

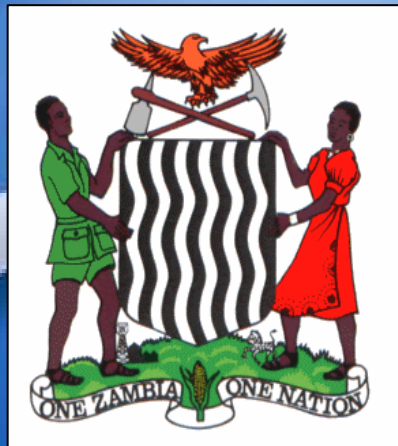


ZAMBIA



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EVALUATION OF THE COMMISSION'S SUPPORT TO ZAMBIA - COUNTRY LEVEL EVALUATION



FINAL REPORT

SOFRECO - ECORYS
Catherine BOUYEYRON
Erik KLAASSENS
Ernesto MARZANO
Bert LOF
Francis CHIGUNTA

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92-98, boulevard Victor Hugo - 92115 Clichy Cedex - France
Tel: +33 1 41 27 95 95 - Fax: +33 1 47 37 96 20
E-mail: ecofi@sofreco.com

Waiver

This report contains the views of the Evaluation Team that do not necessarily correspond to those of the EC or GRZ

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LIST OF ACRONYMS

ABB	Activity Based Budget
ACC	Anti-Corruption Association
ACP	African, Caribbean, Pacific Group of States
ADB	African Development Bank
AG	Auditor General
AGOA	African Growth and Opportunity Act
AIDS	Acquired ImmunoDeficiency Syndrome
APRM	African Peer Review Mechanism
ARVs	Antiretroviral Drugs
AU	African Union
AWP	Annual Work Plan
BESSIP	Basic Education Sub-Sector Investment Programme
BS	Budget Support
CBoH	Central Board of Health
CFU	Conservative Farming Unit
COMESA	Common Market for Eastern and Southern Africa
CPs	Cooperating Partners
CSO	Central Statistical Office
CSP	Country Strategy Paper
DAC	Development Assistance Committee (OECD)
DANIDA	Danish International Development Authority
DBS	Direct Budget Support
DfID	Department for International Development
DRC	Democratic Republic of Congo
EAC	East African Community
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
ECZ	Electoral Commission of Zambia
EDF	European Development Fund
EDP	Export Development Programme
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
ESA	Eastern and Southern Africa
ESP	Education Strategic Plan
ETC	External Technical Cooperation
EU	European Union
FA	Financing Agreement
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FINNIDA	Finnish International Development Authority

FMS	Financial Management System
FP	Financial Proposal
FTA	Free Trade Area
GBS	Global Budget Support
GDP	Gross Domestic Product
GFATM	Global Fund to fight HIV/AIDS, Tuberculosis and Malaria
GPRS	Government Poverty Reduction Strategy
GRZ	Government of the Republic of Zambia
HIP	Harmonisation in Practice
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
HMS	Highway Management System
HPI	Human Poverty Index
HR	Human Resources
HSSP	Health Sector Support Programme
ICC	Industrial Credit Company
ICT	Information and Communication Technology
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management & Information System
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IOC	Indian Ocean Commission
iPAF	Interim Performance Assessment Framework
I-PRSP	Interim Poverty Reduction Strategy Paper
IRCC	Inter-Regional Co-ordinating Committee
IT	Information Technology
IWP	Indicative Work Programme
JAR	Joint Annual Report (EC-GRZ)
JTWG	Joint Technical Working Group
JICA	Japanese International Cooperation Agency
LCMS	Living Conditions Monitoring Survey
MACO	Ministry of Agriculture and Cooperatives
MCT	Ministry of Communications and Transport
MCTI	Ministry of Commerce, Trade and Industry
MDG	Millennium Development Goals
ME	Medium Enterprises
MENR	Ministry of Environment and Natural Resources
MEWD	Ministry of Energy and Water Development
MFNP	Ministry of Finance and National Planning

MHA	Ministry of Home Affairs
MIBS	Ministry of Information and Broadcasting Services
MIS	Management Information System
MMMD	Ministry of Mines and Minerals Development
MoE	Ministry of Education
MoFED	Ministry of Finance and Economic Development
MFNP	Ministry of Finance and National Planning
MoH	Ministry of Health
MoU	Memorandum of Understanding
MP	Member of Parliament
MSDP	Mining Sector Diversification Programme
MSME	Micro, Small and Medium Enterprise
MTE	Medium Term Expenditure
MTEF	Medium Term Expenditure Framework
MTEFF	Medium Term Financial Framework 2005-2007
MTR	Mid Term Review
NACL	National Airports Corporation Limited
NAO	National Authorising Officer
NAZ	National Assembly of Zambia
NDP	National Development Plan
NEAP	National Environmental Action Plan
NEPAD	New Partnership for African Development
NER	Net Enrolment Ratio
NGO	Non-Governmental Organisation
NHSP	National Health Strategic Plan
NIP	National Indicative Programme
NORAD	Norwegian Agency for Development
NPRAP	National Poverty Reduction Action Plan
NPRSF	National Poverty Reduction Strategic Framework
NRB	National Roads Board
NSA	Non-State Actors
NTEs	Non-Traditional Exports
NWP	North-West Province
O&M	Operation and Maintenance
OAU	Organisation of African Unity
O/D	Origin/Destination
ODA	Official Development Aid
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries

OVC	Orphans and Vulnerable Children
PAF	Performance Assessment Framework
PE	Personal Emoluments
PEMD	Planning and Economic Management Department
PEMFA	Public Expenditure Management and Financial Accountability (Reform Programme)
PEMFAR	PEMFA Review
PEMS	Public Financial Management System
PFM	Public Financial Management
PHC	Primary Health Care
PIP	Public Investment Programme
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRPs	Poverty Reduction Programmes
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Service Capacity Building Programme
PSD	Private Sector Development
PSDP	Private Sector Development Programme
PSM	Public Service Management
PSRP	Public Sector Reform Programme
PWAS	Public Welfare Assistance Scheme
RELEX	Directorate General of External Relations
RIFF	Regional Integration Facilitation Forum
RIP	Regional Indicative Programme
ROADSIP	Road Sector Investment Programme
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SAGs	Sector Advisory Groups
SAP	Structural Adjustment Programme
SIDA	Swedish International Development Authority
SIP	Sector Investment Programme
SME	Small and Medium-sized Enterprises
SPA	Strategic Partnership with Africa
SSA	Sub-Sahara Africa
SSI	Small scale industries
SSSP	Social Sector Support Programme
SWAP	Sector Wide Approach
TA	Technical Assistance
TAZ	Tobacco Association of Zambia
TCF	Technical Cooperation Facility
TEVETA	Technical Education, Vocational and Entrepreneurship Training

	Authority
TNDP	Transitional National Development Plan
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
WFP	World Food Programme
WHO	World Health Organisation
WP	West Province
WTO	World Trade Organisation
ZAHVAC	Zambian Association of High Value Crops
ZECAB	Zambian Education Capacity Building
ZEGA	Zambia Export Growers Association
ZNBTS	Zambia National Blood Transfusion Service
ZNFU	Zambia National Farmers Union

EXECUTIVE SUMMARY

INTRODUCTION

The objective of this Country Evaluation is to provide the European Commission Zambia and the wider public with an independent, flexible and forward-looking evaluation, including a set of recommendations, as an input into developing a new post 2001-2007 Country Strategy.

Key findings and lessons of experience from the Commission's current assistance strategy and programme, as it has evolved within its wider setting since its inception, inform the recommendations. The following are taken into account: Zambia's evolving political, economic, social and environmental framework, and in particular; Zambia's own assessment of the achievements in the fight against poverty (reviews of the PRSP/ TNDP); the Joint Annual Reviews and the Mid-Term Review of the present EC Country Strategy.

On a more general level and in the longer term, the study aims to bring about: more general consistency with the Commission's aid and economic co-operation objectives (Council resolutions, Communications, etc.); improved co-ordination with other donors; better complementarity with Member State policies and activities; a heightened sense of local ownership, participation and partnership; enhanced coherence with the Commission's other policies and with the Government's priorities; greater concentration in few focal sectors.

The focal sectors in Zambia's 9th EDF include Institutional reform and capacity building, and Transport. Macro-economic support (budget support) represents an important share of EDF funds. The non focal sectors are Health, Education, Agriculture and Food Security.

DESIGN OF THE EVALUATION

The phasing, methods and tools used to conduct this evaluation are a complex mix of:

- Collection of relevant documents and information
- Reading and interpretation
- Reconstruction of the logical framework of the 9th EDF EC intervention
- Reconstruction of 9th EDF general diagram of impacts (PowerPoint graph)
- Evaluation techniques
- Establishing the relationships between evaluation questions, judgment criteria and indicators; graphic presentation of these relationships (PowerPoint graphs)
- Confrontation of theoretical framework prepared before field mission and reality, simplification of framework for data search
- In-depth semi-structured Interviews of local key stakeholders, selected jointly with EC delegation
- Participation, jointly with a monitoring team present in Zambia, in a national workshop on

future of budget support, organised by EC delegation with NAO advisor

- Workshop with presentation of evaluation team results at end of field mission, organised by EC delegation (PowerPoint presentation)
- Several meetings and debates in Brussels with Reference Group members and translation of their suggestions into the successive reports (PowerPoint presentation at the last meeting)
- Integration of comments received from Reference Group

KEY EVALUATION QUESTIONS (EQ)

The first set of EQ deals with the relevance of the Programme Strategy. The second set deals with complementarity, coordination and coherence. The third deals with the efficiency of the Programme Strategy. The fourth deals with aid effectiveness, impact and sustainability in the different intervention sectors. The fifth deals with cross-cutting issues.

RELEVANCE OF THE PROGRAMME STRATEGY

Generally the European Union Programme Strategy for Zambia is in line with Government strategy of promoting economic growth through macroeconomic stabilisation, diversification, improving the quality of services, addressing cross-cutting issues. The choice of focal areas was relevant, in the sense that it matched Government strategy. However, initially the EC devoted insufficient attention to some priority areas emanating from the PRSP (e.g. agriculture, food security). This was corrected following the MTR.

COMPLEMENTARITY, COORDINATION, COHERENCE

Various international coordination mechanisms are in place: Harmonisation in Practice G8, and Partnership for Africa. JASZ is a concerted effort of CPs to harmonise their actions. It is the framework for promoting the 3Cs. One of the main CPs in terms of disbursements, the EC has leadership. Implementation of JASZ is expected within 3 years, as commitments have already been made by individual donors for their respective current programmes. Under the 9th EDF, the regional organisations (COMESA, EAC, IOC and IGAD) have been mandated for the purpose of implementing the RIP. This has improved the coherence between actions financed from the national and regional envelopes, and the RSP/RIP for SADC are compatible.

Globally, actions at national level are coherent with actions at regional level. The COMESA projects, related to regional cooperation and integration, are highly beneficial to Zambia (as a landlocked country). On-going trade negotiations with ESA region, for the signature of an EPA between ESA and the EU, should benefit Zambia.

