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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 15-Nov-2024 | Report No: PIDDA00144



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Zambia	P507116	First Zambia Climate and Economic Resilience Programmatic DPF with Cat-DDO	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
EASTERN AND SOUTHERN AFRICA	18-Dec-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Republic of Zambia	Ministry of Finance and National Planning		

Proposed Development Objective(s)

The program development objective is to: (i) enhance fiscal management and resilience, (ii) promote private-sector investment and resilience in enabling sectors, and (iii) strengthen disaster risk management and climate resilience.

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	To be decided
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue



Explanation

B. Introduction and Context

Country Context

- 1. Zambia is experiencing a devastating drought, the driest in 40 years, impacting livelihoods and economic output.** Only 31 percent of the 2.2 million hectares of planted maize was harvested. The drought has affected 9.8 million people, with 6.6 million facing severe food insecurity. Poverty had increased before the drought, from 57 percent in 2010 to 60 percent in 2022 (national poverty line), and the shock will likely worsen it further. Real GDP growth is projected to drop from an average of 5.6 percent between 2021-2023 to 1.2 percent in 2024. With a highly variable climate, Zambia has faced more frequent and intense climatic extremes over recent decades. Rising temperatures, unpredictable rainfall, and limited technical and financial capacity heighten this vulnerability, emphasizing the need to enhance DRM systems to build climate resilience.
- 2. After nearly four years, Zambia is nearing the completion of its debt restructuring and the Government of Zambia remains committed to structural reforms, but fiscal and debt pressures continue, exacerbated by shocks.** Through the G-20 Common Framework for Debt Treatments (from now on, “Common Framework”), the Government of the Republic of Zambia (GRZ) reached agreements with bilateral creditors in October 2023 and international bondholders in June 2024. Since the elections in 2021, the current administration launched an ambitious reform program, which turned the primary deficit into a surplus by 2023 and cut inflation by half. Moreover, it introduced bold measures to boost private investment and rebalance the composition of government spending by canceling wasteful investment projects and withdrawing state intervention from the energy sector. However, current shocks show that critical reforms are needed to support economic recovery and build resilience, including climate change; Zambia remains shut from international markets in the near term, and financing will be limited.
- 3. The proposed Development Policy Financing (DPF) aims to support Zambia in increasing climate and economic resilience to natural disasters and other shocks.** This operation is part of the World Bank’s continuous multi-sectoral support to help Zambia emerge from the debt crisis and shift to a more resilient, sustainable, and inclusive economic growth path. As the largest provider of development financing to Zambia, the World Bank has committed over US\$2.1 billion through IDA since 2021 to support initiatives focusing on private sector development, job creation, inclusive service delivery, and sustainable, resilient growth.

Relationship to CPF

- 4. The proposed operation supports the Country Partnership Framework (CPF) for Zambia for FY25-29, WB’s Corporate Priorities, and complements recent projects and analytics.** The DPF series contributes to achieving Zambia’s CPF objective 1 (business environment for private investment), objective 2 (connectivity and increase energy access), objective 4 (targeting and effectiveness of social protection), objective 5 (natural resources management and climate-smart agriculture), and objective 6 (climate risk management systems and financing). The operation aligns with the institution's corporate priorities, including gender, climate, and enabling private capital. Moreover, it complements with recent WB projects and analytics. Recently, in June



2024, the World Bank approved US\$207.6 million to address the impacts of the ongoing drought through the Second Additional Financing for Scaling-up Shock Responsive Social Protection Project (P181711). Knowledge from implementing the last DPF operation has been included, while conducting close consultations with stakeholders and development partners

C. Proposed Development Objective(s)

The program development objective is to: (i) enhance fiscal management and resilience, (ii) promote private-sector investment and resilience in enabling sectors, and (iii) strengthen disaster risk management and climate resilience.

