AFRICAN DEVELOPMENT FUND

CAPACITY ENHANCEMENT FOR PUBLIC FINANCE AND ECONOMIC MANAGEMENT PROJECT (CEPFEM)

COUNTRY: REPUBLIC OF ZAMBIA

PROJECT APPRAISAL REPORT

ECGF/RDGS

April 2019

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ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
BOZ	Bank of Zambia
COZM	Country Office for Zambia (AfDB)
CPI	Corruption Perception Index
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
CSD	Central Security Depository
CSO	Central Statistics Office
CSP	Country Strategy Paper
DfID	Department for International Development
DMFAS	Debt Management and Financial Analysis System
DPs	Development Partners
EU	European Union
FDI	Foreign Direct Investment
FM	Financial Management
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
HDI	Human Development Index
IFMIS	Integrated Public Financial Management Information System
IMF	International Monetary Fund
IOP	Indicative Operational Plan
KPIs	Key Performance Indicators
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MSME	Micro Small and Medium Enterprise
MTEF	Medium Term Expenditure Framework
MTFF	Medium-term Fiscal Framework
MTR	Mid-Term Review
NDP	National Development Plan
NSIS	National Statistical Information System
PBO	Program Based Operation
PE	Public enterprises
PEFA	Public Expenditure and Financial Accountability
PI	Performance Indicator
PFMRP	Public Financial Management Reform programme
PIU	Project Implementation Unit
PPP	Public private Partnerships
PSD	Private Sector Development
PSP	Private Sector Participation
RDGS	Southern Africa Regional Development and Business Delivery Office
RMC	Regional Member Countries
SME	Small and Medium Enterprises
SOE	State-Owned Enterprises
TYS	Ten-Year Strategy (AfDB)
UA	Units of Account
USD	United States Dollars
VAT	Value Added Tax
WB	World Bank
ZMW	Zambia Kwacha

CURRENCY EQUIVALENTS

As of February 2019

1 UA	=	13.72 KWACHA
1 USD	=	11.94 KWACHA
1 €	=	13.72 KWACHA
1 UA	=	1.40 USD
1 UA	=	1.22 €
1 €	=	1.15 USD

FISCAL YEAR

1st January-31st December

WEIGHTS AND MEASUREMENTS

1 metric tonne	=	2204 pounds (LBS)
1 kilogramme (KG)	=	2.200 ibs
1 milimetre (MM)	=	0.03937 inch (“)
1 kilometre (KM)	=	0.62 mile
1 hectare	=	2.471 acres

LOAN INFORMATION

Clients Information

RECIPIENTS: **Republic of Zambia**

EXECUTING AGENCY: **Ministry of Finance**

Financing Plan

Source	Amount (UA)	Instrument
ADF	8.00 million	Loan
GRZ	0.89 million	Counterpart funds
TOTAL COST	**8.89 million**	

Timeframe-Main Milestones

Concept Note	December 2018
Appraisal	February 2019
Project Approval	April 2019
Effectiveness	July 2019
Mid-term-Review	March 2021
Completion	December 2022
Closing Date	June 2023

PROJECT SUMMARY

Project Overview	***Project Name**: Capacity Enhancement for Public Finance and Economic Management Project* ***Geographical Area: Entire country*** ***Implementation timeframe: 2019-2022*** ***Project cost: UA 8.00 million*** ***Expected outputs and outcomes:*** The expected outcomes are (i) Public financial management improved; and (ii) Public investment management improved. These will be achieved through the following output level results: (i) Debt management capacity strengthened; (ii) Macroeconomic and fiscal management capacity enhanced; (iii) Public investment management capacity enhanced; (iv) Statistical capacity for economic planning strengthened; and (v) Monitoring evaluation systems and Gender mainstreaming enhanced. ***Project Direct Beneficiaries:*** The direct beneficiaries will be staff of the key institutions responsible for public finance, economic management, development planning and statistics. These are the Ministry of Finance (Investment and Debt Management Department, Economic Management Department, Revenue Policy Department), Ministry of National Development Planning (M&E Department, Development Cooperation Department, Public Investment Planning Department), Ministry of Gender & Development, Office of the Auditor General, Central Statistics Office, and Zambia Revenue Authority.
Needs Assessment	Zambia's heavy dependence on copper exposes the economy to macroeconomic shocks. In 2015 and 2016, copper prices hit their lowest levels since 2003, coupled with a significant energy crisis brought about by regional drought, and a burdening fiscal deficit. Public and publicly guaranteed debt rose sharply from 25.4% of GDP in 2012 to 65.52% of GDP in 2018 (in gross terms) and is projected to rise further, reaching 70.1% by 2021. This increase was driven largely by external borrowing and the impact of exchange rate depreciation. The country accumulated a total of USD 3.0 billion in Eurobonds between 2012 and 2018 in addition to other external commercial loans, particularly bilateral debt. This resulted from the fact that the Zambia, as a Middle Income Country, was able to access financing from previously unavailable sources such as international capital markets on non-concessional terms. This rise in public debt at an unsustainable pace negatively affected macroeconomic stability, crowded out lending to the private sector and increased the vulnerability of the economy. This challenge was exacerbated by capacity weaknesses in debt management, assessment of fiscal risks, planning, and M&E. The Government recognizes the need to address these challenges in order to successfully stabilize the economy, and attract private investment to drive economic growth. The project will therefore help to strengthen the Government's capacity in debt management, debt recording and reporting in line with international best practice, as well as build capacity to better quantify and monitor fiscal risks and contingent liabilities, particularly related to SOEs and PPPs. It will also strengthen capacity in macroeconomic forecasting, public investment management, PPPs, M&E and statistics. These will be delivered through a combination of targeted training, technical assistance, and strengthening of systems, among others.
Bank's Added Value	The project builds on the achievements of the PFMRP project financed by other Cooperating Partners and and complements the Bank's ongoing and past interventions in Zambia. Experience from the Bank's and Cooperating Partners' projects generated lessons which informed the design of the project. The Bank has considerable experience and expertise in macroeconomic analysis and forecasting, debt management, public investment management, PPPs, statistical capacity building and M&E, derived from decades of experience in designing and implementing similar projects in RMCs. COZM facilitated understanding of the political and economic context, which fed into the project design. In addition, the Bank is seen by GRZ as a reliable and trusted partner. The strong basis for policy dialogue built over the years makes it easy to engage with the government on critical and sensitive issues such as debt management. The Bank's vast experience in implementing similar projects across the continent is also a source of value addition.
Knowledge Management	The Project will contribute to knowledge building through skills transfer, from consultants and trainers, to staff of beneficiary institutions, thereby boosting public sector capacity and ensuring sustainability. It will help to strengthen knowledge generation in public financial management; economic management; statistics and monitoring and evaluation. The knowledge transfer dimension will be given strong emphasis in every consultancy/technical assistance assignment. Consultancy contracts with clearly determined knowledge sharing activities will be devised. The Bank will disseminate knowledge through sharing findings of supervision missions, progress reports, and the Project Completion Report. Lessons learned will inform the design of future operations.

RESULT-BASED LOGICAL FRAMEWORK

Country and project name: Zambia: Capacity Enhancement for Public Finance and Economic Management (CEPFEM) Project
Purpose of the project: To unlock Zambia's economic growth potential through improved capacity to manage public resources.

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (including CSI)	Baseline	Target		
IMPACT	Improved economic governance	CPIA (Economic Management)	3.5/6 (2016)	3.7/6 (2023)	CPIA Report	***Risk1:* Macroeconomic risk*:*** The country is currently facing significant vulnerability to exogenous shocks, compounded by unsustainable levels of public debt. ***Mitigation***: The country has embarked on concerted efforts on debt management and economic governance with support of partners, including the Bank. ***Risk 2: Fiduciary risk:*** Although Zambia has made good progress in strengthening institutions, some weaknesses are still prevalent, and these will continue to pose a risk. ***Mitigation:*** Activities supported by the project will improve the fiduciary environment. This includes procurement and financial management capacity. Half-yearly supervisions will also help mitigate fiduciary risks. ***Risk 3: Implementation capacity risk:*** Weak implementation capacity within Government. ***Mitigation:*** Provide targeted support, including in monitoring & Evaluation and project management. COZM will also provide support to project implementation in addition to regular supervision missions ***Risk 4: Legal and regulatory risks:***
OUTCOME	Outcome 1: Public financial management improved	1.1 PEFA: PI-10 Fiscal risk reporting	D+ (2017)	C+ (2022)	PEFA Report	
		1.2 PEFA PI-13 Debt management	C (2017)	B (2022)	PEFA Report	
		1.2 PEFA PI-14: Macroeconomic and fiscal forecasting	B (2017)	A (2022)	PEFA Report	
	Outcome 2: Public investment management improved	2.1 PEFA PI-11: Public investment management	D (2017)	C (2022)	PEFA Report	
OUTPUTS	**Component 1: Enhancing Debt Management and Fiscal Stability**					
	Output 1.1 Debt management capacity strengthened	1.1.1 Integration of systems for improved debt monitoring	Limited systems Integration (2017)	• DMFAS and CSD systems integrated and linked to IFMIS (2021) • Interface with selected SOEs created (2021)	Ministry of Finance Annual Report	
		1.1.2 Technical assistance to update the Medium Term Debt Strategy in line with MTEF	MTDS 2017-2019 in place (2017)	MTDS updated (2019)	Updated MTDS	
		1.1.3 Procedures manual for debt management developed.	No procedures manual in place (2017)	Procedures manual developed (2020)	Procedures Manual	
		1.1.4 Debt management capacity building program implemented	Limited training for staff (2017)	• 50 staff trained • 20 parliamentarians trained (2022) - at least 30% female	Ministry of Finance Annual Report	
	Output 1.2. Macroeconomic and fiscal management capacity enhanced	1.2.1 Macroeconomic analysis and forecasting models enhanced	Old models in place (2017)	• Existing model upgraded • 50 staff trained – at least 30% female (2022)	Ministry of Finance Annual Reports	
		1.2.2 Study on (a) rationalization of tax exemptions and (b) innovative sources of finance conducted	Revenue losses through tax exemptions (2017)	Options of revenue rationalization and innovative financing sources prepared (2020)	Study reports	
		1.2.3 Capacity building program on macroeconomic management implemented	Limited training of staff (2017)	60 staff trained (2022) - at least 30% female	Ministry of Finance Annual Reports	
	Component 2: Enhancing Capacity for Economic Planning, Monitoring & Evaluation and Statistics					
	Output 2.1 Public investment management capacity enhanced	2.1.1 Develop IT system for the public investment management framework	Public investment management guidelines developed (2018)	Public investment management system developed and operationalized (2020)	Ministry of National development Planning Annual Reports	

	2.1.2 Technical assistance for PPP support provided	Limited capacity to implement PPP projects (2017)	Transaction Advisor of pilot PPP project financed (2020)	Ministry of Finance Annual Report	Slow action in addressing existing weaknesses in the legal framework could impact project performance *Mitigation*: Work closely with other cooperating partners to engage Government in policy dialogue around the legal framework for debt management and other areas ***Risk 5: Risk of policy reversal:*** Economic reforms need to be sustained over time but in the past, there have been cases of policy reversal ***Mitigation:*** Policy dialogue between development partners (with the Bank taking a leading role) will be enhanced and sustained.
	2.1.3 Capacity building program in project appraisal and selection implemented	Limited capacity in place (2017)	60 staff trained in public investment planning and PPP (2022) – at least 30% female	Ministry of Finance and NDP Annual Reports	
Output 2.2 Statistical capacity for economic planning strengthened	2.2.1 Economic census and integrated business survey conducted	2010 economic census and integrated business survey reports	Economic census and integrated annual business survey conducted (2019)	CSO publications	
	2.2.2 # of Central Statistics Office staff trained	Limited training (2017)	30 staff trained (2022) – at least 30% female	CSO Annual Report	
Output 2.3 Monitoring & evaluation systems and gender mainstreaming enhanced	2.3.1 M&E system for donor-funded projects rolled out	M&E framework in place (2018)	M&E system procured and rolled out (2020)	MNDP Annual Report	
	2.3.2 Performance management framework linking sector programs to 7NDP outcomes rolled out	Performance management framework rolled out to 3 Ministries (2018)	Performance management framework rolled out to 3 additional ministries (2020)	Ministry of National development Planning Annual Reports	
	2.3.3 Guidelines to access gender-related preferences in the Procurement Act produced	No guidelines on gender preferences (2017)	Guidelines developed (2020)	Guidelines on gender preferences	
Component 3: Project Management and Coordination					
Output 3.1 Project Management	3.1.1 Number of progress reports produced (quarterly)	0	14 reports (2022)	Project Reports	
	3.1.2 Project audit	0 (2018)	4 audit reports (2022)	Audit Reports	

KEY ACTIVITIES

COMPONENTS	**INPUTS**
Component 1: Enhancing Debt Management and Fiscal Stability: Integrate DMFAS and CSD and link to IFMIS; develop debt management manual; train staff on debt management; develop macroeconomic analysis and forecasting model and conduct training; conduct study on rationalization of tax exemptions; conduct study on innovative sources of financing; **Component 2: Enhancing Capacity for Economic Planning, M&E and Statistics:** Conduct economic census and annual business survey; procure and operationalise M&E system; provide TA for pilot PPP project; conduct training on planning, M&E, and project management; roll out performance management system; develop guidelines for accessing gender preferences under public procurement;. **Component 3: Project Management:** M&E; procurement staff; FM staff; project audits.	Inputs : - Funding in million UA ADF : UA 8 million GoZ: UA 0.89 million Total project cost: UA 8.89 million

Table 1: Project Implementation Schedule

Activities/ Years	2019			2020				2021				2022				2023		Action By
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Project Processing and Management																		
Loan Approval																		AfDB
Signing Loan Agreement																		AfDB/ GRZ
Project Effectiveness																		AfDB/ GRZ
Project Launching																		AfDB/ GRZ
Project Implementation																		
Procurement																		GRZ
Training																		GRZ
Technical Assistance																		GRZ
Supervision																		AfDB
Mid-term Review																		AfDB
Project Completion																		AfDB/ GRZ
Audits																		GRZ
Project closure																		AfDB/ GRZ

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADF BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF ZAMBIA

Management submits the following Report and Recommendations on a proposed loan of UA 8.00 million to the Republic of Zambia to finance the Capacity Enhancement for Public Finance and Economic Management Project.