There is an innovative arrangement where EC contributes to the budget of COMESA Secretariat (for 5 years). The Financing Agreement was signed in July 2005. It allows COMESA to develop its own work

programme, and EC funds are released based on Annual Plans and Budgets (somewhat similar to budget support arrangements). The resources under this arrangements will not represent an increase compared to previous arrangements, but their integration in the overall COMESA budget will funding more predictable and will make the budgeting and planning process of COMESA more transparent. The resources under this arrangements will not represent an increase compared to previous arrangements, but their "pooling" will make the budgeting and planning of COMESA more transparent.

EFFICIENCY

It is too early to appreciate the efficiency of general budget support. However, some positive aspects are already visible: clear procedures for the transfer of funds; mutually agreed indicators for the assessment of GBS; multi-donor cooperation in GBS. In the Transport Sector, the move towards sector support has improved efficiency.

However, efficiency of EC project support is limited, due to: slow project identification, design and contracting; bureaucratic procedures; EC tender procedures not conducive to project implementation; high turnover of Zambia EU Delegation staff; limited institutional and sectoral capacity at the EU Delegation; in particular, the absence of a macroeconomist for the last six months, in addition to several other unfilled positions is a serious handicap.

BUDGET SUPPORT

The **EC assistance for general budget support** is successful at the implementation level, with an increase in the share of externally-funded activities now channelled through the national budget; and a lively policy dialogue focussed on key budgeting issues and an improvement in donor harmonisation of activities. It is moderately successful at the result level, where it contributes to a more favourable budget financing structure for GRZ, an improved predictability of resource allocation and an enhanced fungibility of GRZ funds. It has also empowered GRZ in its dialogue with the EC and other cooperating partners and it has reinforced the internal GRZ dialogue between the MFNP and line ministries. The most important positive result is the increased efficiency in public spending, monitored through the process of PFM indicators. At the purpose level, it is too early to judge its contribution to improve GRZ's capacity to implement the PRSP/TNDP, in addition to the methodological problem of attribution. However, there are a number of encouraging developments in the area of "government services effectively delivered and pro-poor". The limited number of social sector service delivery indicators and the global nature of the budgetary allocations make the Evaluation Team less certain of the ultimate reach and effect of the poverty orientation of the services.

CAPACITY BUILDING

The **Financial and Economic Management Capacity Building programme** represents a coordinated effort on the part of GRZ and 11 CPs. The Commission's contribution only became effective

in December 2005 (after the evaluation mission visited the country), but the Delegation has actively taken part in Working Groups discussions and was able to advance funds (€2.5 million) towards this important work. PEMFA is a comprehensive package of actions covering all areas of the management and utilisation of public financial resources and is an essential element of budget support provided under PRBS.

Improvements are already noted, especially in the area of public finance management, where new economic management tools have been introduced, such as PEMFAR, MTEF, Activity-Based Budgeting, and the Integrated Financial Management Information Systems. However, more capacity building is still needed at decentralised or lower (district) levels to ensure proper management and utilisation of funds as well as implementation of projects.

The project "**Capacity Building in the Department of Economic and Technical Cooperation, MFNP**" is a timely response to the NAO.

The project was recently reviewed and the present evaluation concurs with the conclusions and recommendations of this review. The project is filling a need of the Ministry to administer EDF procedures and has strengthened Government ownership of the NAO Office.

The NAO support team has strengthened the working relationships between the EC and GRZ. With the EC also in the forefront of aid delivery through budgetary support procedures, the NAO Unit has played an important role in supporting ETC and MFNP in the implementation of these programmes. The results of the capacity building component have been mixed. The absence of counterparts leaves the TA and support staff having to absorb the full workload, and undermines the sustainability of the operations. Strengthening of relations with line ministries in order that they can provide the technical information and liaise on EC procedures required by the NAO proved difficult, and the Review Team recommended that this policy be discontinued. The large role of Budget Support in the EC portfolio and the emphasis on donor harmonisation brings to the NAO office opportunities for streamlining of its activities, and this should be a major focus for the new project as recommended by the Review Mission. Another opportunity is to de-link the TA support under the new project from EDF-related administrative work, allowing the TA to concentrate on transferring skills to the Ministry staff.

The €15 million **Private Sector Capacity Building programme** under EDF 9 was inaugurated shortly before the Evaluation Mission visited the country. Private sector actors generally express appreciation for the opportunities for capacity building under the new project. However, there is also some disappointment that the new programme does not provide any credit facilities. It was clear from discussions around this topic that many players are not (yet) familiar with the new EC policies in this regard as laid down in COM(2003) 267, and with the opportunities provided to obtain finance through other

means, such as Investment Facilities, and the various credit lines of the EIB. The slow process of design has had a negative effect on the perception of the EC.

Given the late start-up of PS programme under EDF 9, the Evaluation Team also briefly reviewed the results of PS projects financed under EDF 8, of which the results have been mixed.

TRANSPORT SECTOR:

The transport sector development in a landlocked country such as Zambia is important for the integration of the country and trade development with neighbouring countries. Furthermore the direct impact of transport projects (decreasing transportation costs, increasing accessibility, etc.) and the indirect impact (job creation, gender issues, etc.) are crucial for country economic and social development.

The role of transport as focal sector for interventions is well recognised. In the Poverty Reduction Strategy Paper (PRSP), the transport sector, particularly the road sector, has been identified as the single most important vehicle for the realisation of the PRSP Programme, and its underlying implications on poverty reduction in the country.

The PRSP uses the concept of Core Road Network which represents the priorities of the total road network, defined as the minimum requirement to be effective in combating poverty, through improved accessibility, connectivity and job creation.

EDF assistance is fully integrated in ROADSIP II programme whose objective, among others, is to reduce the backlog in road maintenance.

The objectives indicated in the CSP are not completely fulfilled (railway sector and transport mode study). Most emphasis is given to the road sector (ROADSIP II) and to the airport system.

The required indicators of quantity and quality, necessary to obtain the first tranche disbursement for the 70 M € SBS, for trunk, main and district road periodic maintenance, were satisfactorily fulfilled by the NRDA (i.e. 50% of the Agency posts filled; TA assistance contract signed; 6000 km of routine maintenance on paved roads in fair condition).

ROADSIP II programme doesn't foresee, for the main road network, systematic traffic surveys.

The development of this activity will be very useful both for Highway Management System (HMS) and traffic development and planning analysis (O/D matrices, Highway Design Management, safety programme).

The strategy of focusing both on road rehabilitation and axle loads control is appropriate.

The Axle Road Policy is contributing to a substantial reduction of overloaded vehicles running on Zambian Roads. Effectiveness of the weighbridges, information campaign and the sanctions imposed are main contributing factors. Also the Public Roads Amendment Bill will play an effective role as it seeks to provide for punishment of officers authorised to collect revenue from weighbridges who failed to remit the funds to the RDA.

The bill also seeks to review upwards the charge for overloading which is presently low compared to the damage caused by overloading on the roads.

SOCIAL SECTORS (HEALTH AND EDUCATION)

• Health

Under the current health reforms, GRZ and CPs have been moving towards targeted Health Sector budget support. But EC preference is to have limited direct interventions in the Health Sector, as the EU Member States (MS) have a comparative advantage.

A new €10m financing proposal for basket funding under decentralisation modalities in the 9th EDF was not approved due to legal reasons. This means that most of the earmarked funds have not been spent under the 9th EDF. Presumably, this financial proposal can be re-activated in the 10th EDF. With support from the EC, a comprehensive assessment of the Zambian Health Management Information System (HMIS) was conducted in July – August, 2005.

But there are a number of challenges in the Health Sector. The absorption capacity (utilisation of allocated funds) in the Health Sector is limited (as reflected in low drug procurement). Staffing within the Health Sector is at 50%. Staff retention remains a big challenge. There are no HIV/AIDS Indicators (no baseline data and routine monitoring). National aggregates may not be useful. The Health MIS does not provide gender-disaggregated data. This has resulted in poor gender monitoring of access to and utilisation of health care between females and males.

• Education

The 2003 Education Strategic Plan is the framework for sector support. It is articulated in Annual Work Plans, which follow the National Implementation Framework. There is harmonization among donors according to their comparative advantages, through dialogue. The PRBS indirectly covers progress in the Education Sector. There is also direct EC Sector support to the Ministry of Education. In 2004 there was slow implementation of the AWP, due to capacity problems in the MoE both at central and decentralized level.

Most donor support has focused on the basic education sub-sector. Although the indicators are ambitious and there is low government capacity, outcome indicators such as school enrolment and improving gender parity in enrolment have been progressing well and achievements on key indicators have been above the targets.

The key issue in the Education Sector is that support for basic education should not create imbalances in the education system; higher education should also be considered. Gender: There is no significant gender disparity at basic enrolment level, but gender imbalances remain in completion rates, enrolment rates; teacher/population rates, etc. There is infrastructure pressure at secondary level. There are curricula issues, as reforms are only partially implemented. HIV/AIDS pandemic has a strong negative impact on the Education Sector.

The EC, together with GRZ and other donors, should explore ways of engaging the estimated 9,000 unemployed teachers.

GOVERNANCE

Regarding Governance issues, which apply to all sectors, the EC has been supporting Public Finance Management reforms through SAF V and Support to Planning and Budgeting Reforms programmes. EC support has been well positioned and has covered the critical governance concerns such as public finance management and corruption as defined by PRSP and TNDP. There has been improved governance, as reflected in improved Public Finance Management and improving dialogue (consultation) between the Government and the NSAs. However, capacity problems remain in some areas (in line ministries and at lower levels). The reform of the electoral process (Electoral Commission of Zambia (ECZ) and the constitutional revision process remain major challenges due to lack of consensus on these key governance issues between GRZ and civil society.

KEY CONCLUSIONS AND RECOMMENDATIONS

On relevance: The choice of focal areas was relevant, it matched Government strategy. However, initially the EC devoted insufficient attention to some priority areas emanating from the PRSP such as agriculture and food security. This was corrected following the MTR.

On 3C: JASZ, a concerted effort of CPs to harmonise their actions, is the framework for promoting the 3Cs. It is progressing successfully and could be replicated in other countries. Explore further division of labour and ToRs of lead CP. Harmonisation is most needed for definition of a limited number of simple indicators, M&E, planning of Head Quarters visits, planning of reporting. Follow up indicators should include reporting documents.

EC regional initiatives are supportive of the Zambian development agenda, but there is some concern regarding the EC response at national level where interventions are not enough focussed on regional or global trade issues, with the exception of the support for the gem industry under MSDP.

The preparation of the country strategy had not been guided by particular actions to integrate trade into the domestic policy documents and to streamline trade into domestic policies. This argument has relevance for support for trade related issues such as customs, but also where the EC provides support for other sectors such as agriculture and mining. It is recommended that for the purpose of future programming previous studies such as the one quoted above are revisited.

On Efficiency: It is too early to appreciate the efficiency of general budget support. However, some positive aspects are already visible.

However, efficiency of EC project support is limited. In future, efficiency gain should be made, mainly through a strong reinforcement of the EC delegation, currently understaffed and not sufficiently trained to face increased responsibilities linked to devolution,

harmonisation, increased complexity of interventions. Measures should also be taken to discourage the high turnover of staff at the delegation.

