towards universal primary education, improvements to maternal and child health and a successful reversal of the HIV/AIDS epidemic.

However, while Zambia has successfully achieved lower-middle-income status, it has yet to make major inroads into poverty. Inequality is rising, and the number of people living below the poverty line has in fact increased. Unemployment and underemployment remain high, with the majority of working Zambians engaged in low-productivity activities in the informal sector. Youth unemployment has become one of the most pressing development challenges facing the country.

To achieve inclusive growth, Zambia urgently needs to press ahead with structural change in its economy, through diversification towards labour-intensive sectors such as manufacturing and commercial agriculture. As a landlocked country that is trying to become land-

linked, it needs to press ahead with its regional integration goals, to give producers access to larger markets and enable them to participate in regional and global value chains. The Government needs to continue to lighten the regulatory burden on business and to overcome such infrastructure bottlenecks as poor rural roads and water supply.

## And transitioning towards green growth

The other key transformation needed in Zambia is towards sustainable and green development, to achieve environmental security, climate resilience and increased human well-being. The country needs to overcome its substantial infrastructure deficits with investments in climate-proofed transportation and cheap, reliable and clean energy. It needs to press ahead with providing clean water to rural areas and improving sanitation for its rapidly growing urban population.

*We have implemented some fundamental organisational changes aimed at improving our responsiveness to the needs of Zambia, shifting from a sector-based organisational structure to one that combines sector, country and regional strategies.*

Transforming the agriculture sector is central to the national development vision. Government policies are promoting increased food production and improved nutrition, alongside more sustainable use of natural resources and improved resilience to climate change. Despite some successes with promoting new agricultural exports, productivity growth in agriculture is slow. Zambia's fertiliser usage is well below the African average. Much more needs to be done to improve nutrition levels to address the high rates of stunting among Zambian children.



Zambia is already experiencing significant impact from climate change, with higher temperatures, reduced rainfall and more frequent extreme weather, and national resources are already being diverted to relief for affected populations and the rehabilitation of damaged infrastructure. The Government recognises the need to invest in climate-resilient infrastructure and improved institutional capacity for disaster risk management. Sustainable land and water management are growing priorities, and special measures will be needed for the protection of the most vulnerable communities.

### Our contribution

AfDB is actively supporting the Government in the two key areas of inclusive and green growth. Over the past three years, we have allocated \$162 million, with the greatest share going towards strategic investments in transport and energy infrastructure and in water and sanitation.

Our investments have provided over 430 000 people with improved access to transport, while helping the Government strengthen the policies and institutional capacity required for effective management of its national transport network. We have prioritised investments in regional transport corridors, helping develop a successful one-stop border post model to facilitate cross-border trade.

*The water treatment plant the Bank has contributed to build in Kapiri Mposhi provides over 200 000 people with access to clear, purified water and improved sanitation services.*

In the energy sector, we have installed 200 MW of generation capacity. We are helping Zambia develop and expand its substantial hydropower resources, with a new 120 MW hydropower plant on the Kafue River that will provide households and businesses with reliable, affordable and environmentally sustainable electricity. Our investments in water and sanitation are providing a key input for business while helping relieve the burden of water-borne diseases.

We have made some significant investments in boosting primary health and education facilities. In agriculture and rural development, we have supported Government extension programmes, while helping strengthen sustainable land and water management. Our budget support has offered a platform for dialogue on improving the business environment and governance, particularly public financial management.

### Strengthening our own effectiveness and efficiency

Our development partnership with Zambia has gone from strength to strength. Since we first opened our Zambia country office in 2006, we have built up a strong country team with a good mix of professional skills. This has enabled us to participate more actively in policy dialogue and coordination bodies. We chaired the Cooperating

Partners Group in 2012 and have chaired three of the sector working groups, through which we promoted a common understanding of and joint approaches to many of Zambia's most pressing development challenges.

We meet regularly with the Government to review our portfolio and address any implementation issues. We have held a series of seminars for our own team and Government counterparts on effective project implementation. Thanks to these measures, the number of problem projects has dropped significantly. Our projects have stronger technical designs and face fewer delays at start-up. Our procurement and disbursement are improved, and we were able to achieve 100% predictable disbursements in 2012, reflecting progress in streamlining our business processes.