I. STRATEGIC THRUST AND RATIONALE

1.1 Project Linkages with Country Strategy and Objectives

1.1.1 The proposed operation is strongly anchored on Zambia's 7th National Development Plan 2017-2021 (7NDP). 7NDP contributes to Zambia's National Vision 2030, which provides the framework for the country's long term aspiration and projects Zambia to become a prosperous middle income nation through infrastructure and human resources development to stimulate creation of wealth and jobs. 7NDP rests on five pillars: (i) economic diversification and job creation; (ii) reducing inequalities; (iii) tackling poverty and vulnerabilities; (iv) enhancing human development; and (v) strengthening governance for diversification. It provides the overall strategic direction for the five year period 2017-2021. The overarching goal is to create a diversified and resilient economy for sustained growth and socio-economic transformation driven by agriculture, mining and tourism. The proposed project will support pillars 1, 3 and 5. The Plan is underpinned by the Economic Recovery Program which aims at restoring fiscal fitness for sustained inclusive growth and development, through curbing unproductive expenditure while raising domestically generated revenues, re-aligning monetary policy to Government's fiscal consolidation, while implementing necessary structural reforms. The project is also aligned with the Economic Stabilization and Growth Program (Zambia Plus) launched in October 2016 and covering the period 2017-2019, and MTEF 2019-2021, both of which support the 7NDP agenda and targets. A description of the country's development agenda is presented in **Technical Annex A**.

Box.1: 7th National Development Plan (7NDP)
The five pillars of 7NDP: 1. Economic diversification and job creation; 2. Reducing inequalities; 3. Tackling poverty and vulnerabilities; 4. Enhancing human development; and 5. Strengthening governance for diversification

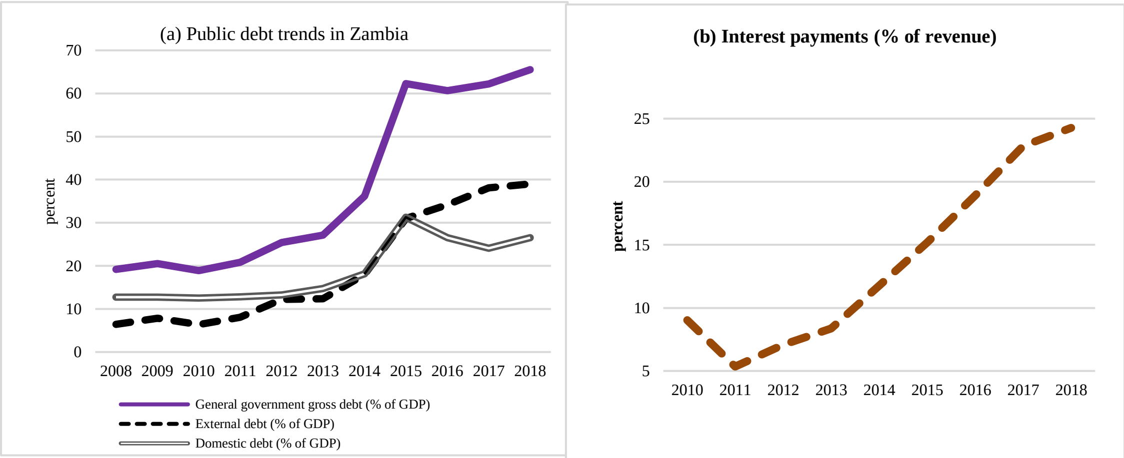
1.1.2 The proposed project also has a strategic fit with the objectives and priorities of the current Zambia Country Strategy Paper (CSP) 2017-2021. The CSP is designed to assist Zambia in its efforts to reduce poverty and malnutrition, and lessen vulnerability through a dynamic and sustainable private sector that creates jobs. This will be achieved through two strategic objectives: (i) raise productivity and strengthen trade competitiveness to expand non-traditional exports and reduce vulnerability to copper; and (ii) create a business-friendly environment to support diversification and industrialization while improving nutrition. These focus areas are informed by the fact that Zambia is a Middle Income Country whose social development indicators mimic low income countries with high poverty and unemployment in rural areas. The CSP is based on two pillars: (i) Support to Infrastructure Development; and (ii) Private Sector Development, while identifying Governance as a cross-cutting issue. The proposed project will support activities under the private sector development pillar, and a number of key economic governance-related activities (such as macro-fiscal and debt management) that serve as enablers to private sector development and inclusive growth. By helping to improve macroeconomic stability through improved debt management, the project will help to lay the foundation for enhanced competitiveness and long term private investments, thereby leading to improved economic growth and job creation. Even though the project was not initially included in the Country Strategy Paper, the need eventually arose following the macroeconomic challenges faced by the country. The project is also aligned to the Bank's Ten-Year Strategy 2013-2022, which supports inclusive and green growth and identifies Governance and Accountability as one of its five operational priorities. It is also consistent with the Bank's High 5s, particularly (i) Industrialise Africa and (ii) Improve the quality of life of the people of Africa. The proposed project is also aligned with (i) the Bank's Human Capital Strategy 2014-2018, and (ii) the Governance Strategic Framework and Action Plan 2014-2018 (GAP II), which supports institutional capacity development in the public sector.

1.2 Rationale for Bank's Involvement

1.2.1 Zambia has faced some of its worst economic headwinds in recent years. Copper prices fell by 19.7% and 11.7% in 2014 and 2015 respectively, which occasioned a corresponding fall in GDP growth from 5.0% in 2013 to 4.7% in 2014 and 2.9% in 2015. Low copper prices reduced export earnings and government revenues, while poor rainfall in the catchment areas of hydro-power reservoirs led to a marked reduction in electricity generation and severe power rationing. Despite the deteriorating macroeconomic performance, the Government continued to pursue a loose fiscal policy. In 2015, the fiscal deficit deteriorated to 9.3% of GDP (cash basis) compared to average deficit of 3.8% recorded between 2010 and 2014, explained largely by the aforementioned collapse of copper prices; large increases in public wages (following a 45% nominal hike in civil servant wages in 2013); costly fuel, electricity and agriculture subsidies; and large capital investments. Since then, tight monetary policy has succeeded in stabilizing the exchange rate and slowing down inflation.

1.2.2 Zambia's public and publicly guaranteed debt has accelerated rapidly in the recent past rising from 25.4% of GDP in 2012 to 65.52% of GDP in 2018 (in gross terms). Debt is projected to rise further reaching 70.1% by 2021 (see panel a of Figure 1). The increase is mainly attributed to a rapid accumulation in external public debt from 6.37% of GDP in 2010 to an estimated 30.1% of GDP in 2015. Zambia issued a total of USD 3.0 billion in Eurobonds in 2012, 2014 and 2015 alone. In addition, the country secured many other commercial loans from bilateral sources (including China and the Middle East) and syndicated loans through commercial banks. This increased total public debt by 72.3% by the end of 2015. External debt accumulation has however been rising at a slower pace since 2015 reaching an estimated 39% of GDP in 2018. Reconciliation of external debt figures in Zambia takes time and therefore more accurate figures may be released in the course of 2019. External debt portfolio is highly concentrated in the US dollar, which exposes the country to increased interest service burden (in local currency terms) when exchange rates depreciate, leading to widening fiscal deficit. The rise in public debt results in the crowding out of private/corporate investments, with wider implications for economic competitiveness and growth. The Loans and Guarantees (Authorization) Act, Cap 366 of the Laws of Zambia is the primary legislation on debt management in Zambia. The Investment and Debt Management Department is responsible for monitoring both domestic and external debt, including guarantees. However, the Department has major capacity constraints. There are also no documented policies and procedures to guide the debt contracting process. As shown in Figure 1 (panel b) below, Zambia's debt service as a percentage of revenues has increased rapidly over the past few years, rising from 9.02% in 2010 to 26.93% in 2016 (latest figures). Debt analysis is presented in Appendix 1.

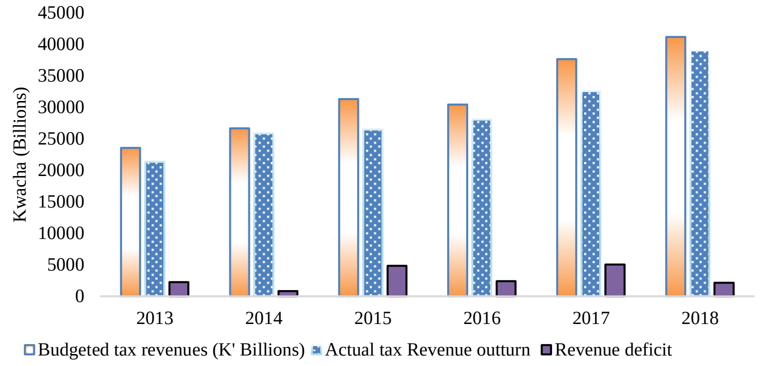
Figure 1: Public debt in Zambia



Data source: AfDB Statistics Department

1.2.3 Lack of a comprehensive system of quantifying and managing fiscal risks remains a major challenge. A robust framework for assessment of fiscal risks can help policy makers simulate impacts of different kinds of shocks on government solvency, liquidity, and financing needs. Subjective risk assessments tend to underestimate the potential implication of fiscal risks resulting in revenue forecasts being significantly higher than the actual revenue outturns. As shown in **Figure 2**, the actual revenue outturns have over the years fallen below the projected revenues as used in the budget. The gap, as can be seen from the figure, is wider in those years where fiscal risks are more pronounced like in 2015 at the height of commodity price fall. Accurate assessment and quantification of such fiscal risks and their implication on other macro variables is therefore important for maintenance of the country’s fiscal stability. The ability to simulate the impact of such shocks to the whole economy requires robust economy-wide macroeconomic models and the requisite human capacity. Currently, Zambia’s Ministry of Finance uses an excel-based macroeconomic model (ZAMMOD) developed in 2008. The technical aspects and capabilities of the existing model have been analysed and weaknesses identified. The most critical of these is that the Keynesian-based demand side model currently being used does not incorporate the supply side dynamics of the economy. Further, the excel platform is prone to user mistakes that may alter important figures in the model without the user’s knowledge. Forecasting of global commodity demand based on unfolding global geo-political and economic dynamics is important for accurate projection of revenues that are used for budgeting purposes. Lower copper demand from China and the ongoing US-China trade disputes, for instance, have already seen a decrease in copper prices by more than 18% in 2018. Assessing and quantifying such risks to revenue outturn are important in moderating revenue projections to maintain budget credibility. Two other sources of fiscal risk are public private partnerships and state owned enterprises. Significant capacity building effort is required to proper1y assess and quantify such risks and mitigate their potential impacts on the fiscus. In the case of SOEs, there is inadequate capacity and no system

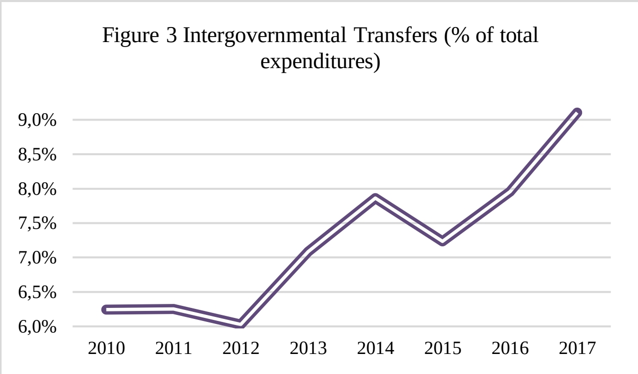
Figure 2: Budgeted and Actual Reveunues



Source: Budget Speeches and Zambia Revenue Authority to track external loans procured by the Government and on-lent to them. There is therefore a need to establish a mechanism to keep track of such loans and status of repayments.