On Implementation Tools: Over the 9th EDF the EC has most often been a pioneer among CP in promoting budget support and the systematic move from project support to sector support and budget support. It is too early to conclude whether this was the best strategy, as the final impacts of such strategy (development and poverty reduction) remain to be investigated at the end of the period. However, this strategy has considerably helped simplifying the EC procedures that tend to be considered heavy and cumbersome. The constraint linked to such strategic choice is the importance of the effort requested from EC staff to work with new instruments, and the need to support the said staff to face its increased responsibilities. Such strategy also requests from the EC to take a more proactive role in the JASZ process, increase its exchanges with the other CPs and intensify dialogue with GRZ who is to take the lead in the harmonisation process. It also requires from the EC an effort in developing its communication tools with other donors and the general public. The public should have access to easy consultable CRIS information, which means developing a website specifically dedicated to such purpose. The creation of a joint CP website would also considerably clarify the picture of aid to Zambia, provided it is regularly updated by all co-operating partners.

Sector-specific

It is also unclear to what extent EC assistance for general budget support has contributed to the "growth-stimulating interventions" to stimulate private-sector development, that have been placed at the centre of the PRSP together with carefully selected pro-poor interventions.

A number of issues could be addressed under PEMFA. The capacity of Ministry staff at lower levels needs to be upgraded. Activity Based Budgeting has only been introduced on the budgeting side. This should be expanded to the expenditure side. Some sectors will need to build their capacity to collect and consolidate the necessary information for each set of performance indicators under the PRBS system among other necessary capacity building requirements; The implementation mechanism for the PEMFA programme, with the creation of a temporary PEMFA Secretariat in MFNP, to be staffed with 6 TA, raises questions on internalisation and sustainability of the proposed reforms.

The Commission should do well to publicise credit facilities through the EIB. The Private Sector Capacity Building programme should review the option of supporting the PAs in their capacity to extend financial services to their members, such as marketing studies, writing bankable proposals, etc. An important aspect of the new project will be the promotion of public-private sector dialogue on PDS issues.

The Zambia Business Forum is a new umbrella organisation to be used as a vehicle for this dialogue, but the Evaluation Team has some reservations on

the capacity (and sustainability) of this fledgling organisation.

In future, the EC should consider Infrastructure, communications and transport as a concentration area; the evaluation of the impact of investment in transport projects on economic growth and poverty reduction should be supported by ex-ante, on going and ex-post statistical surveys; systematic traffic surveys should be undertaken for the main road network.

It is recommended that Agriculture and Food Security be given due consideration under the 10th EDF. Enhancing national and household Food Security should be the major objective of EC support in this sector.

In future, EC support to the Health Sector should assist in making the HMIS more gender sensitive; in developing a comprehensive system of monitoring the outcomes of HIV/AIDS programmes; and in exploring ways of engaging the estimated 6,000 unemployed qualified health professionals.

FINAL STRATEGIC RECOMMENDATIONS

Under the 10th EDF the EC should continue general budget support, support for capacity building in the public sector, and strongly support transport, agriculture, food security and private sector development, as well as environmental protection; in addition to possible selective support to the health and education sectors.

Of the envelope A for EDF 10, the Evaluation Team proposes that the two concentration areas be: 1: **Infrastructure, communications and transport** (about 25%); 2: **Governance, democracy, human rights and support for economic and institutional reform** (about 60%); Concentration area 2 would cover several sub-sectors: Governance, democracy, human rights, support for economic reform, including private sector development, institutional reform. Budget support should be the main channel for EC funding in concentration area 2.

These concentration areas are in line with the matrix that is being discussed in the JASZ process.

The non concentration areas (15%) would cover **agriculture, food security, environmental protection, possibly the social sectors, provisions for NSAs and a technical cooperation facility**. If it proves impossible to include here so many fields of intervention, then GRZ and the EC should explore the following alternatives (i) mobilising other sources of funding in addition to the 10th EDF, such as specific budget lines, regional programmes, etc, to make sure to cover all these areas; (ii) and/or eventually abandoning direct support to the social sectors, after verification that such direct support is not an absolute necessity and that EC Member States (Netherlands, Norway, Sweden, UK in particular) and other cooperating partners (UNICEF, WHO, etc.) are able to assist GRZ in reaching the MDGs without direct EC participation. In that case, the EC should insist that it obtains regular tangible information on the impact of its global budget support on the social sectors (through improved MER on global budget support).

Such dilemma, as presented above, stresses the importance that EC pursue active participation in donor harmonization through JASZ. The EC, in collaboration with EU Member States, should contribute to and enhance policy research and review in the sectors where it focuses its development assistance. The EC should continue balancing its development assistance through different channels in order to contribute to targeted poverty reduction.

The EC should incorporate MDG indicators in 10th EDF programming. The EC should improve sectoral knowledge and analytical capacity at the Zambia Delegation. The EC should improve institutional memory at the Zambia Delegation through balanced EU/Zambian staffing. The EC should strengthen dialogue with and participation by NSAs including private sector, civil society and traditional leaders.

1 EVALUATION FRAMEWORK

1.1 Background

The European Commission is accountable to the European Parliament and the European Council for its activities. All activities must be subject to periodic evaluations as a means of accounting for the management of allocated funds. The systematic and timely evaluation of its expenditure programmes has been defined as a priority by the EC, both to ensure accountability and to promote a lesson-learning culture throughout the organisation.

The terms of reference were issued in August 2005 and an independent evaluation team of Sofreco / Ecorys was appointed in October 2005 to carry out the evaluation¹. Two members of the evaluation team first met with the task manager for the evaluation in DG Dev and a number of representatives from DG Dev and AIDCO on October 10-11 in Brussels for briefing and information collection.

The evaluation process was carried out into three phases: desk phase, field phase and reporting phase. On November 30 a workshop organised by the Zambia EC Delegation, at their office, was attended by numerous (about 70) stakeholders. On December 6 the team also presented its first conclusions to the Reference Group in Brussels, immediately following the field mission. Helpful comments were provided by the participants to these events, which the evaluation team took into consideration in writing the present final report.

1.2 Objective and Scope of the Evaluation

According to the ToR the main objectives of the evaluation are to: (i) provide the Zambian authorities, the Commission and the wider public with an overall independent, flexible and forward-looking evaluation, thus providing the Commission's policy-makers and managers with a valuable aid both for the implementation of the current strategy and programme, and for future programming in Zambia; (ii) identify key findings and lessons from the Commission's current strategy and programme; and (iii) present an overall judgement of the extent to which the Commission's strategy and activities have contributed to progress towards the country's objectives.

The evaluation takes into account Zambia's evolving political, economic, social and environmental framework, and its own assessment of the achievements in the fight against poverty as laid down in the reviews of the Poverty Reduction Strategic Paper and the Transitional National Development Plan (PRSP/TNDP); and the Joint Annual Reviews (JAR) and the MTR of the CSP.

The scope of the evaluation is on the current EC Country Strategy for Zambia (2001-2007), in particular from the point of view of relevance and impact. The evaluation also looks at additionality as a criterion and assesses the modalities of aid delivery. However, the evaluation does not repeat evaluations of specific projects and programmes; but instead it concentrates on verifying the validity and relevance of the overall strategy over that period.

¹ The evaluation team included Catherine BOUYEYRON, Team Leader, Erik KLAASSENS Macro-Economist, Economic Development, Regional Integration and Trade Expert, Ernesto Maurizio MARZANO, Transport Expert, Bert LOF, Food Security and Agriculture Expert, and Francis CHIGUNTA, Social and Governance Expert.

1.3 Design of the Evaluation (overall Methodology)

The phasing, methods and tools used to conduct this evaluation are a complex mix of:

- **Collection of relevant documents and information** through various channels (EC delegation, EC services in Brussels, field interviews with key stakeholders jointly selected with EC delegation, Internet search, consultant's own databases and information systems, etc.). See list of references and list of contacts in the annexes;
- **Reading and interpretation** of the key conclusions of documents having to deal with the topic, be they EC texts stating EC philosophy, positions and commitments with respect to aid in general and Zambia in particular; EC texts regarding EC programmes and projects in Zambia, their contracting, their progresses, their results; Zambia response to international aid and reporting of progress on its use; texts on donors community interventions in Zambia, respective interventions and JAR process, etc.
- Reconstruction of the **logical framework** of the EC intervention, filling the gaps where necessary. The most detailed reconstruction was presented in the desk phase report, annexed to the present final report². In the course of the field study, this framework was simplified, following recommendations from the Reference Group, that noted that it would be extremely difficult to gather data on all objectively verifiable indicators proposed by the team, within a short field mission, and that such indicators as initially proposed by the evaluation team were somehow too detailed and sometimes too sector specific to fit into an evaluation that was essentially global and strategic.
- Reconstruction of 9th EDF **general diagram of impacts** (see par. 2.4 below) providing the links between expected activities, associated GRZ expected commitments, expected results, expected immediate, intermediate and final impacts.
- Traditional, objective, scientific **evaluation techniques**, best described in the classical aid delivery methods and evaluation methods produced by the European Commission³, based on a global vision of the project cycle, the logframe approach, the relation between the LF levels and the evaluation criteria, the relationships between evaluation questions, judgment criteria and indicators; graphic presentation of these relationships (see these in chapter 3).
- **Confrontation of theoretical framework prepared before field mission and reality** on the field: numerous meetings with key stakeholders, the list of which was chosen in direct relation with the EC delegation who provided its advise on which key persons to meet; daily revision of the framework to simplify it and adjust it to the reality of the information the evaluation team was effectively able to capture on the field.
- **Rationalising the information** collected, daily team brainstorming and attempt to reach key conclusions that could serve the structuring of recommendations.

² In Desk Report, see Table 4.1: CSP and Addendum Logical Framework; and Table 5.1: Proposed Matrix of Information to be collected

³ See Project cycle management Guidelines March 004
http://www.europa.eu.int/comm/europeaid/qsm/index_en.htm

1.3.1 *Evaluation Questions, Judgment Criteria and Indicators*

In the design stage of the assignment, the team concentrated its efforts at formulating the evaluation questions. This process guided further efforts during subsequent stages to collect and interpret information on the various issues to be covered. Furthermore, the desk phase was used to collect a body of literature relevant to the assessment of the performance of the EC interventions in Zambia.

The system of evaluation questions and related judgment criteria and associated indicators, by providing a structuring framework enabling to grasp the links between the ultimate goals, the expected contribution of the EC to these goals, the expected results intended to be achieved to assure EC contribution, and the ways and means to follow, measure, control and verify these results, proved useful as a model to structure the presentation of the main findings (chapter 3).

Within this framework, the team had to go one by one into each of the fields of intervention of the EU over the period of the 9th FED, and, as a matter of fact, most of the time into the individual projects and programmes to be able to effectively attempt to evaluate their contributions to the programme.

