

ZAMBIA COUNTRY REPORT 2008

<p>Background and debt sustainability</p>	<p>Zambia has recently experienced sustained growth of 5.5% per annum, but remains very poor (per capita GNI of US\$800 at the end of 2007). Almost two-thirds of the population lives on less than \$1 a day, though the poverty rate has fallen from 73% in 1998 to 68% in 2004. Zambia's growth remains highly vulnerable to trends in the mining sector, which accounts for 42% of exports.</p> <p>Zambia reached its HIPC Decision Point in December 2000, and Completion Point in September 2008. As a result of HIPC and MDRI its external debt burden has been reduced from \$7.1 billion to \$0.5 billion. Nevertheless, its large accumulation of arrears to multilaterals before HIPC meant that the liquidity savings for the budget were relatively small until MDRI arrived.</p> <p>It is using the LIC-DSF indicators to assess external debt sustainability, and CBP indicators to assess domestic and total sustainability. On this basis, its external and domestic debts remain high and unsustainable, while the external debt remains highly vulnerable with heavy private sector borrowing. It also has urgent needs to increase the quantity and quality of its external financing, mobilising very high levels of grants to maintain debt sustainability while financing the attainment of the MDGs, conducting regular domestic debt sustainability analysis, and enhancing aid effectiveness.</p>
<p>CBP support and impact</p>	<p>DRI and MEFMI began working with Zambia before the HIPC CBP, at the Regional Debt Strategy Workshop in 1995. Zambia's HIPC CBP participation began with a Demand Assessment Mission in March 1998. Since then, Zambian officials have attended 12 CBP regional workshops, and held four national workshops in the first three phases of the CBP. The first, in 1998, was to review eligibility for HIPC and build national capacity to conduct a tripartite DSA. The second, in 2000, was instrumental in helping Zambia to argue its case for maximum HIPC relief from decision point, to reduce the debt service burden on the budget. The third and fourth, in 2003 and 2004, both focused on preparing for its delayed HIPC completion point. Zambia also played a prominent role in the HIPC Finance Ministers' Network, strongly advocating Enhanced HIPC, topping up, frontloading of relief in the interim period, and MDRI. The CBP also provided considerable assistance to Zambia on these advocacy issues, as well as on negotiating Paris Club and non-Club bilateral debt relief, and on defending itself against lawsuits.</p> <p>During phase 4, Zambia has received a data preparatory mission in July 2007 that undertook some data validation for the debt database and produced the baseline forecasts for the macroeconomic analysis group, and one DSA update workshop in the same month. This tested Zambia's debt sustainability using both CBP and LIC-DSF methodology. Its main conclusions were that using the DSF thresholds Zambia's external debt will remain sustainable even in the distant future. Even if Zambia were to borrow huge amounts of highly commercial loans the ratios remain highly sustainable.. Two Zambian students have also participated in the latest intake of the CBP distance learning programme.</p> <p>As can be seen in the table below, as a result of this assistance Zambia has developed relatively high technical ability to prepare a high quality debt strategy (MT indicator 2a). However, its debt strategy self-assessment scores have fallen slightly during phase 4 due to failure to approve, implement and update the national strategy. Its scores for institutional and legal frameworks (MT2b) have also risen from 2 to 3.4, and capacity-building plans from 1 to 5 due to institutional reforms under the Financial Sector Reform Programme. The availability of trained personnel (indicator 3a) also rose sharply due to stability of staff within the agencies dealing with debt management. Zambia has therefore already exceeded its targets for 4 of the 5 CBP indicators.</p>

Objectives and content of proposed country assistance	<p>The current priorities for reinforcing Zambian capacity (and activities envisaged for the remainder of phase 4) are:</p> <ul style="list-style-type: none"> • Training more staff, implementing the adopted strategy more fully and updating it regularly. This will be done through a further national debt strategy workshop and sensitization seminar in 2009, as well as 1 follow-up mission to support strategy implementation. These activities will increase scores for MT2a and ST3a. • Improving the legal and institutional framework for debt and new financing management, and linking the overall national capacity-building plan to individual training needs. This will take place through one institutional support missions proposed for 2009 to improve score for MT2b • Staff training in the BWIs' LIC-DSF through a regional workshop organised by MEFMI, WAIFEM and DRI. <p>These activities are expected to move Zambia substantially towards its targets shown in the table below.</p>				
Country Debt Strategy Progress					
Progress and Intended Results	CBP Logical Framework Performance Indicators	Initial Score (1999)	Phase IV Baseline	Phase IV Current	Phase IV Target
	LT 1. Debt sustainability	1	1	5	4
	MT 2a. Debt management strategy updated at least once a year. Ability to use computerized debt strategy tool Technical quality of the national debt strategy Approval of the national debt strategy Implementing the national debt strategy Updating the national debt strategy	2	2.8 2 1 2 4 5	2.6 4 5 2 1 1	4.0 4 4 3 4 5
	MT2b. High-quality legal and institutional frameworks for debt strategy	2	2.4	3.4	3
	ST 3a. Trained personnel capable of formulating and executing national debt strategies	2	3	5	4
	ST 3c. High-quality capacity building plans, which are implemented and annually updated.	1	1	5	3
Expenditure and Budget	<p>Overall spending on Zambia since the start of CBP activity has been US\$208,705. The budget allocated to events to support Zambia in phase 4 is US\$243,474, Of this amount, US\$43,305 is expected to be financed from core funds.</p>				