Box 2: Fiscal Risks from State Owned Enterprises (SOEs)

A number of state owned agencies continue to rely on the central government for transfers. As can be seen in the **Figure 3,** intergovernmental transfers to state owned agencies (SOEs) and regional government authorities have sharply increased since 2010, rising from 6.24% of total expenditures to 9.1% of total expenditures in 2017. Part of the increase is attributed to the poor performance of some SOEs and the need for bailouts from government.



Government has made a commitment to ascertain the long-term viability of all State Owned Enterprises (SOEs) under its portfolio. The objective will be to recapitalize those that have a good business case and hive off those that are not viable. Currently, most of the SOEs are a drain on the Treasury and therefore pose major fiscal risks. In this regard, Government intends to conduct a situational analysis of Zesco, Zamtel, Zambia National Building Society, Indeni Oil Refinery, TAZAMA Pipeline, Zambia Railways and Zambia State Insurance Corporation.

1.2.4 Weak capacity in public investment planning means government efforts to address the infrastructure deficit is not yielding the desired results. Public investments are considered as a key prerequisite to achieve and sustain economic growth, and attain the country’s strategic policy objectives. The 2017 PEFA assessment highlighted a number of shortcomings in Zambia’s public investment management framework and processes. These include: (i) the absence of a system to coordinate and oversee major investment projects; (ii) economic analyses are not conducted for major investment projects and such projects are not assessed or reviewed by an entity other than the sponsoring entity; (iii) there is no formal system in place for project identification, screening selection, and appraisal of all major investment projects. The lack of capacity to undertake robust project appraisal and selection based on modern techniques results in sub-optimal investments which could further worsen the already heavy debt burden. One related area that also requires some focus is the Public Private Partnership (PPP) framework. Weak institutional capacity for PPPs remains a challenge that reduces the scope for mobilizing private finance for infrastructure development.

In 2008, the Zambian government approved a PPP Policy and a PPP Act was passed by parliament in 2009. Capacity, both within the PPP Directorate and across government remains weak, and this has contributed to the slow pace of PPP project implementation. The Economist Intelligence Unit’s (EIU) Africa Infrascope analysis of PPPs gives Zambia an overall score of 34.2 out of 100, and ranks 13th out of 15 countries in Africa.

1.2.5 Lack of capacity to adequately make long term plans and effectively monitor their implementation also remains a challenge. The Ministry of National Development Planning was created to efficiently and effectively coordinate national planning and economic management in a transparent and accountable manner in order to achieve sustainable national development. The Ministry oversees the development of the National Development Plans (NDPs), with the aim of actualizing Vision 2030. The non-availability of quality economic statistics for evidence-based planning and decision-making is a big challenge for the Government of Zambia. Statistics for key indicators necessary for tracking NDP7 outcomes are lacking and even those available are out of date. Efforts are therefore underway to address this bottleneck by conducting an economic census and an annual business survey. This will be done in such a way as to provide hands-on training for staff of the Central Statistics Office. A capacity needs assessment carried out by the Ministry of National Development Planning has also identified critical gaps (both human and technical) in development planning, monitoring and evaluation, and project management. With the help of the EU, a performance management framework linking sector programmes to 7NDP outcomes has been developed but rolled out only to a few ministries. The coverage of the framework needs to be widened in order to achieve the desired impact.

1.2.6 In 2016, the Government put in place the Economic Stabilization and Growth Program (Zambia Plus) to restore macroeconomic stability. The Program aims at restoring fiscal fitness and overall macroeconomic stability as a basis for setting a platform for higher inclusive growth, employment and wealth creation in the medium to long-term. The program rests on five pillars: (i) Restoring credibility of the budget by minimising unplanned expenditures and halting the accumulation of arrears; (ii) Enhancing domestic resource mobilisation and refocusing of public spending on core public sector mandates; (iii) Improving economic and fiscal governance by raising the levels of accountability and transparency in the allocation and use of public finances; (iv) Ensuring greater economic stability, growth and job creation through policy consistency to raise confidence for sustained private sector investment; and (v) Scaling-up Government's social protection programmes to shield the most vulnerable in society from negative effects of the program.

1.2.7 The proposed project will support the implementation of ongoing reforms and lay the foundation for macroeconomic stability. *First*, macro-fiscal and debt management capacity (human, institutional and technical) will be strengthened, to enable the country deal with the consequences of unsustainable debt and exposure to macroeconomic shocks, as well as other forms of fiscal risks, including those related to SOEs and PPPs. *Second*, the Government will be supported in building capacity to generate good quality statistics and effectively monitor the implementation of the National Development Plan, as well as performance management systems to achieve the desired targets. *Third*, public investment management capacity will be strengthened so that the country can close the huge infrastructure gap in a sustainable way without creating fiscal imbalances. Addressing gaps in public investment planning and PPP capacity is therefore a step in the right direction. The Bank has the requisite knowledge and expertise in all aforementioned areas, derived from decades of experience in delivering similar support to other Regional Member Countries. Examples include support to debt management in Sudan; public investment management and PPPs in Namibia; and M&E and statistical capacity building in Zimbabwe. The Bank should intervene now, by providing much-needed support to deal with the challenges and weaknesses identified through (i) provision of training and other forms of capacity-building to the designated beneficiaries; (ii) finance studies to inform economic policy; (iii) procurement of ICT and other equipment and systems; (iv) development of key frameworks and guidelines to improve performance as part of ongoing reforms; and (v) provision of technical assistance. These interventions are geared towards addressing existing capacity gaps but their effectiveness will depend on a number of factors, including the robustness of the policy and legal framework, as well as credibility of government policy. The Bank will therefore work closely with other cooperating partners to engage the Government in sustained policy dialogue.

1.2.8 The proposed project complements the previous support to Zambia. It will complement and enhance the effectiveness of the Bank's ongoing projects/programs by addressing critical capacity gaps. It will build on the achievements of ongoing projects aimed at improving skills, such as the Skills Development and Enterprise Support Project, Line of Credit to Development Bank of Zambia, and Youth in Agribusiness and Agriculture Commodity Project. The support to PPP capacity enhancement will boost private sector participation in infrastructure and related services, and hence complement the Bank's infrastructure investment projects, such as the Power Transmission Project and the Multi-purpose Small Dams Project. The project's focus on strengthening macro-fiscal and debt management capacity will help to enhance macroeconomic stability, which is an enabler for private investments and hence complements the Bank's financial sector interventions in Zambia.

1.2.9 The project will also complement other development partners' interventions, particularly the Public Financial Management Reform Programme (PFMRP), which aims to improve efficiency, effectiveness, accountability and transparency in the use of public resources to attain economic development, poverty reduction and improved public service delivery. The program began in 2014 and concluded in December, 2018. It was implemented through a Multi Donor Trust Fund (MDTF) set up with contributions from UKAid through DFID, Germany through KfW and Finland. It was administered by the World Bank Group. Discussions on a possible Phase 2 are currently ongoing. Collaboration with the IMF on macro-fiscal and debt management is also ongoing. African Legal Support Facility (ALSF) is also planning to provide PPP support through a hotline, toolkit and model templates. These will complement the PPP intervention through the proposed project.

1.3 Donors Coordination

1.3.1 Zambia's aid coordination architecture is well-established to facilitate dialogue among development partners. Coordination is institutionalised through the high-level Cooperating Partners (CP) Group led by a Troika (currently chaired by DfID and comprising Japan and Germany). Joint Sector Working Groups hold regular meetings that provide a platform for policy dialogue. Issues that cannot be addressed at working group level are elevated to the Cooperating Partner Group. The Bank is currently chairing the Water and Sanitation Sector Working Group and continues to be active in the Transport, Agriculture, and Monitoring and Statistics Working Groups. Cooperating Partners supporting private sector development are AfDB, Japan and the United Kingdom; Public financial management is supported by AfDB, Germany, the United Kingdom (and the World Bank managed the PFMRP Multi-Donor Trust Fund); while M&E is supported by AfDB, EU, UK, UN, and USA. During the Preparation and Appraisal missions, the team met with key Cooperating Partners, including the European Union, the World Bank, UK, Japan, Germany, and USA to exchange views and explore options to enhance coordination. Key suggestions received and how they were taken on board in the design of the project are summarised in Table 5. **Appendix 5** presents the Cooperation Partner intervention matrix.

II. PROJECT DESCRIPTION

2.1 Project Objectives and Components

2.1.1 Project Objective: The goal of the proposed project is to unlock Zambia's economic growth potential through improved capacity to manage public resources. The specific objective is to strengthen institutional capacity in macro-fiscal and debt management, development planning, M&E and statistics. **Technical Annex B2** presents detailed project description and costs.

2.1.2 Project Components: **The proposed project has three mutually reinforcing components**: (i) Enhancing debt management and fiscal stability; (ii) Enhancing capacity for economic planning, Monitoring & Evaluation and statistics; and (iii) project management. Under Component I, the project will support (i) strengthening debt management capacity; and (ii) strengthening macroeconomic and fiscal management capacity. Under Component 2, the project will support (i) enhancing public investment management capacity; (ii) strengthening statistical capacity for economic planning; and (ii) enhancing Monitoring Evaluation systems and gender mainstreaming. Under Component 3, the project will support project procurement, financial management and monitoring and evaluation. The project is designed to ensure maximum skills transfer, and guarantee sustainability by placing emphasis on capacity building mainly through collaboration with local training institutions.

2.1.3 Component 1: Enhancing debt management and fiscal stability: This component will address critical gaps in debt management and has two sub-objectives. Sub-component 1.1: *Strengthening debt management capacity:* This includes support to consolidating different systems of debt recording (DMFAS and CSD) and creating an interface with IFMIS; technical assistance to elaborate and update the Medium Term Debt Strategy; development of procedures manual for debt management; and capacity building for staff. Sub-component 1.2: *Strengthening macroeconomic and fiscal management capacity*: This includes enhancement of the macroeconomic model for policy analysis and forecasting to better quantify fiscal risks; development of a revenue forecasting model for ZRA; two studies on domestic resource mobilization and tax exemptions; strengthening fiscal tables and staff training.

2.1.4 Component 2: Enhancing Capacity for Economic Planning, M&E, and Statistics: This component will help to strengthen the public investment management function and build capacity around M&E and statistics. The three sub-objectives are: Sub-component 2.1: *Enhancing public investment management capacity*: This includes the development of an IT system for the guidelines and procedures for a public investment management system; capacity building for project appraisal and selection and transaction advisory services for a pilot PPP project. Sub-component 2.2: *Strengthening statistical capacity for economic planning*: This includes an economic census and annual business survey; and technical assistance and hands-on training of the Central Statistics Office (CSO) staff in conducting economic census and business surveys. Sub-component 2.3: *Enhancing M&E systems and gender mainstreaming*: This includes roll-out of a system/database for monitoring donor-funded projects; roll out of a performance management framework linking sector programmes to 7-NDP outcomes; and capacity building for staff, and development of guidelines to access gender-related preferences in the Public Procurement Act.

2.1.5 Component 3: Project Management: This component will support project procurement, financial management, monitoring and evaluation and project audit.