The main challenges met by the team were the following:

- It proved impossible to acquire a vision "at a global strategic level" without having as a background the knowledge of the projects and programmes composing the EC portfolio and their individual performances; otherwise, in our view, the conclusions would be too general and not really useful;
- The lack, at the EC delegation, of a simple and handy management tool, made it practically impossible, over the duration of the short field mission, to fully appreciate the efficiency in the management of the programme; in Zambia, the accounting tools of the financial services within the delegation could not deliver simple management results in support of the evaluation work; the lack of staff within the delegation amplified the difficulty; the present staff, in their respective fields and as a whole, are confronted to similar difficulties when they have to answer, on an ad hoc basis, to GRZ requests on the state of the programme⁴.
- The GRZ and a group of both bilateral and multilateral agencies, collectively known as the PRBS Group⁵ signed a Memorandum of Understanding (MoU) in April 2005 for the provision of direct budget support that sets basic arrangements underlying this programmatic support, clarifies the responsibilities of all parties and commits all signatories to a process of dialogue based upon mutual trust and accountability. According to the MoU, the PRBS Group will base their actual support to the implementation of the National Development Plan. Progress will be measured through common agreed performance indicators as described in a Performance Assessment Framework (PAF). Progress is currently monitored against an interim PAF (iPAF). The iPAF includes macroeconomic indicators, indicators on public financial management, indicators on core structural reforms (public service and pay reforms, private sector development reforms, PEMFA reforms, Health and Education). In October 2005 25 out of 27 indicators were assessed.

⁴ This lack of visibility of the implementation process of the EC programme in Zambia was underlined by the main recipient of budget support (ministry of finances) during the work shop held at the delegation at the end of the field mission

⁵ Comprising DFID (UK), the European Commission, Netherlands, Norway, Sweden and the World Bank. Although the EC is member of the PRBS Group it has separate PRBS arrangements in 2005; in 2006 the EC hopes to align with other cooperating arrangements.

The evaluation team agrees with the proposed process for developing Zambia's PAF 2006-2008, including the formation of a PAF working group, the review of other country experience and relevant literature prepared by OECD-DAC on GBS evaluation, the development of the PAF as a participative process, the determination of the new structure of the PAF based on consultation with all relevant stakeholders, etc.

- Multi-donors budget support, to be extensively evaluated, would probably still require additional, specific, tailor-made new tools and sophisticated systems of indicators that have not yet been developed and, as a result, were outside the reach of the present global country evaluation. As a matter of fact, as written in other parts of the report, there is a gap between the important volume of funds that now transits through budget support, on one hand, and the current system of monitoring such budget support (too elementary); such gap will have to be progressively filled. This gap will hopefully be filled with the development of the new PAF, and provided that the various involved stakeholders integrate in the new MER system not exclusively synthetic indicators available at central level, but also a subsystem in the MER that allows having a look, on a statistical base, at what the results and data are effectively at the end of the chain, at regional and local levels, in the various parts of the country and among the various categories of expected end beneficiaries of such GBS. The MER system should of course also be in line and coherence with the system of indicators presented in the Paris declaration on aid effectiveness.

1.3.2 *Information and Data Collection*

Following agreement with the Reference Group on the proposed questions, criteria and indicators, the Evaluation Team took a step by step approach to the actual evaluation. The steps were as follows:

- Each of the individual questions was preliminarily answered after a brief review of the documents available;
- Work on the individual questions was then completed, (where feasible and necessary), by in-country inquiry and field visits;
- The team elaborated and finalised its conclusions on each question; and
- On the basis of these conclusions the evaluation team made an overall assessment of the assistance.

1.3.3 *Field mission tools*

During the field mission, the team used the following tools, to varying degrees, across the whole set of questions:

- Semi – structured interviews with EC personnel; with other donors; with GRZ personnel at the ministry level and with private and public sector representatives at the field level; with NGO personnel implementing projects in the sector or area of interest;
- Discussion groups with beneficiaries;
- Site visits;
- Participation in a thematic workshop (on budget support) organised by the EC delegation with all stakeholders (GRZ, CPs, etc.) in the joint presence of a team of monitors and the evaluation team; this workshop was conducted by the key international expert assistant to the NAO, and its results were transmitted to the evaluation team;

- End of field mission seminar, organised by the EC delegation, again with the presence of all key stakeholders, on the occasion of which the evaluation team made a POWERPOINT presentation of its main conclusions at the end of the field mission; (This presentation was also used at the following debriefing session in Brussels, and gave rise to discussions with the Reference Group and reception of their comments and suggestions.)

The coverage and depth of each tool used at the field level was kept within the constraints of the field phase (time, resources and availability of informants).

1.4 Structure of the Report

Chapter 1 presents the evaluation framework. Chapter 2 deals with the development cooperation context in Zambia over the period under consideration. Chapter 3 provides the main findings, i.e. the proposed responses to the key evaluation questions, following the field mission. Chapter 4 sums up the main conclusions. Chapter 5 presents the main recommendations to the EU in view of future aid programming, deriving from the evaluation, distinguishing between general recommendations and sector-specific recommendations.

2 DEVELOPMENT COOPERATION CONTEXT

2.1 International Development Cooperation Context 2000-2005⁶

In recent years Official Development Aid to Zambia has shown significant fluctuations with respect to commitments, with bilateral donors assuming dominance. As can be seen in the table below⁷, the main development partners in the period 2000-2003 were Germany, UK, the US, Japan, and increasingly, the EC. Over this period of 4 years, EU Member States provided almost half (59.5%) of the Official Development Aid (ODA) to Zambia, and the EC added another 10.5 percent.

⁶ ZAMBIA –EU RELATIONS: Zambia is of interest to the EU for various reasons: historical links; Zambia is a relatively stable country in the midst of unstable countries; developing and cooperation opportunities (land, water, climate, raw materials, investment potential, etc.); the development challenge that Zambia represents: there is no reason why poverty could not be eradicated from Zambia, a country with such a great potential

EU is of interest to Zambia as well: the globalisation context multiplies exchanges and opportunities; there are high perspectives for intensification of exchanges (Economic Partnership Agreement (EPA) tourism, direct EU investment, joint ventures, etc.); Zambia expects from the EU aid and transfer of know how (research, science, techniques), which are highly needed.

⁷ OECD/DAC web-based database on ODA (October 2005)

Official Development Aid (ODA) - Selected Donors US\$ million and % of total ODA

	US\$ million					% of total ODA				
	2000	2001	2002	2003	2000-2003	2000	2001	2002	2003	2000-2003
ALL Donors, Total	795,1	349,1	640,6	629,4	2414,3	100%	100%	100%	100%	100%
Multilateral, Total	308,6	74,1	278,9	32,1	693,7	38.8%	21.2%	43.5%	5.1%	28.7%
Bilateral, Total	486,5	275,0	361,8	597,4	1720,7	61.2%	78.8%	56.5%	94.9%	71.3%
EC	25,7	44,2	104,0	79,4	253,3	3.2%	12.7%	16.2%	12.6%	10.5%
EU Members, Total	373,4	166,4	199,6	444,6	1184,1	47.0%	47.7%	31.2%	70.6%	49.0%
EC+EU members total	399,1	210,6	303,6	524,0	1437,4	50.2%	60.3%	47.4%	83.2%	59.5%
Germany	112,2	13,8	44,2	233,2	403,4	14.1%	4.0%	6.9%	37.0%	16.7%
United Kingdom	111,4	55,8	28,1	65,9	261,2	14.0%	16.0%	4.4%	10.5%	10.8%
United States	46,1	29,0	48,3	63,6	187,0	5.8%	8.3%	7.5%	10.1%	7.7%
Japan	31,9	47,0	68,4	28,3	175,7	4.0%	13.5%	10.7%	4.5%	7.3%
Netherlands	51,2	29,6	35,5	34,8	151,1	6.4%	8.5%	5.5%	5.5%	6.3%
Norway	24,8	20,8	29,1	35,6	110,3	3.1%	6.0%	4.5%	5.7%	4.6%
Denmark	23,1	22,6	32,2	30,2	108,1	2.9%	6.5%	5.0%	4.8%	4.5%

The significance of aid to Zambia is revealed by its importance in the financing of the Government budget. During the period 2000-2005, aid accounted, on average, for 43 percent per annum of the total state budget, with a peak at 53 percent in 2001.⁸

In June 2005, the Ministry of Finance and National Planning published a document on its relationship with donors: "*Aid Policy and Strategy*"⁹. In this document, GRZ observed that the impact of development aid could be improved and that GRZ was aiming for well articulated aid policies and strategies which would provide sufficient direction during dialogue between the Government and its cooperating partners.

2.2 EC Development Objectives

2.2.1 European Union Development Policy

2.2.1.1 The Treaty Establishing the European Community (December 2002)

Article 177 of Chapter XX "DEVELOPMENT COOPERATION" states:

1. *Community policy in the sphere of development cooperation, which shall be complementary to the policies pursued by the Member States, shall foster:*
 - *the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them,*
 - *the smooth and gradual integration of the developing countries into the world economy,*
 - *the campaign against poverty in the developing countries.*

⁸ Source: Draft Aid Policy and Strategy, GRZ April 2005.

⁹ Which at the time of finalising the present report (December 2005) is still in draft form.

2. *Community policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.*
3. *The Community and the Member States shall comply with the commitments and take account of the objectives they have approved in the context of the United Nations and other competent international organisations.*

In December 2000, the objectives of the original treaty, which came into force 1st May 1999, were reprioritized and they specified that the overriding objective of the EU Development Policy must be “to reduce and eventually eradicate poverty”. As such, six priority areas were identified, in which the Commission wishes to concentrate its assistance in relation to poverty reduction and other areas in which the Commission believes it has particular added value. These areas are:

- ***Link between trade and development;***
- ***Regional integration and co-operation;***
- ***Support for macroeconomic policies and promotion of equitable access to social services;***
- ***Transport;***
- ***Food security and sustainable rural development;***
- ***Enhanced institutional capacity building.***

Moreover, the following horizontal issues have to be incorporated into all aspects of development co-operation: human rights, equality between men and women, children's rights, and protection of the environment. Conflict prevention and crisis management also require systematic attention.

2.2.1.2 Linkages with the Global Development Agenda

The EC Communication of April 2000¹⁰ placed EC development policy in the context of **three areas of EU external action, that is, development policy, trade policy and the political dimension**. Apart from the Cotonou Agreement¹¹, which was also based on these three ‘pillars’, the Communication referred to a number of international reference points: the Comprehensive Development Framework, that was to usher in the era of PRSPs, the strategy of the OECD's Development Assistance Committee (DAC) and the series of major UN Conferences in the 1990s that did fashion a global consensus on many international development issues.

The WTO Ministerial in Doha in November 2001 was also of significance for EC development policy. Trade and development is one of the six focal areas of the Commission and it can be ventured that Doha emphasised the need for increased coherence between development and agricultural policy.

At the Monterrey conference on Financing for Development in March 2002, the EU made a major effort to increase ODA levels. As part of the Monterrey process the EU set itself time bound targets for increasing ODA collectively to 0.39% of GNP by 2006. In addition, Monterrey also included other commitments on enhanced HIPC, trade related assistance, policy coherence, harmonisation and untying of aid, all areas where the EU is active in promoting debate and further movement.