Key Results

- 5. On completion of the DPF series, the reform outcomes will lay the foundations for increased resilience to economic and climate shocks, while supporting private sector-led growth and providing financing for its immediate and potential liquidity needs in the aftermath of disasters.** It will enhance the government's ability to respond to the impacts of climate change and economic shocks, and further improve its fiscal resilience. It strengthens Zambia's DRM systems and boosts household and private-sector resilience to climate shocks, filling critical gaps in the current institutional framework. In addition to the World Bank's ongoing efforts to support Zambia in emerging from the current catastrophic drought, this DPF series provides readily available grants in case of a future emergency. It also aligns with the international commitment to help the country restore macroeconomic stability and debt sustainability under the G20 Common Framework.

D. Project Description

- 6. The proposed Development Policy Financing (DPF) is the first two operations in a programmatic series that supports critical reforms to increase resilience to shocks while seeking to reduce poverty on a more livable planet.** This first operation amounts to US\$100 million, and it is a mix of two instruments US\$25 million as a regular DPF and US\$75 million of which is a Catastrophe Deferred Drawdown Option (CAT-DDO) for future disasters. The Program Development Objective (PDO) will be achieved through reforms aimed at: The program development objective is to: (i) enhance fiscal management and resilience, (ii) promote private-sector investment and resilience in enabling sectors, and (iii) strengthen disaster risk management and climate resilience. Reforms aimed at strengthening mineral revenue management and building fiscal buffers, enhancing credit risk assessments when contracting sovereign loans and guarantees, and mobilizing carbon revenues will increase fiscal resilience and keep public debt on a sustainable path. Increasing private sector participation in growth-enabling sectors will enhance household and firms' resilience to natural disasters, supporting job creation and economic transformation. Finally, strengthening the country's disaster risk management framework and social protection system will reduce Zambia's climate vulnerabilities and protect the livelihoods of all Zambians. This DPF series also provides readily available grants in case of a future emergency through its CAT-DDO component. The proposed operation aligns with Zambia's Eighth National Development Plan for 2022–2026 (8NDP), as well as IDA20's Policy Commitments in Governance and Institutions and Jobs and Economic Transformation.
- 7. The operation prioritizes the World Bank's value-added and is part of its ongoing partnership with the GRZ, assisting the country in responding to various shocks since 2020.** The World Bank's cumulative net positive flows have amounted to US\$1.2 billion since 2021 and from July 2023 onward, all new World Bank funding to Zambia has been issued as grants to provide additional support amid debt distress and multiple external shocks. This operation mainly aims to improve climate resilience and enhance energy and water connectivity,



in line with the World Bank Group's new Country Partnership Framework for Zambia and regional priorities in Eastern and Southern Africa. It selectively advances fiscal resilience and management reforms, complementing parallel budget support interventions from the African Development Bank and the European Union, as well as public financial management (PFM) reforms under the IMF program.

8. **Furthermore, it is aligned with the goals of the Paris Agreement.** First, the economic reform program supported by the proposed DPF is consistent with Zambia's climate commitments, including the revised (2021) NDC, the National Health Adaptation Plan (2017), and the climate objectives articulated in the 8NDP. Second, no prior actions for the proposed DPF will cause a significant increase in GHG emissions to impede Zambia's planned low-carbon development path. Third, all prior actions for the proposed DPF program are aligned with the mitigation, adaptation, and resilience goals of the Paris Agreement.
9. **The World Bank and IMF continue to work closely to coordinate policy dialogue, analysis, and technical assistance.** The joint work between the institutions includes supporting the authorities to comply with only concessional borrowing under the Sustainable Development Financing Policy and IMF Debt Limit Policy. The IMF approved a 38-month program under the Extended Credit Facility (ECF) in the amount of SDR 978.2 million (US\$1.3 billion) on August 31, 2022, and completed the third program review in June 2024., approved an augmentation of the ECF, disbursing \$569.6 million after noting satisfactory program performance in a challenging domestic and external environment.