Table 2: Project description and budget

Components	Activities
Component 1: Enhancing Debt Management and Fiscal Stability (UA 3.64 million)	***Sub-component 1.1: Strengthening debt management capacity (UA 2.08 million):*** The project will support the following:
	• Develop a system to consolidate the different systems of debt recording including DMFAS and CSD into one system and integrate into the IFMIS • Pilot project to link DMFAS to selected SOEs accounting systems to facilitate tracking of on-lent debt and contingent liabilities • Provide technical assistance to further elaborate and update the Medium Term Debt Strategy (2017-2019) in line with MTEF • Develop procedures manual for debt management (including reporting of disbursements related to bilateral debt). • Develop framework to guide the selection of optimal financing options for appraised projects • Capacity building on debt management including: debt recording and reporting in line with international standards; management of commercial debt; management of contingent liabilities and legal aspects of debt management • Strengthen capacity of oversight institutions (relevant parliamentary committees) on debt issues • Undertake PEFA Assessment
	Sub-component 1.2: Strengthening macroeconomic and fiscal management capacity (UA 1.55 million): The project will support the following: • Develop a macroeconomic model for policy analysis and forecasting to quantify and manage fiscal risks • Support the establishment of inter-agency Technical Macro Working Group to strengthen fiscal-monetary frameworks • Review existing cooperation arrangements (MOF, BOZ, etc.) and propose options to rationalize and formalize cooperation through MOU. • Develop revenue forecasting model for ZRA • Conduct study on enhancing domestic resource mobilization • Conduct a study on rationalization of tax exemptions • Train staff on tax policy, transfer pricing techniques, macroeconomic modelling and forecasting, revenue and cash flow forecasting; assessing and quantifying fiscal risks, including those related to SOEs and PPPs; risk-based audit; value for money audit. • Develop a system to strengthen fiscal tables to record on accrual basis from the current cash basis
Component 2: Enhancing Capacity for Economic Planning, M&E and Statistics (UA 3.91 million)	***Sub-component 2.1: Enhancing Public Investment Management Capacity (UA 1.19 million):*** The project will support the following activities: • Develop IT system for the guidelines and procedures for a public investment management framework • Build capacity for effective use of the IT system • Build capacity in project appraisal and selection • PPP capacity strengthening and TA for pilot project
	Sub-component 2.2: Strengthening statistical capacity for economic planning (UA 1.43 million) : The project will support the following: • Conduct economic census and annual business survey • Training of CSO staff on conducting economic and business surveys

	Sub-component 2.3: Enhancing M&E systems and Gender Mainstreaming (UA 1.28 million): The project will support: • Roll out system/database for monitoring of donor-funded projects • Training on monitoring and evaluation of donor funded projects • Training on planning, modelling and forecasting, M&E, and project management techniques • Roll-out performance management framework linking sector programmes to 7NDP outcomes • Develop guidelines to access gender-related preferences in the Public Procurement Act.
Component 3: Project Management (UA 0.45 million)	• Project procurement • Financial management and reporting • Monitoring and evaluation • Project audit

2.2 Technical Solution Retained and Other Alternatives Explored

2.2.1 During project preparation and appraisal, the feasibility of several technical options were explored. These include the thematic areas of intervention; the number of institutions to support; the scale of investments in each area; and the modality of delivering the capacity building support. Based on these considerations, the recommendations from analytical works, as well as lessons from the Bank's and other Cooperating Partners' capacity-building operations, the scope, range of activities and implementation arrangements elaborated in this report were agreed with the Zambian Authorities. The options considered and reasons for rejecting some of them are highlighted in the table below:

Table 3: Project Alternatives Considered and Reasons for Rejection

Alternative	Brief Description	Reasons for Rejection
Focus areas of the operation	The Government submitted a long list of capacity building needs, including support to SMEs and the operationalization of a credit guarantee scheme. Following thorough assessment by the team, it was decided to strictly apply the selectivity principle, hence the few focus areas of the project. A separate operation will be signed to support other areas left out. The support to SMEs and the Zambia Credit Guarantee Scheme will be combined with another support being considered for funding under AFAWA.	It would have been difficult to manage such a huge operation with totally unrelated components. The selectivity principle would not have been adhered to.
Creation of a new PIU	The project task team explored different options for project implementation arrangements, including the establishment of a new PIU. However, having considered the cost implication and need to adhere to the Paris Declaration Principles, a decision was taken to utilize the PIU established to manage the PFMRP project supported by a range of Cooperating Partners.	Establishing a new PIU would have been too costly and would represent an unnecessary duplication of effort.
Providing support through the basket fund	PFMRP was delivered through a multi-donor trust fund managed by the World Bank. The project came to an end in December 2018 and the possibility of developing phase 2 is currently being considered. The project task team explored the option of joining phase 2 if it becomes a reality. However, considering the uncertainties around a possible phase 2, and the consequent impact on the project's processing timelines, the project task team opted for a stand-alone operation designed to guarantee complementarity with other Cooperating Partner interventions.	Although the use of the Trust Fund carries the benefit of guaranteeing effective coordination of partner interventions, it was agreed that the Bank's support should be focused on specific interventions that complement other partners' support and can deliver tangible results. The use of the Trust Fund would delay the project preparation as PFMRP II has not yet been approved and the modalities for the new Trust Fund are not yet agreed. There is no clarity about timelines for Phase II and even whether it will happen at all.

2.3 Project Type

2.3.1 The proposed project is an institutional support project for capacity building, designed to build on the achievements of the multi-donor PFMRP. It will complement ongoing and planned interventions by other Cooperating Partners. It aims at contributing to consolidating economic reforms through human and institutional capacity strengthening, ultimately leading to improved macroeconomic performance.

2.4 Project Cost and Financing Arrangements

2.4.1 The estimated total cost of the project, net of taxes and duties, is UA 8.89 million (including 10% GRZ contribution). A price contingency of 4%, and a physical contingency of 3%, have been factored in the project cost. Tables (4a) and (4b) present the estimated project cost by component and sources of finance, whereas Tables (4c) and (4d) present the estimated project costs by Category of Expenditure. Details of the project cost by component and expenditure category are also presented in **Technical Annex B2**. The Bank will finance UA 8 million while the GRZ in-kind contribution is valued at UA 0.89 million, to cater for PIU office space and staff cost.

Table 4a: Project cost estimates by component and subcomponent

Component	ZMW million			UA million			% Foreign	% of Total
	Local	Foreign	Total	Local	Foreign	Total		
Component 1: Enhancing Debt Management and Fiscal Stability								
Subcomponent 1.1: Strengthening debt management capacity	9.03	19.63	28.66	0.54	1.17	1.71	69%	19%
Subcomponent 1.2: Strengthening macroeconomic and fiscal management capacity	6.23	19.55	25.78	0.37	1.17	1.54	76%	17%
Subtotal Component 1	15.26	39.18	54.44	0.91	2.34	3.25	72%	37%
Component 2: Enhancing Capacity for Economic Planning, M&E and Statistics								
Subcomponent 2.1: Enhancing public investment management capacity	2.68	15.23	17.91	0.16	0.91	1.07	85%	12%
Subcomponent 2.2: Strengthening statistical capacity for economic planning	23.42	0.46	23.88	1.40	0.03	1.43	2%	16%
Subcomponent 2.3: Enhancing M&E systems and gender mainstreaming	6.92	14.57	21.49	0.41	0.87	1.28	68%	14%
Subtotal Component 2	**33.04**	**30.26**	**63.29**	**1.97**	**1.81**	**3.78**	**48%**	**43%**
Component 3: Project Management								
Project management	6.27	0	6.27	0.37	0	0.37	0%	4%
Zambia Govt. contribution	14.86	0	14.86	0.89	0	0.89	0%	10%
Subtotal Component 3	**21.13**	**0**	**21.13**	**1.26**	**0**	**1.26**	**0%**	**14%**
Total Base cost	**69.43**	**69.44**	**138.87**	**4.15**	**4.15**	**8.30**	**50%**	**93%**
7% Contingency	4.86	4.86	9.72	0.29	0.29	0.58	50%	7%
Total Project Cost	**74.29**	**74.30**	**148.59**	**4.44**	**4.44**	**8.88**	**50%**	**100%**

Note: Exchange Rates 1 UA= 16.72 Kwacha

Table 4b: Sources of financing

	ZMW millions				UA million			
Sources of Financing	**Local**	**Foreign**	**Total**	**% of Total**	**Local**	**Foreign**	**Total**	**% of Total**
ADF Loan	59.43	74.30	133.73	90%	3.55	4.44	7.99	90%
GoZ counterpart contribution	14.86	0	14.86	10%	0.89	0	0.89	10%
Total	**74.29**	**74.30**	**148.59**	**100%**	**4.44**	**4.44**	**8.88**	**100%**

Table 4c: Project cost by category of expenditure

	Local	*Foreign*	*Total*	*Local*	*Foreign*	*Total*	*% Foreign*	*% Total*
A. Goods	***6.88***	***0***	***6.88***	***0.41***	***0***	***0.41***	***0%***	***5%***
B. Services	***47.69***	***69.44***	***117.13***	***2.85***	***4.15***	***7.00***	***59%***	***79%***
C. Operating Cost	***0***	***0***	***0***	***0***	***0***	***0***	***0%***	***0%***
Baseline cost	***54.57***	***69.44***	***124.01***	***3.26***	***4.15***	***7.41***	***56%***	***83%***
GRZ contribution	***14.86***	***0***	***14.86***	***0.89***	***0***	***0.89***	***0%***	***10%***
7% Physical and price contingency	***4.86***	***4.86***	***9.72***	***0.29***	***0.29***	***0.58***	***50%***	***7%***
Total project cost	***74.29***	***74.30***	***148.59***	***4.44***	***4.44***	***8.89***	***50%***	***100%***

Table 4d: Project Expenditure Schedule

	ZMW million					UA million				
	2019	**2020**	**2021**	**2022**	**Total**	**2019**	**2020**	**2021**	**2022**	**Total**
Component 1: Enhancing Debt Management and Fiscal Stability										
Subcomponent 1.1: Strengthening debt management capacity	2.86	8.60	8.60	8.60	28.66	0.17	0.51	0.51	0.51	1.71
Subcomponent 1.2: Strengthening macroeconomic and fiscal management capacity	2.57	7.74	7.74	7.74	25.78	0.15	0.46	0.46	0.46	1.54
Subtotal Component 1	**5.43**	**16.34**	**16.34**	**16.34**	**54.45**	**0.32**	**.98**	**0.98**	**0.98**	**3.25**
Component 2: Enhancing Capacity for Economic Planning, M&E and Statistics										
Subcomponent 2.1: Enhancing public investment management capacity	1.79	5.37	5.37	5.37	17.91	0.11	0.32	0.32	0.32	1.07
Subcomponent 2.2: Strengthening statistical capacity for economic planning	2.38	7.16	7.16	7.16	23.88	0.14	0.43	0.43	0.43	1.43
Subcomponent 2.3: Enhancing M&E systems and gender mainstreaming	2.14	6.45	6.45	6.45	21.50	0.13	0.38	0.38	0.38	1.28
Subtotal Component 2	**6.32**	**18.98**	**18.98**	**18.98**	**18.98**	**0.38**	**1.14**	**1.14**	**1.14**	**3.78**
Component 3: Project Management										
Project management	0.63	1.88	1.88	1.88	6.27	0.04	0.11	0.11	0.11	0.37
GRN contribution	1.48	4.45	4.45	4.45	14.86	0.09	0.27	0.27	0.27	0.88
Subtotal Component 3	**2.11**	**6.33**	**6.33**	**6.33**	**21.13**	**0.13**	**0.38**	**0.38**	**0.38**	**1.27**
Total Base Cost	**13.88**	**41.66**	**41.66**	**41.66**	**138.87**	**0.83**	**2.49**	**2.49**	**2.49**	**8.31**
7% contingency	**0.97**	**2.91**	**2.91**	**2.91**	**9.72**	**0.05**	**0.17**	**0.17**	**0.17**	**0.58**
Total Project Cost	**14.85**	**44.57**	**44.57**	**44.57**	**148.59**	**0.89**	**2.66**	**2.66**	**2.66**	**8.89**

2.5 Project's Target Areas and beneficiaries

2.5.1 The potential direct beneficiaries will be the key institutions responsible for public finance, economic management, development planning and statistics. These are the Ministry of Finance (Investment and Debt Management Department, Economic Management Department, Revenue Policy Department), Ministry of National Development Planning (M&E Department, Development Cooperation Department, Public Investment Planning Department), Ministry of Gender & Development, Office of the Auditor General, Central Statistics Office, and Zambia Revenue Authority. The private sector will also benefit from a more favorable business climate, through support to PPP and improved macroeconomic performance. The indirect beneficiaries are the entire population, through enhanced development outcomes, which will translate into inclusive growth and improved service delivery.

2.6 Participatory process for project identification, design and implementation

2.6.1 During the Identification, Preparation and Appraisal missions, consultations were held with all key stakeholders. These include the senior management of various Government Ministries and Agencies, the private sector (represented by the Zambian Chamber of Commerce and Industry), civil society (represented by Civil Society for Poverty Reduction) and Cooperating Partners. The proposed operation, as already indicated, is aligned with Zambia's development programs and with the Bank's CSP, which are all products of consultative processes conducted through seminars, workshops and thorough debates among key stakeholders in Zambia. Stakeholders confirmed, among others, (i) concerns about Zambia's rising debt, its crowding out effect and the need for concrete action to address the challenge; (ii) the weak public sector capacity and its ramifications for planning and monitoring and evaluation; and (iii) the need to take steps to improve the policy, legal and regulatory framework to attract private investments. These observations have been taken into account in project design through the targeted activities aimed at improving debt management and strong capacity development focus of the project. The consultations have helped to lay out a plan for stakeholder engagement throughout the implementation phase of the project. This includes the institutionalization of half yearly meetings with the private sector and Cooperating Partners on the ground during supervision missions. Some of the key issues raised by development partners, which have been reflected in project design, are highlighted in the table below.