¹⁰ 4 COM(2000)212

¹¹ The ACP-EC Partnership Agreement signed in Cotonou in June 2000

At the Johannesburg World Summit on Sustainable Development in September 2002 the EU also took on a number of commitments, (e.g. poverty eradication, biodiversity, etc.), and the commitment to the mainstreaming of environment issues was one of the major outcomes of the Summit.

In the Health Sector the EU committed itself to pursuing the Cairo agenda¹² and the EC agreed to become a major actor in the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria (GFATM).

In future, Community aid to national development programmes can be programmed in a maximum of two of the nine concentration areas mentioned in the new "European Development Policy Statement, September 2005":

- Trade and regional integration;
- Environment, sustainable management of natural resources;
- Infrastructure, communications and transport;
- Water and energy;
- Rural development, territorial planning, agriculture, food security;
- Governance, democracy, human rights and support for economic and institutional reforms;
- Conflict prevention and fragile states;
- Human development;
- Social cohesion and employment.

2.2.1.3 The EU Development Policy in the ACP Region

The Lomé Conventions and the Cotonou Agreement

From 1975 until 2000 relations between the ACP states and the European Union (EU) were governed by the Lomé Conventions. Co-operation focused on two key elements: economic and commercial co-operation, and development co-operation. Development cooperation is predicated on a sectoral approach involving specific operations in various sectors such as health, education, or the environment.

The 1995 Lomé IV Convention promoted human rights and respect for democracy – key elements of the partnership – and some new objectives: enhancing the position of women and protecting the environment. Another key feature was decentralised co-operation, through involvement of civil society in the development process. The Lomé IV Convention expired on 29 February 2000.

A new partnership agreement, signed on 23 June 2000, **the Cotonou Agreement, entered into force on 1st April 2003**. This document established a new approach and represents a new phase of the partnership whilst retaining its main instruments (institutions, financial instruments, etc.). **It aims to strengthen the political dimension of the partnership, to provide new flexibility and to entrust the ACP states with additional responsibilities**. Under the Cotonou Agreement, new trade agreements compatible with the World Trade Organisation (WTO) rules are negotiated (Zambia decided to negotiate the Economic Partnership Agreement EU-ACP in the framework of the Eastern and Southern Africa (ESA) region. **EPA negotiations for the ESA region started on 7 February 2004 in Mauritius**¹³).

¹² Cairo Programme of Action on Sexual & Reproductive Health & Rights, 1994

¹³ The Ministers of Trade of the ESA region and the EU Commissioner for Trade met on 9 February 2006 in Mauritius. Both sides agreed that the EPA is an instrument at the service of ESA countries development. To achieve that objective, a comprehensive approach is needed, tackling traditional development issues (supply side constraints) and trade issues at the same time. Trade related issues will help establish the regulatory framework necessary for development to happen. Taking

*The New Africa-EU Strategy*¹⁴

While aid flows to Africa are substantial and have increased over recent years, additional political and financial commitments should give Africa a decisive push towards the MDGs. In June 2005 the European Council agreed, on the basis of a Commission proposal, to **double aid between 2004 and 2010, and allocate half of it to Africa. By making this commitment, the EU is still on track to reach the UN target of allocating 0.7% of its GNI to development aid by 2015.** Compared to what is expected in 2006, this commitment should result in an estimated additional €20 billion in ODA per year by 2010 and an additional annual €46 billion per year by 2015.

The European Council adopted the new Africa–EU Strategy during its summit on 15–16 December 2005. **The Strategy suggests a framework for action for all EU Member States and the European Commission to support Africa's efforts to attain the UN Millennium Development Goals (MDGs).** It proposes a strategic partnership for security and development between the European Union and Africa for the coming decade. It confirms that it is to provide more and better development aid, to increase the speed of implementation and to focus aid in particular on Africa.

The strategy focuses on key requirements for sustainable development such as peace and security, good and effective governance, trade, interconnectivity, social cohesion and environmental sustainability. In addition, it reaffirms the commitment to increase EU aid to Africa and to improve aid effectiveness.

The Strategy makes concrete suggestions to promote joint programming, an alignment of procedures and increasing budgetary aid. It also proposes the launch of a "Governance Initiative" and a "Partnership for Infrastructure". Under the Governance Initiative, the EU will, for instance, provide support for reforms triggered by the African Peer Review Mechanism¹⁵ (APRM). In the context of the Partnership for Infrastructure, the EU will support programmes that facilitate interconnectivity at continental level to promote regional trade, integration, stability and development. As it stands, the Strategy should guide future 10th EDF programming for Zambia.

stock of the progress made so far, both parties acknowledged that negotiations have gained speed since September 2005. This momentum must be maintained and even accelerated, if the set deadline of end 2007 is to be met. In terms of substance, significant convergence has been recognized in a number of areas such as sanitary and phyto sanitary (SPS) measures. It was agreed that agriculture is a key sector for the development of ESA countries. Due consideration will be given to issues like food security, the situation of net food importing countries, and capacity building for SPS measures. Being at the heart of the EPA process, discussions on development issues will continue. The programming of financial assistance, both at national and regional level, will have to go hand in hand with the negotiation process. Fisheries will be further discussed at technical level, on the basis of papers submitted by both sides. Market access is a key issue on which further work is needed. The European side is committed to consider asymmetry to the maximum extent possible, be it for tariff dismantling or other technical issues such as rules of origin. Rules of origin will be revised in order to simplify them and make them less costly and less cumbersome to implement. On tariffs, the EC insisted that the starting point for reciprocal dismantling should be a common external tariff for the ESA EPA group. The objective is to have a single simple trade regime. ESA indicated that they are working on various options, and it is agreed that it is not a formal precondition to conclude and EPA. It was agreed that SPA should not become a technical barrier to trade but rather a tool providing ACP exporters with better access to the EU market. Trade defence instruments will have to be included in the EPA and it is in this area where there could be an early harvest in the negotiating process. The co-chairs agreed that the discussions should be extended to other sectors such as trade in services, investment and trade related issue.

14 http://europa.eu.int/comm/development/body/communications/docs/eu_strategy_for_africa_12_10_2005_en.pdf

15 <http://www.nepad.org/2005/files/documents/48.pdf>

2.2.1.4 Humanitarian Aid (ECHO)

The EC Humanitarian Aid department (DG ECHO) was established in 1992 and its mandate (Regulation (CE) n° 1257/96) is to provide emergency assistance and relief to the victims of natural disasters or armed conflict outside the European Union. The aid is intended to go directly to those in distress, irrespective of race, religion or political convictions. ECHO's task is to ensure goods and services get to crisis zones fast. Goods may include essential supplies, specific foodstuffs, medical equipment, medicines and fuel. Services may include medical teams, water purification teams and logistical support.

The main focus of Zambia ECHO-funded interventions has been the **care and maintenance of refugees from Angola and Congo DRC, and emergency assistance and relief to mitigate the impact of drought-induced food shortages.**

2.3 Overall Political, Economic and Social Situation in Zambia

2.3.1 *Political Background and the Role of Zambia in the Region*

In one of Africa's first peaceful electoral transfers of power, President Chiluba succeeded Kaunda in 1991, largely as a result of mounting popular anger at the government's inability to reverse the decline in people's welfare partly reflected in the fall in per capita incomes that dated back to 1974, linked to the poor fortunes of mining, the weak performance of many state-owned enterprises, and the failure to diversify the economy.

During his first term (1991-1996), President Chiluba was backed by widespread popular support, a large parliamentary majority, hugely increased aid flows which offset declining mineral revenues, and a relatively clear policy agenda pursued with the support of the international community.

Some reforms - for instance to agriculture - proceeded rapidly, but others (where an established patronage system was threatened, notably mine privatisation) were delayed. This resulted in a significant loss of revenue to the government.

The second Chiluba term (1996-2001) saw a decline in standards of public financial accountability, initiated by the use of state resources for party political campaigning purposes. By the end of Chiluba's term, extensive corruption at high levels had been added to the long-existing patrimonialism and lower-level corruption.

In 2001, Mr Levy Patrick Mwanawasa was elected President with 29% of the popular vote, in an election that had been supported with substantial amounts of money from the international donor community (including M€ 6.55 from the EDF). Nevertheless, the results of the presidential elections were criticised by some segments of society, and three opposition candidates formally submitted petitions against them. In February 2005, the Supreme Court finally ruled that President Mwanawasa had indeed been duly elected. Thus far **the rule of President Mwanawasa has seen an improvement in managing public expenditures and a reduction in corruption, although this is yet to translate into an upward promotion in the country's rankings in the Transparency International index.**

2.3.2 *Poverty in Zambia*

Poverty alleviation is central to the intervention of the EC in Zambia, and it would be expected that this country evaluation addresses three simple questions: has poverty in Zambia declined over the period under review?

Have the interventions of the EC contributed to poverty alleviation and in which way (if such alleviation took place effectively)? What lessons can the EC draw from the changes that occur, that can be made use of in future programming?

Regarding the first question, according to the official Living Conditions Monitoring Surveys (LCMS), poverty actually declined between 1998 and 2002¹⁶. Although there are some methodological issues involved in the comparability of the two datasets, this does not support the claim made by some NGOs that the poverty situation in Zambia has worsened over time. A national Indicators Monitoring Survey (IMS) was recently completed that is comparable in design to the 1998 LCMS. **The findings from the IMS (not available yet on Dec. 31, 2005) should indicate whether since 1998 headcount measures of poverty have improved or not.**

In general, **Zambia suffers from some deficiencies in its statistical systems that make it difficult to follow its progresses in development and poverty alleviation**¹⁷. The evaluation team has been confronted to numerous contradictions in data originating from different sources that cast serious doubt about the validity of these data. This is particularly challenging, noting that, with the development of swap and direct budget support, donors' financing decisions, including those of the EC, increasingly depend on the evolution of the values of a small number of selected indicators, among which MDGs indicators play a vital role.

2.3.3 GRZ Policy Agenda for 2001-2005

By the time the present CSP took effect GRZ had committed itself to reduce the number of people living in poverty from 70 percent to 50 percent during the period 1999 to 2015. To this effect, in May 1998, a strategic framework for the Sector Investment Programmes (SIPs) and other efforts toward poverty reduction had been adopted. It was decided to achieve economic growth through agriculture and rural development and the provision of physical infrastructure. In addition, improved productivity of the private sector through economic reforms was considered to be instrumental for an increased income of the urban poor.

In July 2002, the Zambian Government officially launched its first Poverty Reduction Strategy Paper (PRSP) for the period 2002-2004. In October 2002 the Government adopted the Transitional National Development Plan (TNDP) for the period 2002-2005 incorporating and expanding the scope of the PRSP.

¹⁶ A rather grim picture of the current situation of poverty in Zambia, as observed in LCMSIII, is provided in annex to this report.