We have an ambitious programme of knowledge work, which will help inform Government policy and will provide a platform for policy dialogue. We have successfully "climate-proofed" our entire Zambian portfolio, and have begun to incorporate gender targets into our new projects.

In the Zambia country office, we are committed to continue expanding and improving the quality of our portfolio and our operations. We have built a strong relationship with the Government that is based on confidence and trust – indeed, the Bank has been tagged the "African Voice" in Zambia among Cooperating Partners. We will continue to build on this strong relationship, exploring new opportunities for co-financing and other joint initiatives with Cooperating Partners.

As Zambia continues to develop, grow and diversify its economy, increasing its production and income, access to development finance will become even more important. That is why, in addition to providing ADF concessional borrowing, the Bank will support Zambia's graduation to blend status in the medium to long term, giving the country access to Bank's non-concessional window. We will continue to support the Government's efforts to generate bankable projects, including through PPPs and co-financing.

The African Development Bank will also continue its regional integration agenda, in close collaboration with regional bodies such as the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). As a landlocked country, Zambia urgently needs to expand trade with its neighbours through infrastructure development and trade facilitation.

In 2012 we completed our Country Strategy Mid-Term Review and Portfolio Performance Review, resulting in some adjustments to our programme in response to the Government's revised strategy and the Bank's Ten Year Strategy 2013–2022. As we pursue the twin objectives of inclusive growth and a gradual transition to a green economy, our operations will continue to focus on infrastructure development, particularly transport, power and water and sanitation.

Other support will include skills development, which is key to the diversification of the economy. We will maintain a strong focus on promoting agriculture, particularly agricultural value chains, rural infrastructure (roads, irrigation schemes and post-harvest storage facilities); and developing commercial opportunities through PPPs in livestock development, farm blocks and game ranching.

As the Bank's decentralisation has progressed, more sector specialists have been added to our country team. This has not only reduced the transaction cost of planning and preparing our operations,

but has also improved cooperation with the Government and other Cooperating Partners, while addressing a range of portfolio management challenges.

AfDB remains steadfastly committed to supporting Zambia's national development goals. We will intensify our efforts to ensure that Zambia's strong economic performance results in inclusive growth that transforms the economic opportunities for Zambians and makes major, sustainable inroads into reducing poverty ■

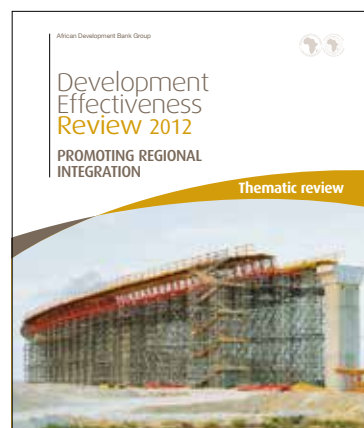
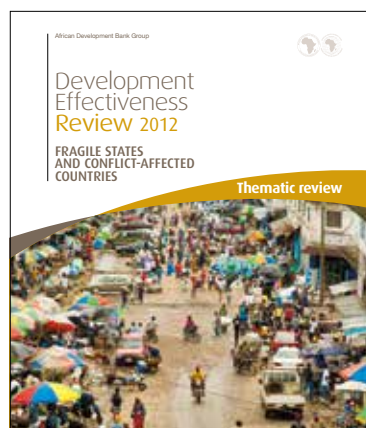


# The Development Effectiveness Review series of the Bank

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### About this publication

The Development Effectiveness Review 2013: Zambia Country Review is a report on the performance of the African Development Bank's (AfDB) in Zambia. It reviews development trends in the country and explores how AfDB's operations have contributed to development results over the past three years. It also looks at how effectively AfDB manages its operations and its own organisation in Zambia.

### About the African Development Bank Group

The AfDB Group is a multilateral development bank whose shareholders include 54 African countries and 27 non-African countries. The AfDB Group's primary objective is to contribute to the sustainable economic development and social progress of its regional members, individually and jointly. It does this by financing a broad range of development projects and programmes through public-sector loans, including policy-based loans, private-sector loans, and equity investments; by providing technical assistance for institutional support projects and programmes; by making public and private capital investments; by assisting countries with development policies and plans; and by supplying emergency assistance.



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