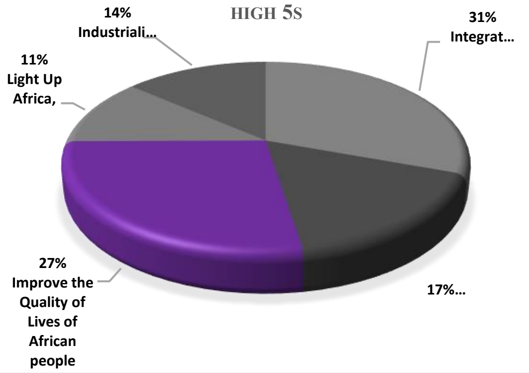
Table 5: Issues raised by Cooperating Partners

	Issues raised	**Measures taken**
1.	The slow pace of putting in place enabling regulations and laws (particularly the Loans and Guarantee Amendment Act, the Revised Procurement Act as well as the Statistics Act and the Planning and Budgeting Act) was raised as a concern.	The Bank will strengthen engagement with Cooperating Partners and lead policy dialogue with GRZ on these matters.
2.	The PFM Working Group needs to be reinvigorated to serve as a platform for Cooperating Partner engagement with Government on public financial management (PFM) issues.	The Bank will spearhead and lead the process of reactivating the PFM Working Group to coordinate dialogue with the Government on PFM issues.
3.	The CPs noted that it is more beneficial to install long term technical assistants in the Ministries for an impactful capacity building than short term consultants.	This has been reflected in project design. The project will finance a number of technical advisors (between 6-12 months) to serve in various capacities within the Ministry of Finance. This will be a valuable source of knowledge transfer.

2.7 Bank Group experience and lessons reflected in project design

2.7.1 The size of the Bank's portfolio currently stands at UA 754.1 million ($1.1billion) as at February 2019. Public sector lending accounts for UA 609. 5 million for 16 national projects and 3 multinational operations, whereas funding for private sector operations accounts for UA143.60 million in five operations. The portfolio distribution across the High 5s is as follows: Integrate Africa (31%), Improve the Quality of Life (24%), Feed Africa (18%), Light up and Power Africa (12.4%), Industrialize Africa (14.6%).

FIG.1: ZAMBIA PORTFOLIO DISTRIBUTION BY HIGH 5S



The portfolio is distributed across seven sectors including: Transport (31%), water supply and sanitation (21%), agriculture (17%), energy (10%), social (6%), finance (11%) and environment (4%). Portfolio performance has improved compared to 2018, due to a significant reduction in red flagged and problematic projects. This has been as a result of several innovative clean up and turn around measures implemented by the Bank in Zambia. The average disbursement rate improved from 19.16% in September 2018 to 26.74% in February 2019. Average age of portfolio has slightly increased and is currently at 3.85 years compared to 2.6 years in November 2017. Currently there are no problematic projects and no Projects-at-Risk (PAR).

2.7.2 The latest Country Portfolio Performance Review (CPPR) of February 2019 underscored a number of critical issues. Key lessons learned include: (i) improve quality-at-entry and minimize start up delays by (a) requiring pre-conditions to be met at pre-appraisal instead of creating conditions precedent and (b) making arrangements for advance procurement where necessary; (ii) improve implementation capacity and monitoring by supporting project implementation, monitoring and evaluation capacity through training; (iii) enhance the results framework through clear formulation of strategic objectives to strengthen indicator linkage and measurability; and (iv) strengthen policy dialogue by focusing on relevant themes such as debt management and enhancing engagement through the Zambia Country Office (COZM). These lessons have been reflected in project design. Lessons learned and achievements of previous operations in presented in **Annex B1**.

2.7.3 The design of this project is guided by various analytical and diagnostic reports as well as broad consultations during the preparation and appraisal missions. The main analytical underpinning is provided by the PFMRP Mid-Term Review Report (July, 2015); the Public Expenditure and Financial Accountability (PEFA) Assessment 2017; the 2015 Infrascope-Evaluating the Environment for PPPs in Africa; Zambia PPP Readiness Diagnostic; Domestic Revenue Mobilization for Financing Development – Zambia Country Case Study by Africa Policy Research Institute; Financing the Economic Stabilization and Growth Program in the Shadow of the IMF; Ibrahim Index of African Governance 2018; 2015 IMF Zambia Country Report: Towards an Integrated Legal Framework for Public Financial Management; EU Evaluation of the PFM Support Program in Zambia; World Economic Forum Global Competitiveness Report 2018; World Bank's Zambia Systematic Country Diagnostic 2018. Discussions with other Cooperating Partners have also provided a basis for the project design and identification of complementary areas of focus. In addition, lessons have been drawn from previous operations of both the Bank and other development partners. Consultations during the preparation and appraisal missions also provided a valuable source of lessons.

Table 6: Lessons Learned

	Lessons learned from previous and ongoing Bank operations	
	Lessons Learned	***Actions taken to integrate lessons into the PAR***
1	Improve quality-at-entry and minimize start up delays	The project will utilize an existing PIU. This will help to minimize start-up delays related to setting up a PIU.
2	Improve implementation capacity and monitoring by supporting project implementation, monitoring and evaluation capacity through training	The project will help develop M&E capacity within Government. One of the key functions within the PIU is monitoring and evaluation.
3	Enhance the results framework through clear formulation of strategic objectives to strengthen indicator linkage and measurability	Thorough analysis was undertaken to establish a clear causal link between project activities, outputs, outcomes and impacts. All targets were realistically set and measurable indicators identified for performance measurement. Continuous monitoring and evaluation will be undertaken throughout project implementation.
4	Strengthen policy dialogue by focusing on relevant themes such as debt management	Debt management, macroeconomic management and development planning are key areas supported by the project and which will serve as basis for policy dialogue.
5	Ensure close coordination and collaboration with other cooperating partners intervening in the sector during preparation and implementation	Discussions and consultations were held with all the cooperating partners in the supporting PFM, economic management and M&E to get their views and inputs into the project design. These consultations will continue into the implementation phase.
6	Focus on country ownership and anchor the program on the country's development strategy to ensure effective program implementation	The project is strongly aligned to the objectives of the 7th National Development Plan and MTEF (see para 1.1.1). All activities to be financed are in line with the Government's development agenda.

2.8 Key performance indicators

2.8.1 The key performance indicators identified, and the expected outcomes on project completion, are set out in the Logical Framework. The expected outcome from the first Component "***Enhancing Debt Management and Fiscal Stability***" is an improvement in Public financial management. This is measured by three PEFA indicators: (a) PI-10 Fiscal risk reporting; (b) PI-13 Debt management; and (c) PI-14: Macroeconomic and fiscal forecasting. The expected outcome from the second component *"**Enhancing Capacity for Economic Planning, M&E and Statistics"*** is an improvement in public investment management. This is measured by one PEFA indicator: (a) PI-11: Public investment management.

III. PROJECT FEASIBILITY

3.1 Economic and Financial Performance

3.1.1 The economic and financial benefits from the project will be significantly higher than the UA 8.00 million financing. As an institutional support project, it may not be practical to attempt to carry out rigorous financial analysis to determine ratios such as internal rate of return. However, what can be confirmed is that the economic and financial benefits, emanating directly or indirectly from the Project will be significantly higher than the UA 8 million investment in the project. While the costs are easily quantifiable (as outlined in Table 2), the benefits are both direct and indirect, and will be felt across the economy, in terms of improved debt management and macroeconomic stability, hence stimulating private sector activity and private investments and economic growth. Improved debt management (in particular recording and reporting) will improve market sentiments and the cost of external financing. For example, allegations of hidden debt in the past have led to substantial widening of Zambia's Eurobond yields. Interventions aimed at improving public investment management, PPPs and enhanced revenue mobilization, will help achieve efficiency gains and create fiscal space. The ultimate economic justification of the proposed project is its contribution to a better functioning government through improved capacity. It will contribute to improved capacity and efficiency in planning and public finance and economic management and improved business environment. By contributing to the development of human and institutional capacity, the project will also ensure that the benefits will be sustained over time.

3.2 Environment and Social Impacts

3.2.1 <u>Environment and Climate Change</u>: The proposed project is environmentally classified as Category 3 by SNOQ. It will have no adverse impact on the environment, given that activities financed comprise training, various forms of technical assistance, and studies. None of these is likely to have a negative impact on the climate. The Environmental Analysis is presented in **Annex B8**.

3.2.2 <u>Social</u>: The proposed project will help strengthen capacity for public finance and economic management. This will eventually result in improved macroeconomic stability and an increase in private investments. It will enhance competitiveness and further unlock the country's economic growth potential. The improvements in public sector capacity in the targeted areas (including domestic resources mobilization) will support the national budget with significant additional resources to underpin the delivery of social services, infrastructure development, education, health, social inclusion and poverty reduction. Because the project enhances budget credibility and resource mobilization, it will also help enhance predictability in allocation to social sectors (education, health, social protection) thus create potential for poverty reduction. The impact on poverty and other cross cutting areas will therefore be indirect, but significant.

3.2.3 <u>Gender</u>: Given its focus on debt and macro-fiscal management, this project is a **Category IV** on the Gender Marker System, hence expected to have minimal contribution to gender equality and women's empowerment. The project will however incorporate a gender lens across all capacity building activities, studies and surveys. Gender issues will be integrated in the studies on domestic resource mobilization and rationalization of tax exemptions, as well as the annual business survey. Under the capacity building activities, the project will ensure that women comprise at least 30% of participants. The project will further support the development of guidelines to facilitate women's access to gender-related preferences provided for in the Public Procurement Act, thus expanding opportunities for women's economic empowerment. A detailed gender assessment is presented in **Annex B7**.

3.2.4: <u>Involuntary Resettlement</u>*:* The Project will not result in any population displacement.

IV. IMPLEMENTATION

4.1 Implementation Arrangements

4.1.1 The proposed project will be implemented over a period of 3.5 years from July 2019 December 2022. The Ministry of Finance will be the Executing Agency. The Project Implementation Unit (PIU) will be situated within the Accountant General's Office at the Ministry of Finance (MoF) using structures and personnel already in place to manage the Public Financial Management Reform Program (PFMRP). The personnel currently comprise a project coordinator, procurement specialist, financial management specialist, and monitoring and evaluation specialist. To beef up capacity for project management, an additional financial management expert will be designated from within the Ministry of Finance. The CVs of proposed candidates for this position, with details of professional qualifications and experiences, will be forwarded to the Fund for review and approval prior to his/her appointment. An additional monitoring and evaluation expert will also be recruited on a competitive basis and financed from the proceeds of the Loan. The PIU will oversee day-to-day project implementation, in collaboration with beneficiary institutions. It will also coordinate portfolio management, including procurement, financial management, and monitoring and results reporting. The existing Project Steering Committee (PSC) for PFMRP will be reconfigured to provide strategic oversight and policy guidance for the project. The PSC will be chaired by the Permanent Secretary, Ministry of Finance and members will include representatives of each beneficiary Department/Agency, i.e. Ministry of Finance (Investment and Debt Management Department, Economic Management Department, Revenue Policy Department), Ministry of National Development Planning (M&E Department, Development Cooperation Department, Public Investment Planning Department), Ministry of Gender and Development, Central Statistics Office, and Zambia Revenue Authority. The PSC will meet at least once every quarter to review overall progress in implementation and take action when necessary to resolve emerging or outstanding issues. A focal point will be designated for each beneficiary Ministry, Departments and Agency to facilitate project implementation. They will oversee the day-to-day implementation of their respective project activities in collaboration with the PIU, and under the leadership of their respective Directors.

4.1.2 The implementation arrangements and PIU staffing have been assessed and found to be adequate. Additional measures to be implemented to ensure the effectiveness of the existing arrangements are discussed in paragraph 4.2.1 (financial management) and 4.3.4 (procurement). With an operational PIU already in place and operational, the project readiness mechanism is adequate.

4.2 Financial Management, disbursement and audit

4.2.1 Financial Management (FM): The project's Financial Management (FM) will be handled within MoF's existing FM structures. The Project Implementation Unit (PIU) will handle all financial management activities in line with the Bank's commitment to using existing country fiduciary systems. The overall responsibility for FM shall be placed under the Permanent Secretary as the Accounting Officer of the Executing Agency (EA), with functional FM oversight placed under the Director of Finance (DoF). To strengthen the Accountant General Department's capacity to handle the additional responsibility from the project, the FM capacity assessment revealed the need to beef up the existing FM staffing. In that regard, it was agreed between the Bank and the Management of MoF to designate and second a dedicated Project Accountant (PA) whose qualifications and experience are acceptable to the Bank. The dedicated PA shall have a performance-based contract with key performance indicators, and his/her performance shall be reviewed annually by both the Executing Agency (EA) and the Bank to serve as a basis for subsequent contract renewal upon satisfactory performance. Additional FM safeguards to strengthen the control environment are contained in the detailed FM arrangements (**Technical Annex B4**). The overall FM risk is rated as Moderate.

4.2.2 Disbursement arrangements: The project shall make use of the Bank's various disbursement methods including (i) Direct Payment, (ii) Special Account (SA) and (iii) Reimbursement methods in accordance with Bank rules and procedures as laid out in the Disbursement handbook as applicable. The Disbursement Letter to be issued by the Bank and agreed with GRZ during negotiations shall provide specific disbursement details. Flow of funds locally to finance project activities shall follow GRZ treasury guidelines and operating procedures. Detailed disbursement arrangements are also contained as part of **Annex B4**.