¹⁷ The Central Statistical Office operates under an adequate legal framework for statistical operations with provision for confidentiality and assurance of responses. However, in practice, the safeguarding of confidentiality could be improved in the transfer of information from the provincial offices. Despite being a department under the MOFNP where the Minister could give directives on collection of statistics, the CSO has adequate operational independence to carry out its work program. The CSO faces resource limitations and uncertain resource allocations that seriously affect its annual work program implementation. In particular, resources for compilation of national accounts have reached a risky and critical level. There is no realistic prioritized work program based on CSO's own resources and taking into account users' needs, the CSO faces uncertainty of resource allocation to implement its work programs. In practice, CSO staff is independent in deciding on choices of sources and statistical techniques based solely on statistical considerations. **The CSO recognizes the importance of improving the quality of statistics. It has solicited, and is currently receiving, technical assistance in many areas, including national accounts and GFS.** (© 2005 International Monetary Fund January 2005 (IMF Country Report No. 05/30 Zambia: Report on Observance of Standards and Codes—Data Module, Response by the Authorities, and Detailed Assessments Using Data Quality Assessment Framework)

The TNDP encompasses all the areas in the PRSP and includes other areas such as the Judiciary, Law and Order, and Defence and Security. **The two companion documents PRSP/TNDP capture the core elements of the Government strategy for reducing poverty.**

The time period for the PRSP (2002-04) was extended by one year to overlap with the TNDP. The National Development Plan (NDP), still in draft, is to merge the current PRSP with the TNDP; it is expected to cover all PRSP sectors for the period 2006-2010.

2.3.4 *Macroeconomic Trends*

After more than two decades of stagnation, Zambia's economy has recently grown robustly, according to the IMF's latest economic review¹⁸.

During 2000–05, real GDP growth averaged 4.5 percent a year, as mining recovered and construction picked up because of a surge in housing demand. But poverty remains widespread, and the economy is still vulnerable to shocks.

Growth slowed in 2005, owing to a drought-related shortfall in maize production and disruptions in mining activity. Inflation—in the high teens during most of 2005—moderated at year-end, partly in response to the sharp appreciation of the Zambian kwacha, but remains high. The appreciation was driven by strengthened market sentiment stemming from record-high world copper prices, a perceived commitment to prudent fiscal and monetary policies, and Zambia's improved debt sustainability outlook.

Through improved fiscal management, Zambia has reduced its overall deficit (including grants) while allowing for increased spending for poverty reduction. It is also implementing structural reforms to increase the efficiency and effectiveness of the public sector, improve debt management, deepen the financial sector, and promote private sector development.

Zambia has made efforts to strengthen public finances, which have helped improve macro-economic stability and boost growth, and the authorities' commitment to increase poverty-reducing spending. Because of potential pressures during an election year, the authorities were urged to maintain disciplined financial policies to safeguard the gains. They were also encouraged to accelerate pension reforms—necessary to avert a major risk to the public finances—and to remove impediments to business activity, expand access to credit, and improve infrastructure.

Debt relief, under the enhanced Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative (MDRI), has greatly improved Zambia's external debt sustainability. The authorities resolved to avoid building up new external debt.

"The strong pace of investment suggests that prospects for robust economic growth in the years ahead are favourable. The authorities' policy framework aims to extend the recent gains in macroeconomic stability, including the reduction of inflation to single-digit levels by 2007. If sustained, these policies would provide a solid foundation for continued strong economic growth and poverty reduction. Thus, it is critical that the authorities resist election year pressures that could undermine fiscal and monetary policies.

¹⁸ Adapted from IMF Source: www.imf.org

"Continued progress under the comprehensive Public Expenditure Management and Financial Accountability (PEMFA) reform would lead to substantial improvements in the effectiveness of public resources. In addition, longer-term budget planning and the allocation of resources to eliminate domestic payments arrears and provide for forthcoming contingent liabilities, including the projected cash flow deficit in the public sector pension fund (PSPF), are welcome. Proceeding expeditiously with pension system reforms will be critical to reducing risks to the public finances.

"The recent appreciation of the kwacha, spurred by the improvement in Zambia's longer-term prospects, points to the importance of closely monitoring exchange rate developments and increasing productivity in order to maintain competitiveness. Therefore, the implementation of structural reforms to remove impediments to business activity, expand access to credit, and improve infrastructure should be stepped up. In order to maintain confidence in the financial sector, it is essential for the authorities to follow through on plans to resolve financially troubled non bank financial institutions, privatize the Zambia National Commercial Bank and, more generally, strengthen financial sector supervision and regulation.

Zambia: Some key macroeconomic indicators

	2002	2003	2004	2005
	(annual percent change, unless otherwise noted)			
Real GDP	3.3	5.1	5.4	4.3
Consumer prices (average)	22.2	21.4	18.0	18.3
Real effective exchange rate (average) ¹	-5.8	-1.7	8.1	12.2
Export volume (goods)	11.2	1.8	16.6	5.5
Overall fiscal balance, cash basis (percent of GDP)	-6.3	-6.6	-1.7	-2.7
External official debt service ^{2, 3}	11.4	15.2	18.2	7.0

¹ Estimate for 2005 reflects data for January–August.

² After debt relief.

³ In percent of exports of goods and services.

Data: Zambian authorities and IMF staff estimates.

The table below sums up the status of key PRSP macroeconomic indicators

Status of the Key PRSP Macroeconomic Indicators

Indicator	Base year	Base Year status	Target	Year	Status as at end 2003	Status as at end Dec 2004	Status as at end Dec 2005	Remarks
Real GDP Growth	2001	4.9%	4.0%	2004	5.1 %	5.4%	4.3%	Achieved
Real Annual Per Capita GDP growth rate	2001	2.2 %	1.1 %	2004	2.6 %	2.5%		Achieved
Overall Fiscal Deficit			2%	2004	6.6%	1.7%?		Achieved
Annual Rate of Inflation	2001	18.7 %	5 %	2004	21.5%	18.0%	18.3%	Not Achieved
Annual growth in exports	2001	7.5 %	7.5 %	2004	24 %	51 %		Achieved (the target is real terms but the outcome is in nominal terms)
Domestic Arrears reduced to zero (K, billion)	2001		0	2006	K 578.6	K577.4		Not likely to be achieved
HIPC Completion Point Reached				2003	Not Reached			Achieved
Activity Based Budgeting adopted across government (no of ministries)	2001	7	All	2004	Done	Done		Achieved
Funding to all departments reflects yellow book	2001		Over 80 %	2004		88%		Achieved
Overall Expenditure patterns reflect the priorities in the PRSP			Over 80 %	2004	50%	99.9%		Achieved
Incidence of Poverty (Headcount %)	1998	73 %	65 %*	2004	67%	67%		Based on LCMS III
Rural Incidence of Poverty (Headcount %)	1998	83 %	75 %	2004	N/A	72.0%		Based on LCMS III
Urban Incidence of Poverty (Headcount %)	1998	56 %	50 %	2004	N/A	28.0%		Based on LCMS III
Poverty Gap (incidence and depth)	1998	0.55	0.4	2004	N/A	0.57		Based on LCMS III
Gross Domestic Investment % of GDP	1998	14.9%	20 %	2004	24.3%	28.3%		Achieved
Inflows of FDI	2001	US \$72 m	US \$88m	2004	US \$172m	US \$344		Achieved (though mostly concentrated in mining)

Sources: Ministry of Finance and National Planning, IMF

In spite of the positive developments in the economy, there remain a number of formidable hurdles before the economy is able to offer the population a reasonable opportunity to improve their position. **In rural areas, where most households are dependent on agriculture, challenges relate to poor conditions of irrigation systems, lack of access to credit, infrastructural deficiencies, and lack of proper and consistent marketing channels. In addition, a human resources crisis, directly related to income poverty, weak education and health systems and the AIDS/HIVS endemic, continues to frustrate the development of a strong private sector.**

2.3.5 Social Issues

In 2004 Zambia had an estimated population of 10.5 million, up from 9.9 million in 2000 (Country Profile). With a surface area of 752,600 km², the country has a population density (pop/km²) of only 14.5 (OECD, 2004). Population growth over the period 2000-2005 is estimated at 1.5% for 2003 and 1.4% for 2004 (*ibid*)¹⁹. The analysis of social issues is directly correlated to the analysis of the poverty situation. **In Zambia two-thirds of the population lives in extreme or moderate poverty (JAR 2004).** According to the UNDP Human Development report for 2005, debt servicing was allocated three times the amount health or education received in the budget. The report placed **Zambia at rank 166 out of 177 countries in the Human Development Index²⁰ (HDI)** - down from 164 in 2004 and 163 in 2003. In Zambia, **20 percent of all children below 19 years are orphans.** Of these, 4 percent are maternal orphans, 11 percent are paternal orphans and 5 percent are double orphans. The HIV/AIDS epidemic is endemic in Zambia and **nearly 1 million Zambians are HIV positive or have AIDS.** The table below provides key indicators for the MDGs. It shows that the last four years (2001-2004) have witnessed an improvement in some indicators.

¹⁹ However, other sources give 2.4 for this period. The real figure is more likely to be around 2%.

²⁰ The HDI focuses on three measurable indicators of human development: living a long and healthy life; being educated; and having a decent standard of living.

Key MDGs Indicators

Type	Indicator	1990	2000	2001	2002	2003	2004	2005	MDG 2015 Goal	
Impact	Proportion of people living in extreme or moderate poverty (%)		73 ('98)			66.5				
	Proportion of people living in extreme poverty (%)	58			46				29	
	Proportion of people living in extreme hunger (%)	25			28				12.5	
	Prevalence of underweight children (under-5 years of age) (%)		25 ('98) 28 ('99)	24	24	23	24	21		
	Maternal mortality ratio (MMR) (per 100,000 live births)		649 ('96)			729			162	
	U5 mortality (per 1000 live births)		191 ('92)			168			63	
	Infant mortality ratio		107 ('92)			95			36	
Outcome	Net enrolment in primary education (%)*	80	77 ('94)	71	77	78	76	78	100	
	Girls	69				75				
	Boys	71				71				
	Pupils reaching grade 7 (%)	64				73	82		100	
	Girls	57				66	75			
	Boys	71				80	95			
	Literacy rates (15-24) (%)	79				75	70		100	
	Female	75				70	66			
	Male	79				75	75			
	Ratio of girls to boys in education - Primary	98	92 ('98)		96	96	98	95	95	100
	- Secondary	92	76 ('98)		86	85	90	84	83	
	- Tertiary						71	63		
Proportion of births attended by skilled health personnel (%)		51 ('92)			45					
Proportion of 1 year old children fully immunised (%)		60 ('96)			69.9	73	74.5			
ESS trends of HIV infection among ANC (%)		20 ('94)			40				19	
ZDHS/HIV prevalence rate among male and female					16				16	
New malaria cases per 1000	255	377 ('99)							<121	
Population with sustainable access to an improved water source (%)		50 ('91) 47 ('96)	49		51	53				

Source: JAR 2004, LCMS III 2004, Zambia MDG 2005

2.3.5.1 Health

Evolution of Health Sector

Since 1992 there have been significant reforms in the Health Sector, whose underlying principal was decentralisation of health care delivery from centre to district and hospital levels. The reforms have been complemented by the government's commitment to the realisation of the MDGs.

The health-related MDGs and the PRSP (TNDP) presently serve as output indicators on investments in the health sector.

In the initial stage, the progress in indicators on health fell behind the planned level, but improvement has since occurred. **The period 2001 - 2004 has witnessed an improvement in some health indicators.** The prevalence of underweight children went from 24% in 2001 to 21.5% in 2004; and immunisation rates have improved.