E. Implementation

Institutional and Implementation Arrangements

10. **MOFNP will coordinate monitoring and evaluation for this proposed DPF.** The institutional and policy reforms supported by the programmatic DPF series fall under the purview of MOFNP, Office of the Vice President (Disaster Management and Mitigation Unit), Ministry of Community Development and Social Services, Ministry of Energy, Ministry of Green Economy and Environment, Ministry of Justice, and Ministry of Water Development and Sanitation. MOFNP chairs the multi-sector coordinating committee established to oversee the preparation of budget support operations. This committee will remain in place during the program's implementation and monitor results indicators and evaluation activities. The administration of the grant will also be the responsibility of MOFNP. The use of the Zambian Kwacha equivalent of the grant proceeds to support budgetary expenditures will be subject to audit. The audit will be undertaken by the Office of the Auditor General, the supreme audit institution. IDA will have access to the audit reports and the management letter from the audit.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

11. **This operation aims to reduce poverty vulnerability in Zambia, worsened by climate and economic shocks that harm food security, services, human capital, and assets.** In 2021, 27 percent of the population faced high climate-related risks, affecting over 5 million people. Severe food insecurity averaged percent 32 percent from 2020-22. Droughts have led to lower yields, earnings, and increased poverty.¹ Pillars A and C enhance the government's crisis response by improving preparedness (PA#6, PA#7) and safeguarding pro-poor spending (PA#1). The SCT program more than doubled its caseload since 2020 and reaching 1.3 million households in 2023, crucial for distributing emergency cash assistance during the 2024 drought. This expansion provides

¹ Thurlow et al. 2012; Alfani et al. 2019; Al Mamum et al. 2018.



lifesaving support and will help avoid the adoption of harmful coping strategies that result in long-term human capital losses.² Updating the DRM and National Social Protection Policies will bolster future shock responses, supported by a resilient fiscal system under Pillar A. Moreover, Pillar B is critical to unlocking private sector growth, which is expected to deliver medium-term positive poverty and social impacts through higher earnings and employment opportunities.

Environmental, Forests, and Other Natural Resource Aspects

- 12. The prior actions do not present significant environmental risks; however, mitigation measures might be needed.** Reforms in Pillar A aim to increase the economic and fiscal resilience of public finances. They reduce budget volatility and mitigate environmental risks posed by shocks, given the increased fiscal capacity of the GRZ to respond. Moreover, reforms in Pillar C will reduce Zambia's climate vulnerabilities through a stronger DRM framework, support households in the event of climate shocks, and enhance water supply. Negative impacts may arise during construction, operation, and decommissioning of water projects, including vegetation loss, ecosystem disruption, land degradation, and occupational health risks (PA#8). However, measures under the water harvesting regulations will help mitigate potential negative environmental effects. The net metering regulations (PA#5) could negatively impact the environment over the longer term; however, electronic waste management regulations can support mitigation if approved and properly implemented.

G. Risks and Mitigation

- 13. The overall residual risk rating for the operation is substantial.** Macroeconomic risks are rated as high, while the categories of political and governance, technical design of the program, and institutional capacity for implementation and sustainability are rated as substantial risks to achieving the PDO. Regarding the latter, resistance from vested interests or reform fatigue could slow the implementation of the GRZ's reform program or weaken its commitment to fiscal restraint. Increased transparency —of market mechanisms or in public procurement — and improved management of public resources in the mining sector narrow the scope for collusion, corruption, or rent-seeking. On the former, GRZ is strongly committed to fiscal consolidation, and most of Zambia's debt is agreed to be restructured, which eases macroeconomic risks. Moreover, BoZ's strengthened autonomy and mandate mitigate macroeconomic risks, along with commitments by MDBs to provide net financial flows in highly concessional terms to support Zambia's debt restructuring. However, Additional shocks to Zambia's GDP, balance of payments, price volatility in global commodities and financial markets, or adverse weather conditions could weaken GRZ's fiscal stance.

CONTACT POINT

World Bank

² Supported under the Second Additional Financing for Scaling-up Shock Responsive Social Protection Project (P181711)



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