4.2.3 Reporting and External Audit: The overall responsibility for the project FM reporting and auditing shall rest with the Permanent Secretary as the Accounting Officer of MoF, with functional responsibility placed under the Director of Finance, MoF as the head of the finance department. In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit to the Bank Interim Quarterly Progress report (IQPR) not later than forty-five (45) days after the end of each calendar quarter. Annual financial statement prepared and audited by the Office of the Auditor General (OAG) as per their mandate, including the auditor's opinion and Management Letter would be submitted to the Bank not later than six (6) months after the end of each fiscal year. The audit of the project can be subcontracted as necessary to a private audit firm to be procured through short-lists (with the involvement of OAG) using the Bank rules and procedures for procurement, and the cost of audit will be financed from the loan only if the audit is carried out by a private firm. No fees shall be paid to the OAG using Bank resources when the audit is undertaken by the office. Detailed auditing arrangements are included as part of as part of **Annex B4**.

4.3 Procurement arrangements

4.3.1 Procurement of goods (including non-consultancy services), works and the acquisition of consulting services, financed by the Bank for the project, will be carried out in accordance with the *"Procurement Policy and Methodology for Bank Group Funded Operations" (BPM)*, dated October 2015 and following the provisions stated in the Financing Agreement. Specifically, Procurement would be carried out as follows:

4.3.2 Borrower Procurement System (BPS): Specific Procurement Methods and Procedures (PMPs) under Borrower Procurement System (BPS) comprising its Laws and Regulations as per the Public Procurement Act of 2008 and the Public Procurement Regulations of 2011, using the national Standard Solicitation Documents (SSDs) as appropriate and as may be amended. Small value goods contracts will be procured through limited bidding (shopping). The various procurement categories and contracts are defined in detail in **Technical Annex B5**.

4.3.3 Bank Procurement Policy and Methodology (BPM): Bank standard PMPs, using the relevant Bank Standard Solicitation Documents (SSDs), for contracts where the BPSs shall not apply for specific transaction or group of transactions as BPM have been found to be the best fit for purpose. Such contracts will include all consultancy services on the project and the specific procurement methods and review requirements are specified in the Procurement Plan.

4.3.4 Procurement Risks and Capacity Assessment (PRCA): The assessment of procurement risks at the Country, Sector, and Project levels and of procurement capacity at the Executing Agency (EA), were undertaken for the project and the findings have informed the decisions on the procurement arrangements being used for transactions under the project. An additional procurement specialist will be recruited under the project to beef up the current capacity in the PIU. The risk for the use of the Borrower Procurement System (BPS) has been assessed and rated ***Moderate***. The appropriate risk mitigation measures have been included in the PRCA Action Plan proposed in the procurement section of the Technical Annexes.

4.4 Monitoring and Evaluation

4.4.1 Rigorous mechanisms have been put in place to ensure adequate monitoring and evaluation. The PIU will play a critical role in results monitoring and evaluation. The M&E specialist will be given the responsibility of collecting and analyzing data on implementation progress for all project components, subcomponents, and activities. Focal points for various beneficiary institutions will serve as primary sources of data and information. The project task team on the Bank side and the PIU will be responsible for project monitoring and evaluation, using the Result Monitoring Framework and the project log frame. The periodic performance assessment and result reporting will be carried out by the task team in collaboration with the project Coordinator and the beneficiary institutions. The PIU will prepare quarterly implementation progress reports. These reports will analyze project implementation bottlenecks that may impede achievement of planned outputs and outcome indicators, and hence enable timely action to ensure smooth implementation. The Bank will carry out a rigorous monitoring and supervision missions at least twice a year. A mid-term review will be conducted two years after project approval. The Bank's Country Office in Zambia (COZM) will play an active role in the country dialogue and project monitoring and evaluation. A project completion report will be prepared at the end of the project to evaluate progress against outputs and outcomes and draw lessons for follow-up operations.

Table 7: Project Implementation Schedule

Task / Milestone	**Responsible Party**	**Time Frame**
Loan Approval	AfDB	April 2019
Loan Effectiveness	AfDB/GRZ	July 2019
Project Launching	AfDB/GRZ	August2019
First disbursement	AfDB/GRZ	August2019
Project Implementation	AfDB/GRZ	August 2019-December 2022
Annual Audit Report	GRZ	December 2019, 2020, 2021, 2022
Supervision Mission	AfDB/GRZ	December 2019, June & December 2020, 2021, 2022
Mid-term Review	AfDB/GRZ	March 2021
Project Completion Report	AfDB/GRZ	June 2023

4.5 Governance

4.5.1 The proposed project is designed to build human and institutional capacity in areas critical to the management pf public resources. This includes economic planning, debt management, domestic resource mobilization, and monitoring and evaluation. It will therefore help build a strong foundation for economic governance. The financial management function of the project will be carried out by the PIU under the supervision of the Project Coordinator. A Steering Committee will be established, comprising representatives of the various beneficiary institutions. Accounting records will be kept, presenting project expenditure by component, category and source of finance. An independent audit of the project accounts will be carried out annually.

4.6 Sustainability

4.6.1 The sustainability of the proposed project will primarily be anchored on GRZ's commitment to implementing policy and institutional reforms in PFM and economic management. Embedded in the design of the proposed project is a strong capacity building and knowledge transfer dimension. This will help ensure that adequate capacity is built across Government during the project's implementation phase. In addition, the proposed project will finance certain activities, such as the development of manuals and guidelines, which will guide and inform the day-to-day work of public officials in critical areas such as debt management. Sustainability is also addressed through the training of trainers in the envisaged activities of some of the beneficiaries, as well as strong emphasis in the use of local and regional training institutions, wherever feasible. In-built in the design of the project is optimization of complementarities both with GRZ and development partners' interventions. In terms of cost sustainability, the project is consistent with the principles of the Paris Declaration on Aid Effectiveness, as its implementation does not involve the creation of new institutions. In this regard, the existing PIU set up to manage the PFMRP will be utilized.

4.7 Risk Management

4.7.1 The potential risks and mitigation measures for the project are summarized Table 8 below.

Table 8: Risk and Mitigation

Description of Risk	**Probability/ Impact**	**Mitigation**
Risk 1: Macroeconomic risk: The country is currently facing significant vulnerability to exogenous shocks, compounded by unsustainable levels of public debt.	High / High	***Mitigation:*** The country has embarked on concerted efforts on debt management and economic governance with support of partners, including the Bank.
Risk 2: Fiduciary risk: Although Zambia has made good progress in strengthening institutions, some weaknesses are still prevalent, and these will continue to pose a risk.	Low / High	***Mitigation:*** Activities supported by the project will improve the fiduciary environment. This includes procurement and financial management capacity. Half-yearly supervisions will also help mitigate fiduciary risks.
Risk 3: Implementation capacity risk: Weak implementation capacity within Government.	Medium/Medium	***Mitigation:*** Provide targeted support, including in monitoring & Evaluation and project management. COZM will also provide support to project implementation in addition to regular supervision missions.
Risk 4: Legal and regulatory risks: Slow action in addressing existing weaknesses in the legal framework could impact project performance.	Medium/High	***Mitigation***: Work closely with other cooperating partners to engage Government in policy dialogue around the legal framework for debt management and other areas.
Risk 5: Risk of policy reversal: Economic reforms need to be sustained over time but in the past, there have been cases of policy reversal.	Medium/High	***Mitigation:*** Policy dialogue between Government and development partners (with the Bank taking a leading role) will be enhanced and sustained.

4.8 Knowledge building

4.8.1 The proposed project will build knowledge, and develop skills, in critical areas of public finance and economic management. The implementation of the project will strengthen knowledge generation in public finance and economic management by, among others, consolidating different systems of debt recording and creating an interface with IFMIS; building human capacities through various forms of training, including in various areas of economic management; strengthening systems and building capacities for generating critical statistics to inform decision making and monitoring and evaluation; and developing manuals/guidelines to guide and inform the work of public officials. This is particularly important given the high staff turnover in the ministries targeted by the project. Knowledge will also be acquired through skills transfer by external experts, thereby boosting public sector capacity and ensuring sustainability. The knowledge transfer dimension will be given strong emphasis in every consultancy/technical assistance assignment. Consultancy contracts with clearly determined knowledge sharing activities will be devised. The Bank's regular project supervisions, the performance review at mid-term and the project completion report will also contribute to knowledge-building and generate lessons to inform future interventions.

V. LEGAL INSTRUMENTS AND AUTHORITY

5.1 Legal Instrument

5.1.1 An ADF Loan will be used to finance the project, governed by a Loan Agreement between the Republic of Zambia (the "Borrower") and the Fund.

5.2 Conditions associated with Bank's intervention

5.2.1 Conditions Precedent to Entry into Force: The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower, of the provisions of section 12.01 of the *General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Fund*.

5.2.2 Conditions precedent to first disbursement: The obligation to make the first disbursement of the loan shall be conditional upon the entry into force of the Loan Agreement.

5.3 Undertaking

The Borrower shall undertake to, within two (2) months of the signing of the Loan Agreement, submit to the Fund, evidence in form and substance satisfactory to the Fund, confirming:

(i) the composition of a reconfigured Project Steering Committee as described in section IV of this report;
(ii) the designation of Project focal points for each component and / or sub component to oversee the day to day implementation of the respective project activities; and
(iii) the designation of one (1) additional finance expert (from within the Ministry of Finance), and the recruitment of one (1) additional procurement expert, and one (1) monitoring and evaluation expert for the project.

5.4 Compliance with Bank policies

5.4.1 This project complies with applicable Bank policies.

VI. RECOMMENDATION

Management recommends that the Board of Directors approve an ADF Loan of Eight million Units of Account (UA 8,000,000) to the Republic of Zambia to finance the Project under the terms and conditions stipulated in this report.

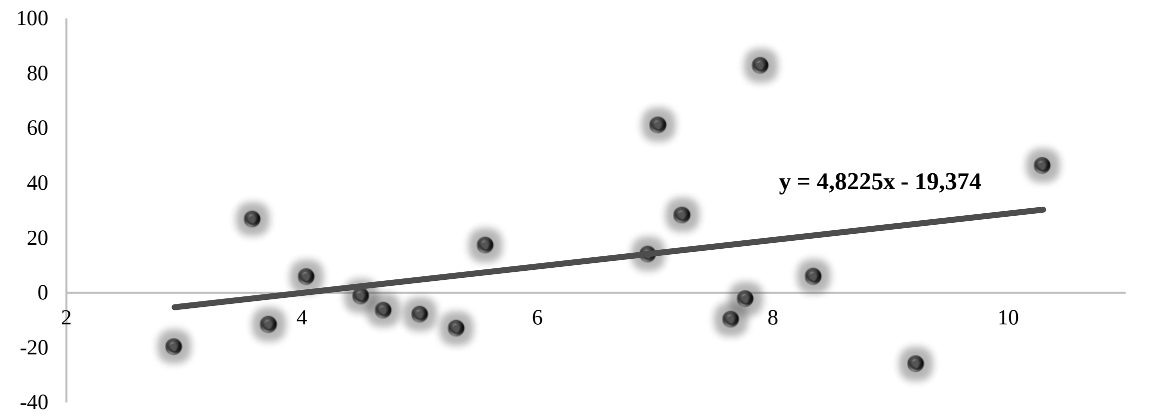
Appendix 1: Fiscal risk and debt management

Improving capacity to quantify and manage fiscal risks

A comprehensive system of quantifying and managing fiscal risks is important for the management of public finances. The recent collapse of commodity prices underscored this need particularly for commodity dependent countries like Zambia. A robust framework for assessment of fiscal risks can help policy makers simulate impacts of different kinds of shocks government solvency, liquidity, and financing needs. Subjective risk assessment tend to underestimate the potential implication of fiscal risks with resultant revenue forecasts for instance significantly higher than the actual revenue outturns. Zambia has been adversely affected by the recent fall in commodity price shocks. Specifically, copper price fell by 19.71% and 11.66% in 2014 and 2015 respectively and which occasioned a corresponding fall in GDP growth in the respective years to 4.7% in 2014 from 5.0% in 2013 and further reduction to 2.9% in 2015. This resulted into a fiscal deficit of 9.3% of GDP compared to average deficit of 3.8% recorded between 2010 and 2014. As seen in **Figure A1**, there is a strong positive correlation between improved copper prices shocks and economic growth in Zambia.

Accurate assessment and quantification of such fiscal risks and their implication on other macro variables is therefore important for maintenance of the country's fiscal stability. The ability to simulate the impact of such shocks to the whole economy requires updated and economy-wide macroeconomic models. Currently, Zambia's Ministry of Finance uses a macroeconomic model that was developed in 2008 and is excel-based which is prone to mistakes. Forecasting of global commodity demand based on unfolding geo-political and economic dynamics is important for accurate projection of revenues that are used for budgeting purposes. Lower copper demand from China and the ongoing trade war with the US for instance has already seen a decrease in copper prices by more than 18% in 2018. Assessment and quantifying such risks to revenue outturn are important in moderating revenue projections to avoid budget overruns.