However, access and utilization of health services vary according to location. In some health centres and hospitals, especially in urban areas, the levels of access and utilization are high. Rural areas are characterized by low access and utilization largely due to little investment in rural health infrastructure and a lack of qualified health workers (i.e. in the Ministry of Health/Central Board of Health (CBOH) only 50% of positions have been filled up).

There are still enormous challenges in the Health Sector:

- The **AIDS/HIV pandemic** is playing havoc in the country. By September 2004, when Zambia declared HIV/AIDS a national emergency, one million adults and 200,000 children in Zambia lived with HIV infection (UNAIDS 2002). Mainly because of AIDS, life expectancy fell from 49 in the early 1990s to 37.5 years in 2003, and mortality has risen for both adults and children. The widespread prevalence of HIV/AIDS, particularly in urban areas and among women of childbearing age, puts tremendous strains on a system already failing to deliver basic services.
- **Malaria and respiratory infections** remain obstacles. They are the main cause of death, and there has been no improvement over the past years. The most common cause of death is fever/malaria (23 percent) followed by cough/cold/chest infections (11 percent) and TB (11 percent).
- Although the Government has increased its spending on poverty related programmes, **the Health Sector suffers from limited absorptive capacity at district level and from an increasing brain drain.**

Health Sector Financing

Under the current health reforms, GRZ and CPs have been moving towards targeted Health Sector budget support for Human Resources (HR) retention, increased efficiency, financial management systems, drug supply systems and a Management Information System (MIS). **The EC MS and other CPs have signed the Harmonisation – In – Practice (HIP) MoU to coordinate their funding to the Health Sector.** The Ministry of Health has its own sector budget support. This is seen as a good arrangement by MoH officials as there is no guarantee that the Ministry of Finance and National Planning (MFNP) can fund MoH priorities.

The main sources of financing public healthcare services in Zambia include allocations from the Central Government, donor support, user fees and insurance schemes, employer contributions and other miscellaneous receipts, including donations in kind.

The Government also receives financial support for the fight against HIV/AIDS from the Global Fund for the fight against HIV/AIDS, the World Bank (under the Zambia National Response to AIDS – ZANARA – Project) and the USA President's Emergency Plan for AIDS Relief (PEPFAR). This support is channelled through GRZ, NGOs, FBOs and other projects at various levels of intervention.

2.3.5.2 Education

Evolution of the Education Sector

Education is a key priority sector in Zambia. The Education Sector comprises four Ministries, namely, Ministry of Education, Ministry of Science, Technology and Vocational Training, Ministry of Sport, Youth and Child Development and Ministry of Community Development and Social Services. The Ministry of Education is mandated to guide education delivery as well as provide education at basic, high school and college (teacher education) levels.

Currently, under the Ministry of Education, education provision is guided by the education policy document, *Educating Our Future* (1996). This policy focuses on equitable access to quality education at all levels. The policy re-adopted the concept of basic education which led to the implementation of the Basic Education Sub-sector Investment Programme (BESSIP) in 1999. Actual implementation of the policy has, since 2003, been based on the **Education Sector Strategic Plan (ESP), 2003-2007**. The major sub-sectors now are basic, high school and tertiary education.

At basic school level (grades 1-7) net enrolment rates have increased from 71 % in 2000 to 78% in 2004.

The primary completion rate also improved from 73% in 2003 to 82% in 2004.

Further, the ratio girls/boys in primary education reached 95% in 2005.

The proportion of the population attending school in the age groups 5-6, 7-13, 14-18 and 19-22 years were at 13, 75, 64 and 21 percent in 2002/2003, respectively. In the age group 5-13 school attendance rate is higher among girls than boys.

Urban population is more likely to be attending school than rural population. At provincial level, Eastern province records the lowest school attendance rate for both the primary and secondary school age population. Poor households are less likely to send children to school than non poor households.

Government remains a major provider of education at all levels. However, private sector has significant contribution to education particularly at college and university levels.

There are still enormous challenges in the Education sector:

- The goal during the 1990-2000 decade was to provide 4,400 teachers per year, but only 2,226 were produced. The low numbers reflect a high attrition rate of teachers due to HIV/AIDS, poor conditions of service, and lack of housing, particularly in rural areas and for single female teachers.
- The teacher pupil ratios improvement was hampered, due to budgetary constraints. There were about 9,000 teaching vacancies, mostly in rural areas, in 2003.

Financing education

The Government has implemented the Education Strategic Plan which was presented to the donors in February 2003. **A memorandum of understanding was signed at the same occasion, providing the framework for donor support. Several EU – member states have already signed the MoU.** This means that there is harmonization among these donors according to their comparative advantages, through dialogue. The ESP is articulated in Annual Work Plans (AWP), which follow the National Implementation Framework.

2.3.6 *Medium-Term Objectives and Perspectives*²¹

2.3.6.1 Medium-Term objectives

In line with the forthcoming National Development Plan (NDP), expected to be finalized in early 2006, and the medium-term expenditure framework (MTEF), Government aims to implement a macroeconomic policy framework and an agenda of structural reforms that will support strong economic growth and a substantial reduction in poverty. While the NDP considers policy alternatives to accelerate growth and poverty reduction, which would require additional resources, the MTEF is based on current projections and resource commitments. Under this current scenario for the MTEF period, 2006–2008, Government aims to:

- Achieve real **GDP growth of 6 percent** a year;
- Bring down end-year **inflation to 10 percent in 2006 and 5 percent in 2007 and 2008;**
- Reduce **domestic borrowing to 1.6 percent of GDP in 2006, 0.7 percent of GDP in 2007, and 0.5 percent of GDP in 2008** to strengthen the domestic debt position and limit the crowding out of credit to the private sector;
- Increase the coverage of official gross international reserves to at least 1.5 months of imports in 2006, 1.8 months in 2007, and 2.2 months in 2008; and
- Remain current with foreign debt service.

Raising economic growth is a key government objective and a precondition for poverty reduction. In addition to sound macroeconomic and financial policies, raising economic growth to 6 percent a year would be supported by strong private sector investment, an expansion of energy supplies, and pro-poor growth policies to encourage labor-intensive sectors including small-scale mining, agriculture, manufacturing, and tourism. Recent and ongoing large-scale investment in the copper sector is expected to greatly boost mining sector output over the medium term, while strong growth in both residential and infrastructure construction is expected to continue. Monetary policy—supported by prudent fiscal policy— will focus on achieving price stability. External policies will be centered on maintaining a liberal trade regime, while ensuring a competitive, expanded and diversified export base.

²¹ See Memorandum of Economic and Financial Policies, 9 December 2005, published on IMF website.

The reduction in Government's domestic borrowing over the medium term is the anchor to Zambia's macroeconomic stabilization effort. That reduction will be achieved by gradually raising government revenues—by improving tax administration and widening the tax base by further bringing in the informal sector into the tax base—while exercising strict control on government expenditures. In addition, Government will explore the scope for revising the taxation of mining, without violating existing agreements. Expected increases in donor assistance, including in the form of budget support, would provide room for a greater expansion of government spending. A strengthening of budget execution will not only be critical to enable donors to increase budget support, but also to improve public sector service delivery and investment. The government has a large outstanding stock of arrears to the Public Service Pension Fund (PSPF). Over 2006-2008, about 1.5 percent of GDP will be allocated to reducing the stock of pension arrears.

The structural reform agenda is mainly aimed at increasing productivity. Implementation of the Financial Sector Development Plan (FSDP) and the Private Sector Development (PSD) action plan will be instrumental in addressing the main credit and administrative constraints on the private sector in Zambia. The structural reform agenda will also include measures to improve the quality, efficiency, cost effectiveness, and delivery of public services. Increasing productivity in the public sector will rely on continued progress with ongoing reforms to strengthen public expenditure management and financial accountability (PEMFA), public service management, including rightsizing of the civil service, and decentralization.

2.3.6.2 Future Needs for External Aid

A draft version of the NDP made available to the evaluation team in February 2006 provides a Chapter 52 first draft on "Financing the NDP"²². Zambia reached the HIPC Completion Point which resulted into substantial debt relief. Consequently, debt service obligations shall decline to less than US \$100 million per annum from 2006 onwards. Apart from the HIPC Completion Point, in late 2005 the Group of Eight (G 8) countries also proposed a debt relief in which the IMF, the International Development Association (IDA), and the African Development Fund (AfDF) cancelled 100 percent of their claims on countries having reached, or upon reaching, the completion point under the enhanced HIPC Initiative. This Multilateral Debt Relief Initiative (MDRI) resulted in additional debt relief being provided to Zambia.

Three financing scenarios have been considered in the FNDP: The Baseline, Scenario I and Scenario II. The defining feature of these three scenarios is that is the increase in tax effort, and external aid flows (see Table below).

Projected External Aid Flows: (in K billion) 2006-2010

	Baseline	Scenario I	Scenario II
2006	2,301.4	2,301.4	2,301.4
2007	2,284.7	2,560.2	3,283.9
2008	2,413.8	3,056.9	3,778.1
2009	2,516.1	3,264.7	3,867.4
2010	2,707.7	3,500.6	4,307.2
Average	2,444.8	2,936.8	3,507.6

²² Scenarios below presented on the basis of this chapter

The Baseline Scenario is based on the 2006-2008 MTEF and extended to 2010. It essentially depicts the current domestic revenue collection efforts and the confirmed external aid commitments from the donors. The GDP growth rate is projected at 6 percent over the period 2006-2010 and inflation to fall to single digit levels by 2007.

Under Scenario I, three basic assumptions have been made. (i) Domestic tax collection effort is stepped up while the strengthening of the economy to an annual GDP growth of 7 percent entails higher revenue potential; (ii) Total donor assistance (in all the categories) increases by 25 percent over and above the baseline estimates; (iii) there are new external borrowings over the period.

Scenario II is essentially almost the same with Scenario I. The only difference is on the external grants. In this scenario, it is assumed that as a result of the G8 declaration, external aid flows to Zambia shall increase by 50 percent over the current commitments.

As scenarios show, over the 4-year period 2006-2010, GRZ expects external aid to grow at least by 17 percent (baseline scenario) and at most by 87 percent (scenario 2).

As the table below shows, under the baseline scenario, tax revenues, in spite of strongly increasing over the period, from 6.7 to 10.2 trillion K, hardly increase as a percentage of GDP (from 17.5 to 18 percent). However, as illustrated below, under the baseline scenario, the next programming period should witness progress in Zambia's share of NDP financing, as in 2010 domestic revenues would finance 79,3 percent against 74, 8 percent only in 2006.