Figure A1: Correlation between GDP Growth and Copper price shocks

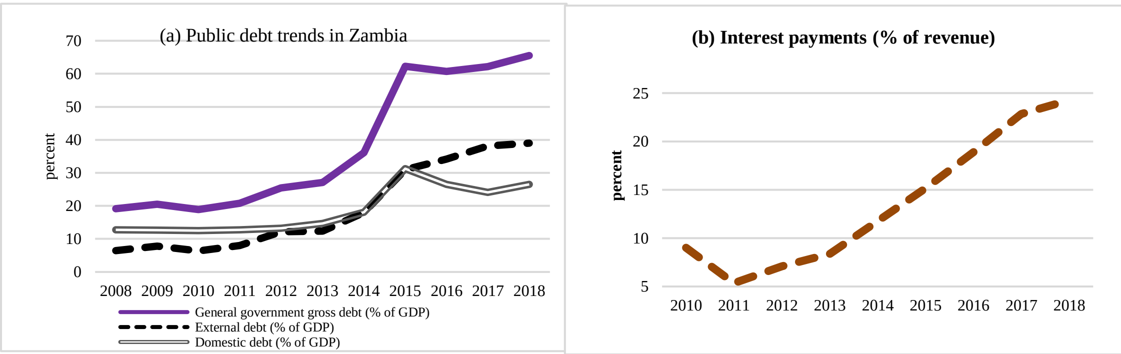


Copper price shocks are calculated as the percentage change in the nominal USD/mt)

<u>Zambia's recent rapid debt accumulation and its adverse effects on fiscal sustainability calls for prudent debt management strategy</u>

1.1 Zambia's total public debt has increased steadily from a low of 18 percent of GDP in 2010 to 65.52% in 2018 (see panel a of Figure A2). The increase is mainly attributed to a proportionate increase in external public debt from 6.37 percent in 2010 to 32.9 percent in 2018. Domestic public debt on the other hand has increased from 12.52 percent in 2010 to 29.31 percent in 2017. The increase in domestic debt is mainly on account of arrears accumulation as well as borrowing from commercial banks and overdraft from the Bank of Zambia.

Figure A2: Recent Trends in Zambia's Public Debt and debt service



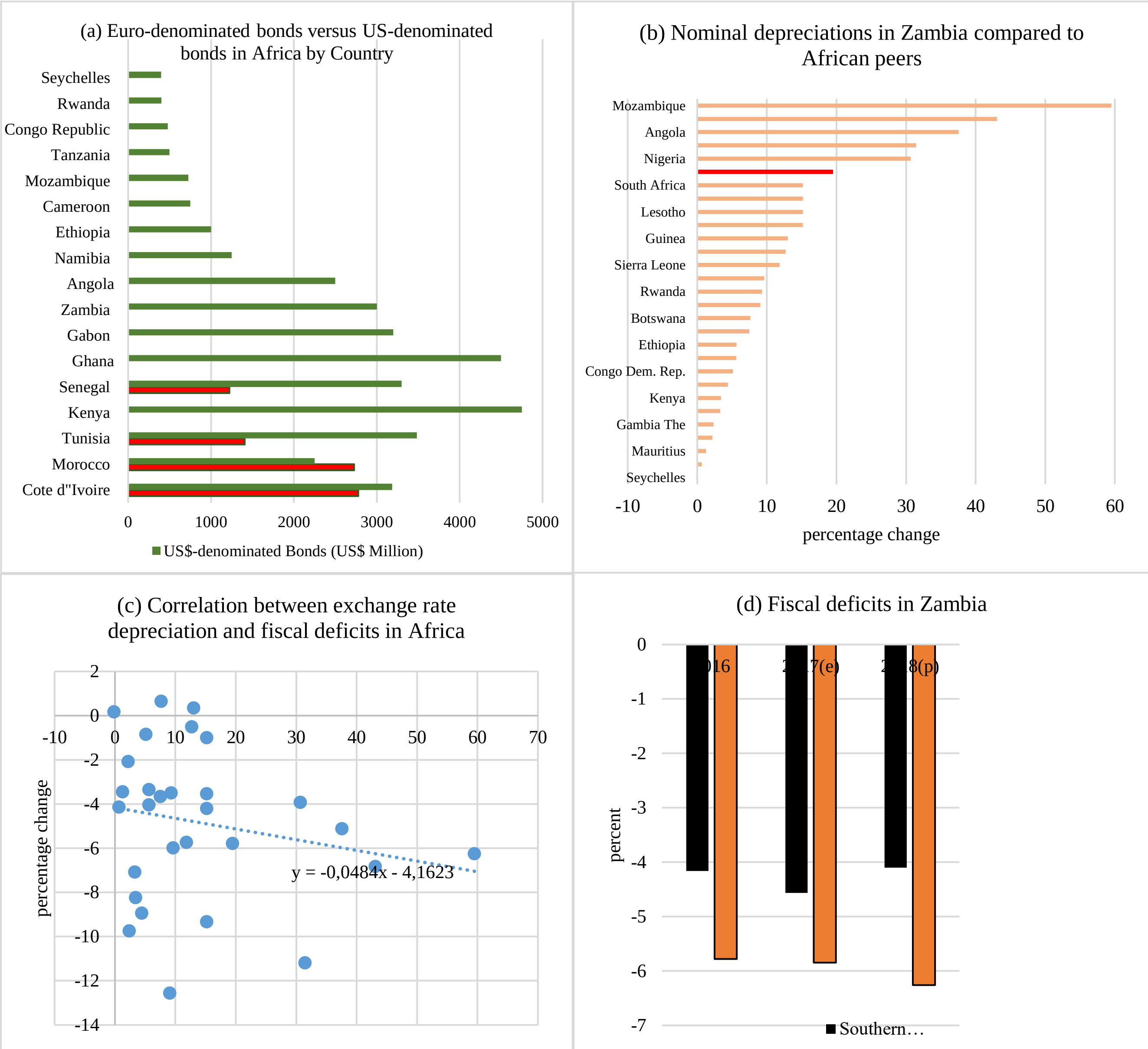
Data source: AfDB Statistics Department

1.2 Increased debt accumulation is squeezing government revenues through increased debt repayments leaving the country in a vulnerable fiscal situation. As shown in **Figure A2** (panel b), Zambia's debt service as a percentage of revenues has increased rapidly over the past few years, rising from 9.02 percent in 2010 to 26.93 percent in 2016.

1.3 External debt accumulation has come with increase in concentration of Zambia's debt in a few hard currencies with the USD dollar-denominated debt dominating the portfolio. Zambia is among the countries in Africa that has accumulated the highest value of commercial debt, particularly the Euro bonds. The country accumulated a total of USD 3.0 billion in external commercial loans between 2012 and 2018, majority of which were contracted in 2012, 2014 and 2015 - see **Figure A3** panel (a). The high concentration of the external debt portfolio in US dollar exposes the country to exchange rate volatility, which increased interest payments (in local currency terms) and widens the fiscal deficit. Zambia, being a commodity exporter, is one of countries in Africa that experienced the most rapid depreciations of their currencies (see **Figure A3** Panel b). As shown in the Figures 3 panel c below, accelerated nominal depreciation is associated with a widening of the fiscal deficit. It is no surprise therefore that Zambia's fiscal deficits increased over the same period as a result of increased interest payments (panel d).

1.4 The adverse effects of continued debt accumulation on Zambia's fiscal sustainability calls for careful management of the country's debt. Institutional support to to build capacity in managing its commercial debt portfolio therefore is important in helping the country remain on a sustainable fiscal path.

Figure A3: Debt, exchange rate volatility and fiscal deficits in Zambia

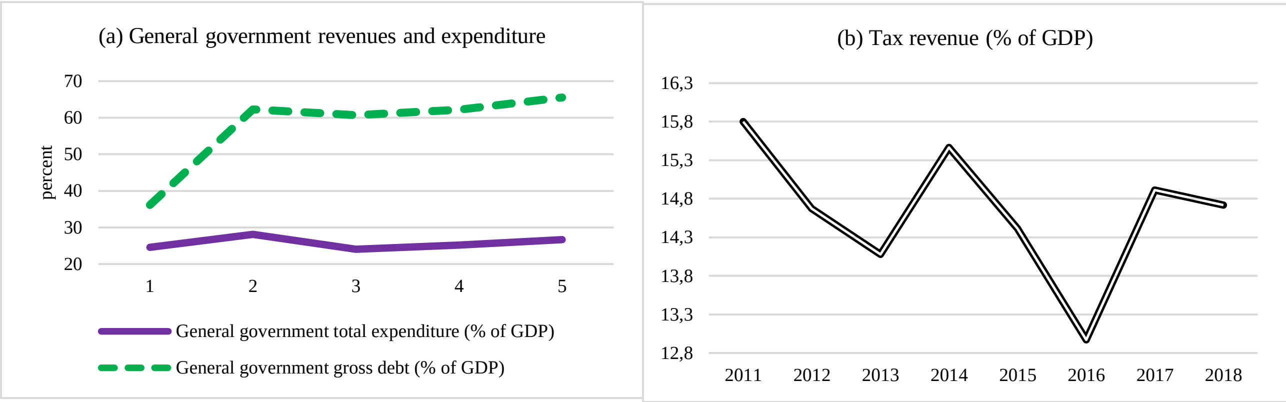


Source: Authors' computations based on data from the AfDB Statistics Department

1.5 Domestic resource mobilization has been slow

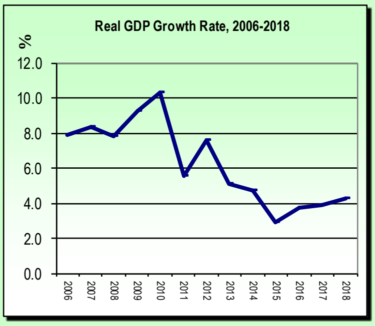
Zambia has also experienced persistent decline in fiscal revenues in recent years with general government revenues falling over time from 22.5 percent of GDP in 2000 to 18.23 percent of GDP in 2016 (see **Figure A4 panel-a** below). Tax revenues to GDP have fallen from 17.12 percent in 2011 to 14.9 percent in 2016. At the same time, general government expenditures have remained high increasing from 21.4 percent of GDP in 2000 to 24.0 percent in 2016 (see **Figure A4 panel-b** below). The poor performance of fiscal revenues, particularly tax revenues has been attributed in part to excessive and discretionary exemptions that may not be adding economic value to the country. Rationalization of the tax exemptions in order to boost domestic resource mobilization therefore is a key policy measure that will stem the downward trend in fiscal revenues.

Figure A4: Fiscal revenue performance in Zambia

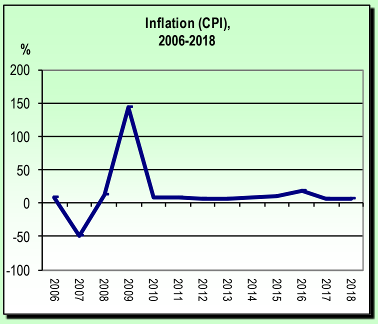


Appendix 2: Selected Macroeconomic Indicators

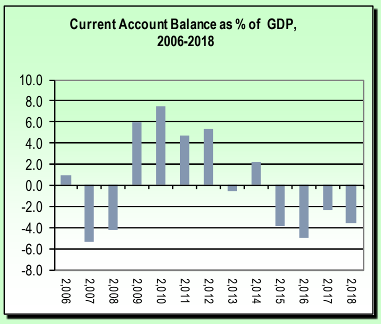
Indicators	Unit	2000	2013	2014	2015	2016	2017 (e)	2018 (p)
National Accounts								
GNI at Current Prices	Million US $	3,493	26,376	27,827	25,290	22,736	...	...
GNI per Capita	US$	330	1,730	1,770	1,560	1,360	...	...
GDP at Current Prices	Million US $	3,238	28,024	27,163	21,249	21,031	23,270	24,532
GDP at 2000 Constant prices	Million US $	3,238	7,419	7,767	7,994	8,294	8,618	8,982
Real GDP Growth Rate	%	3.6	5.1	4.7	2.9	3.8	3.9	4.2
Real per Capita GDP Growth Rate	%	0.9	1.9	1.5	-0.2	0.6	0.8	1.1
Gross Domestic Investment	% GDP	17.4	34.0	34.0	42.8	41.7	38.2	39.8
Public Investment	% GDP	7.9	4.6	4.8	6.0	3.8	3.4	3.6
Private Investment	% GDP	9.6	29.4	29.2	36.8	38.0	34.8	36.1
Gross National Savings	% GDP	-0.8	33.4	36.1	38.9	37.3	38.6	40.5
Prices and Money								
Inflation (CPI)	%	26.1	7.0	7.8	10.0	18.2	6.7	7.3
Exchange Rate (Annual Average)	local currency/US$	3.1	5.4	6.2	8.6	10.3	9.5	10.1
Monetary Growth (M2)	%	...	22.3	13.0	35.6	-9.1	18.4	...
Money and Quasi Money as % of GDP	%	...	28.4	29.0	35.9	27.6	32.0	...
Government Finance								
Total Revenue and Grants	% GDP	28.9	17.6	18.9	18.8	18.2	17.1	17.2
Total Expenditure and Net Lending	% GDP	29.5	23.8	24.6	28.1	24.0	22.9	23.4
Overall Deficit (-) / Surplus (+)	% GDP	-0.5	-6.2	-5.7	-9.3	-5.8	-5.8	-6.3
External Sector								
Exports Volume Growth (Goods)	%	-6.2	21.8	-3.5	-11.1	-4.6	-3.1	4.8
Imports Volume Growth (Goods)	%	2.5	16.6	-6.7	3.0	-5.8	8.8	9.2
Terms of Trade Growth	%	-2.8	-6.0	-2.6	-3.6	-0.8	14.6	6.1
Current Account Balance	Million US $	-597	-165	581	-831	-1,037	-540	-884
Current Account Balance	% GDP	-18.4	-0.6	2.1	-3.9	-4.9	-2.3	-3.6
External Reserves	months of imports	2.3	2.5	3.0	3.0	2.9	2.2	2.4
Debt and Financial Flows								
Debt Service	% exports	52.8	2.8	6.5	8.0	9.9	9.5	8.2
External Debt	% GDP	203.1	20.1	28.0	72.6	82.1	73.7	76.6
Net Total Financial Flows	Million US $	701	1,408	1,174	1,294	1,354	...	...
Net Official Development Assistance	Million US $	795	1,145	998	797	963	...	...
Net Foreign Direct Investment	Million US $	122	1,810	3,195	1,653	469	...	...



Real GDP Growth Rate, 2006-2018



Inflation (CPI), 2006-2018



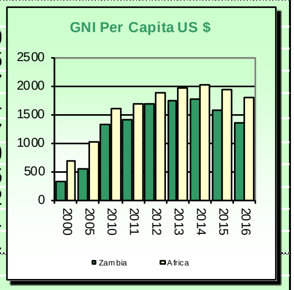
Current Account Balance as % of GDP, 2006-2018

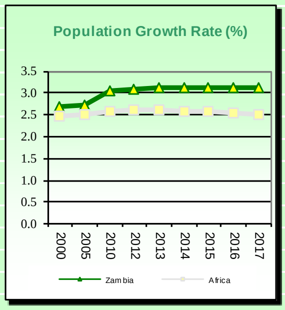
Source : AfDB Statistics Department; IMF: World Economic Outlook,April 2018 and International Financial Statistics, April 2018;
AfDB Statistics Department: Development Data Portal Database, April 2018. United Nations: OECD, Reporting System Division.

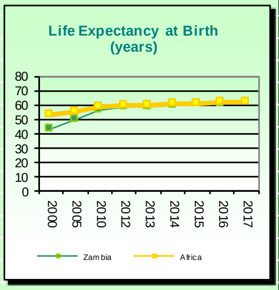
Notes: ... Data Not Available (e) Estimations (p) Projections Last Update: May 2018

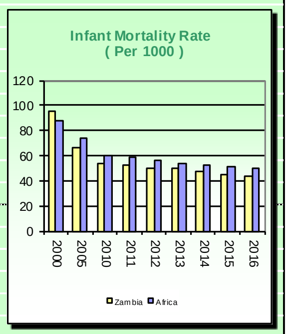
Appendix 3: Comparative socioeconomic indicators

	Year	Zambia	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)	2017	753	30,067	80,386	53,939
Total Population (millions)	2017	17.2	1,184.5	5,945.0	1,401.5
Urban Population (% of Total)	2017	40.2	39.7	47.0	80.7
Population Density (per Km²)	2017	23.2	40.3	78.5	25.4
GNI per Capita (US $)	2016	1 360	2 045	4 226	38 317
Labor Force Participation *- Total (%)	2017	75.3	66.3	67.7	72.0
Labor Force Participation **- Female (%)	2017	70.1	56.5	53.0	64.5
Sex Ratio (per 100 female)	2017	99.7	0.801	0.506	0.792
Human Develop. Index (Rank among 187 countries)	2015	139	...	...	...
Popul. Living Below $ 1.90 a Day (% of Population)	2015	57.5	39.6	17.0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2017	3.1	2.6	1.3	0.6
Population Growth Rate - Urban (%)	2017	4.5	3.6	2.6	0.8
Population < 15 years (%)	2017	45.5	41.0	28.3	17.3
Population 15-24 years (%)	2017	20.0	3.5	6.2	16.0
Population >= 65 years (%)	2017	2.9	80.1	54.6	50.5
Dependency Ratio (%)	2017	93.8	100.1	102.8	97.4
Female Population 15-49 years (% of total population)	2017	23.3	24.0	25.8	23.0
Life Expectancy at Birth - Total (years)	2017	62.0	61.2	68.9	79.1
Life Expectancy at Birth - Female (years)	2017	64.3	62.6	70.8	82.1
Crude Birth Rate (per 1,000)	2017	39.0	34.8	21.0	11.6
Crude Death Rate (per 1,000)	2017	8.1	9.3	7.7	8.8
Infant Mortality Rate (per 1,000)	2016	43.8	52.2	35.2	5.8
Child Mortality Rate (per 1,000)	2016	63.4	75.5	47.3	6.8
Total Fertility Rate (per woman)	2017	5.2	4.6	2.6	1.7
Maternal Mortality Rate (per 100,000)	2015	224.0	411.3	230.0	22.0
Women Using Contraception (%)	2017	53.0	35.3	62.1	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2016	9.1	46.9	118.1	308.0
Nurses and midwives (per 100,000 people)	2016	88.6	133.4	202.9	857.4
Births attended by Trained Health Personnel (%)	2014	63.3	50.6	67.7	...
Access to Safe Water (% of Population)	2015	65.4	71.6	89.1	99.0
Access to Sanitation (% of Population)	2015	43.9	51.3	57	69
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2016	12.4	39.4	60.8	96.3
Incidence of Tuberculosis (per 100,000)	2016	376.0	3.8	1.2	...
Child Immunization Against Tuberculosis (%)	2016	99.0	245.9	149.0	22.0
Child Immunization Against Measles (%)	2016	93.0	84.1	90.0	...
Underweight Children (% of children under 5 years)	2013	14.8	76.0	82.7	93.9
Prevalence of stunding	2013	40.0	20.8	17.0	0.9
Prevalence of undernourishment (% of pop.)	2015	45.9	2 621	2 335	3 416
Public Expenditure on Health (as % of GDP)	2014	2.8	2.7	3.1	7.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2013	102.3	106.4	109.4	101.3
Primary School - Female	2013	102.7	102.6	107.6	101.1
Secondary School - Total	2012		54.6	69.0	100.2
Secondary School - Female	2012		51.4	67.7	99.9
Primary School Female Teaching Staff (% of Total)	2012	53.1	45.1	58.1	81.6
Adult literacy Rate - Total (%)	2010	83.0	61.8	80.4	99.2
Adult literacy Rate - Male (%)	2010	88.7	70.7	85.9	99.3
Adult literacy Rate - Female (%)	2010	77.7	53.4	75.2	99.0
Percentage of GDP Spent on Education	2008	1.1	5.3	4.3	5.5
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2015	5.1	8.6	11.9	9.4
Agricultural Land (as % of land area)	2015	32.1	43.2	43.4	30.0
Forest (As % of Land Area)	2015	65.4	23.3	28.0	34.5
Per Capita CO2 Emissions (metric tons)	2014	0.3	1.1	3.0	11.6









Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports. *last update : May 2018*

*Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)*
*** Labor force participation rate, female (% of female population ages 15+)*

Appendix 4: Bank Group Current Portfolio In Zambia (February 2019)

	Project Name	High 5s	Commitment (UA million)	Amount Disbursed (UA million) at Nov 2018
	Feed Africa			
1	GAFSP-Agriculture Productivity and Market Enhancement Project	Feed Africa	22.50	14.00
2	Lake Tanganyika Development Project	Feed Africa	21.40	8.42
3	Cashew Infrastructure Development Project (CIDP)	Feed Africa	32.62	0.66
4	MIC TAF Grant Luswishi Farm Block	Feed Africa	0.72	0.68
5	MIC TAF Grant Youth in Agribusiness and Agriculture Commodities	Feed Africa	0.79	0.74
6	Feasibility Study for Upscaling Smallholder Irrigation System	Feed Africa	1.14	9.11
7	Livestock Infrastructure Support Project (LISP)	Feed Africa	12.00	9.11
8	Aquaculture Enterprise Dev. Project	Feed Africa	33.00	2.40
9	GEF Climate Resilient Livestock Management Project	Feed Africa	4.50	0.78
	Total Feed Africa		**128.67**	**45.90**
	Integrate Africa			
1	Botswana/Zambia-Kazungula Bridge Project	Integrate Africa	51.00	5.80
2	Multinational - Nacala Road Corridor Development Project PHA	Integrate Africa	5.00	0.51
3	Chinsali - Nakonde Road Rehabilitation Project (North-South)	Integrate Africa	176.20	0.72
	Total Integrate Africa		**232.20**	**7.03**
	Improve Quality of Lives			
1	Strengthening Climate Resilience In The Kafue Basin	Improve Quality of Lives	25.00	13.00
2	Lusaka Sanitation Program	Improve Quality of Lives	36.25	4.10
3	Integrated Small Towns Water and Sanitation Project	Improve Quality of Lives	98.10	1.23
4	Transforming Rural Livelihoods in Western Zambia - National	Improve Quality of Lives	24.24	5.00
5	Support for Science and Technology Education Project (SSTEP)	Improve Quality of Lives	22.22	10.73
6	Education for Sustainable Development in Africa (ESDA-NMRM)	Improve Quality of Lives	1.22	0.50
	Total Improve Quality of Lives		**207.03**	**34.56**
	Light Up Africa			
1	Kariba Dam Rehabilitation Project	Light Up Africa	25.20	0.17
2	Power Transmission Project	Light Up Africa	36.40	26.43
3	Itezhi-Tezhi Power Project	Light Up Africa	25.09	25.09
	Total Improve Light Up Africa		**86.69**	**51.52**
	Industrialise Africa			
1	Line of Credit to Development Bank of Zambia (DBZ)	Industrialise Africa	34.33	0.40
2	Line of Credit to FNB Subsidiary, First National Bank of Zambia	Industrialise Africa	31.90	31.90
3	Zambia National Building Society (ZNBS)	Industrialise Africa	18.26	0.00
4	Skills Development and Entrepreneurship Project	Industrialise Africa	22.00	3.80
	Total Industrialise Africa		**106.49**	**36.10**
	Total Portfolio Commitment		**761.08**	**175.29**

Appendix 5: Cooperating Partner Intervention Matrix (Focus areas of the Project):

Areas of support	**AFDB**	**Brazil**	**Canada**	**China**	**EU**	**Finland**	**France**	**Germany**	**India**	**IMF**	**Ireland**	**Italy**	**Japan**	**South Africa**	**Sweden**	**United Kingdom**	**United Nations**	**United States**	**World Bank**
Public Financial Management	**x**							**x**								**x**			**x**
Economic Management	**x**																		**x**
Statistics	**x**									**x**									**x**
Monitoring and Evaluation	**x**				**x**											**x**	**x**		

Appendix 6: Summary of PEFA 2017 scores

Pillars and PIs		Score
PI-1	Aggregate expenditure outturn	B
PI-2	Expenditure composition outturn	D+
PI-3	Revenue outturn	C+
Pillar 2: Transparency of Public Finances		
PI-4	Budget classification	B
PI-5	Budget documentation	B
PI-6	Central government operations outside financial reports	C+
PI-7	Transfers to subnational governments	B+
PI-8	Performance information for service delivery	C
PI-9	Public access to fiscal information	D
Pillar 3: Management of assets and liabilities		
PI-10	Fiscal risk reporting	D+
PI-11	Public investment management	D
PI-12	Public asset management	D+
PI-13	Debt management	C
Pillar 4: Policy-based fiscal strategy and budgeting		
PI-14	Macroeconomic and fiscal forecasting	B
PI-15	Fiscal strategy	A
PI-16	Medium-term perspective in expenditure	B
PI-17	Budget preparation process	B+
PI-18	Legislative scrutiny of budgets	B+
Pillar 5: Predictability and control in budget execution		
PI-19	Revenue administration	C+
PI-20	Accounting for revenue	B+
PI-21	Predictability of in-year resource allocation	C+
PI-22	Expenditure arrears	D+
PI-23	Payroll controls	C+
PI-24	Procurement management	C+
PI-25	Internal controls on non-salary expenditure	B
PI-26	Internal audit	C+
Pillar 6: Accounting and reporting		
PI-27	Financial data integrity	C
PI-28	In-year budget reports	D+
PI-29	Annual financial reports	B+
Pillar 7: External scrutiny and audit		
PI-30	External audit	D+
PI-31	Legislative scrutiny of audit reports	B+

PI stands for performance indicator

Appendix 7: Map of Zambia