Total Financing Projections Baseline 2006-2010 (K' billions & % of GDP)

	2006	% of GDP	2007	% of GDP	2008	% of GDP	2009	% of GDP	2010	% of GDP
Total Revenues and Grants	9,136.4	24.0	9,959.6	23.6	11,004.9	23.6	11,912.6	23.3	13,105.2	23.2
Domestic revenues	6,835.0	18.0	7,675.0	18.2	8,591.0	18.4	9,396.5	18.4	10,397.5	18.4
Tax	6,660.6	17.5	7,489.0	17.8	8,377.1	18.0	9,192.9	18.0	10,177.6	18.0
Non Tax	95.6	0.3	136.0	0.3	138.9	0.3	152.4	0.3	168.8	0.3
Exceptional	78.8	0.2	50.0	0.1	75.0	0.2	51.1	0.1	51.1	0.1
External Grants	2,301.4	6.1	2,284.7	5.4	2,413.8	5.2	2,516.1	4.9	2,707.7	4.8
Programme Support	482.4	1.3	654.2	1.6	636.3	1.4	698.3	1.4	773.1	1.4
SWAPS	385.5	1.0	348.6	0.8	399.8	0.9	438.7	0.9	485.7	0.9
Project Support	1,433.6	3.8	1,281.8	3.0	1,377.7	3.0	1,379.1	2.7	1,448.9	2.6
Borrowing	-	-	-	-	-	-	-	-	-	-
Domestic	592.0	1.6	294.7	0.7	231.2	0.5	223.7	0.4	258.2	0.5
External	399.0	1.0	-	-	-	-	-	-	-	-
Programme loans	92.8	0.2	-	-	-	-	-	-	-	-
Project Loans	554.0	1.5	509.6	1.2	417.1	0.9	457.7	0.9	506.7	0.9
running	554.0	1.5	509.6	1.2	417.1	0.9	457.7	0.9	506.7	0.9
New	-	-	-	-	-	-	-	-	-	-
Amortisation	(247.8)	(0.7)	(120.9)	(0.3)	(186.6)	(0.4)	(164.5)	(0.3)	(123.8)	(0.2)
GDP (K'Billions)	38,036.0	100.0	42,184.2	100.0	46,580.9	100.0	51,117.3	100.0	56,592.6	100.0

A joint donor assistance strategy linked to the NDP is presently being prepared by the donors. Expected increases in donor assistance, including in the form of budget support, will provide room for a greater expansion of government spending. A strengthening of budget execution will not only be critical to enable donors to increase budget support, but also to improve public sector service delivery and investment.

2.4 EC Intervention Logic in Zambia

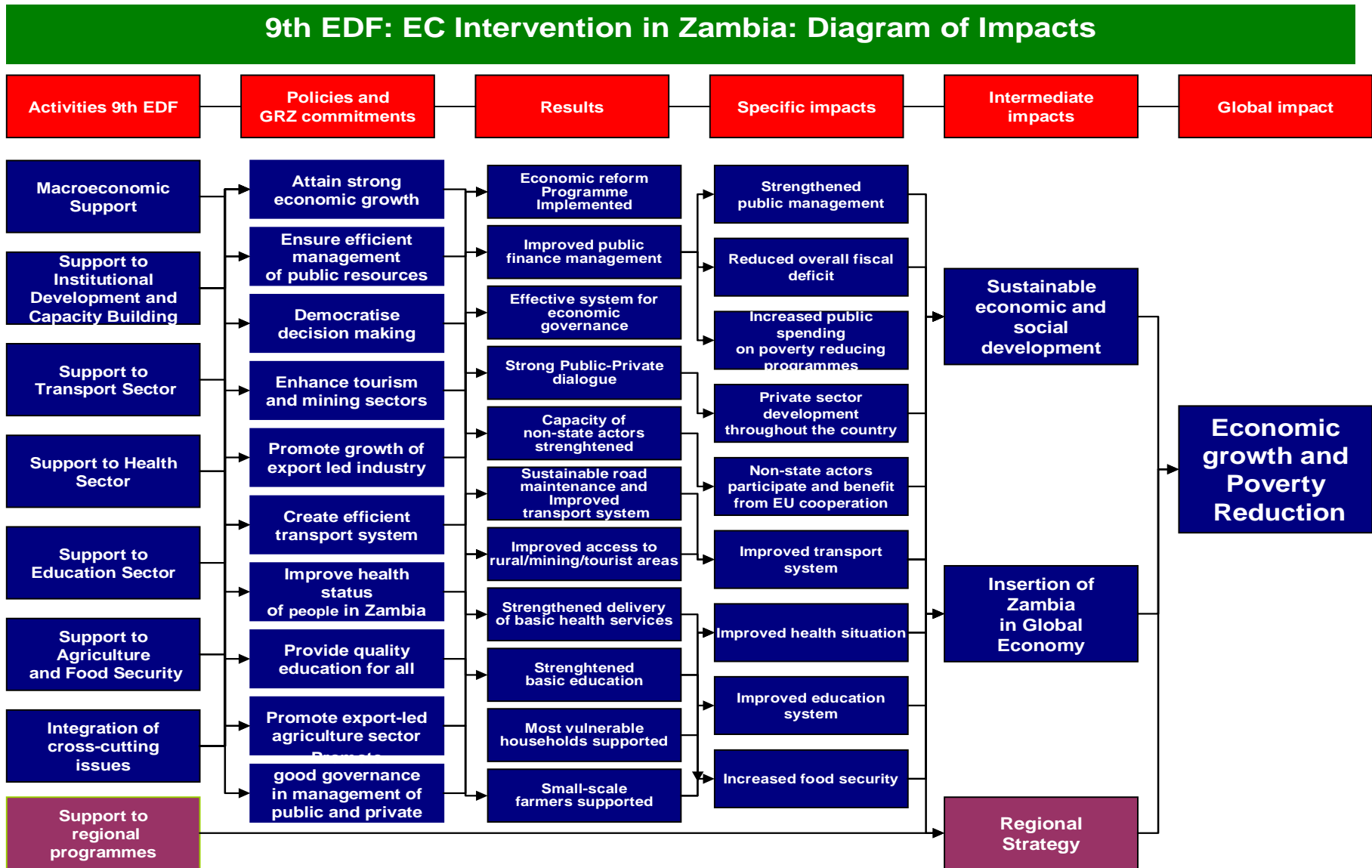
2.4.1 The Country Strategy

2.4.1.1 The CSP and the Mid-Term Review

The interventions envisaged by the EC in Zambia over the period under review were first summarised in a "Programme Planning matrix" in the EU-Zambia CSP and Indicative Programme (CSP/IP) for 2001-2007, and further developed in the MTR. The main change that came out of the Mid-term Review was recognition of food-security as an important area of intervention.

For the purpose of the present evaluation the logic of EC interventions in Zambia was reconstituted by the Evaluation Team. The result is presented in Annex²³. The graph below sums up the EC intervention logic and expected impacts, showing the direct relationship between EC strategy and GTZ own poverty reduction strategy, as well as the main impacts expected from the EC intervention.

²³ The more detailed logical framework that had been presented in the Inception Report (annexed to the present report) had to be simplified following discussions with the Reference Group and field work, as it proved to be complicated to interpret and translate into a limited number of key evaluation questions.



2.4.2 Objectives and Priorities of EC Assistance to Zambia (Focal Sectors)

The CSP, in line with the PRSP proposed two focal sectors: Transport infrastructure and Institutional Reform and Capacity Building. In addition the CSP proposed Macroeconomic support.

2.4.2.1 Macro-economic Support

Macro-economic support is a rather recent EU priority (more recent than transport, for instance). It is in line with the new EU Development Policy and the whole donor community approach driven by the World Bank through the PRSP processes.

The main added-value of EC cooperation is the fact that the EC is one of the few donors that has the financial capacity to bring the funding level that is required for macro-economic support²⁴. Macro-economic support is presented in the CSP as a way to improve access to basic services such as education and health and to support the macro-economic reform programme of the State.

It is presented as a way to support the national poverty reduction strategy by contributing to the general budget through untied macro support. EC support will permit substantially higher levels of allocation to priority social sectors within the budget. The macro-economic support also aims at assisting public finance management, capacity building and institutional support to ministries including finance and trade ministries.

From the Country Strategy Paper it is difficult to assess how the objective of poverty reduction will be met through budgetary and macro-economic support and how the EC aid will reach the population in need.

The impact of such a support is in fact dependent on the quality of the national poverty reduction policy and strategies and the quality of the services delivered by the State. Disbursement of yearly 'tranches' of EC support depend on the achievement of satisfactory results that should be assessed through a set of performance indicators. The idea is to agree on indicators that can be used by all official contributors to the State's budget (through macro-economic support or SWAPs).

In December 2003, the EC approved the Poverty Reduction Budget Support (PRBS01) of M€ 117 under the 9th EDF. The PRBS01 approach addresses the importance of sound Financial Management as well as the results in the implementation of the PRSP/TNDP, particularly in the social sectors (health and education), as well as at regional level. In this way, the PRBS incorporates a set of indicators on PFM, Health and Education which are drawn from the PRSP indicator system adopted by the Government. Disbursements will depend upon the achievement of targets jointly agreed with the Government.

Under EDF 9, the EC disbursed a total amount of € 60.0 million on direct budget support (€ 11.5 million under the SAF V/SYSMIN facility and € 48.5 million under the PRBS01)²⁵. Under the previous EDF, payments by the EC for budget support had reached €86.2 million.

²⁴ Nielson's contribution to the seminar 'Hitting the target' in the European Parliament, 26 February 2002.

²⁵ Data taken from EC/OLAS database (25/11/05)

2.4.2.2 Institutional Reform and Capacity Building

The PRSP underlined Public Sector Management and the reinforcement of the role of the private sector as key areas of attention.

The EC has been supporting public finance management reforms through SAF V/SYSMIN and Support to Planning and Budgeting Reforms programmes. Through SAF V/SYSMIN, the EC has financed technical assistance to the Government in the implementation of the 'Matrix of Corrective Measures' as well as in the preparation of the MTEF and the Activity Based Budget.

In the area of private sector, the EDF supported the following activities:

- The Mining Sector Diversification Programme (EU-MSDP) which aims at improving the utilisation of natural resources in the non-copper/non-cobalt mining sector through a combination of credit financing, training and capacity building and the provision of technical expertise over a period of five years, from 2002 up until the year 2006. The programme's objectives are to increase export earnings through economic diversification, to generate employment opportunities and contribute to poverty alleviation.
- The Private Sector Development Programme (EU-PSDP) is intended to support measures that will assist the further development of the market economy. The programme supported numerous entrepreneurs, and it also worked with business organisations to increase the business opportunities in Zambia.
- The third pillar of the EC support to private sector development is the Export Development Programme (EU-EDP). Its objective is to further improve the performance of the non-traditional export sector, working mainly through producer and export associations, such as the Tobacco Association of Zambia (TAZ), Zambia Coffee Growers' Association (ZCCA), Zambia Export Growers' Association (ZEGA), and the Zambia Association for High Value Crops (ZAHVAC).

In 2004 a project proposal was submitted for support to the private sector under the 9th EDF, which was to focus on the meso level i.e. on the policies and regulatory framework in which the private sector operates in. The project will provide support to statutory bodies such as the Export Board of Zambia, Zambia Investment Centre, Zambia Bureau of Standards and Zambia Competition Commission. Private Sector intermediary organizations will also benefit. The M€ 15 Financing Proposal was approved in April 2005.

2.4.2.3 Transport Sector

Zambia's transport system consists of road, rail, airports and waterway. The main mode of transport is road transport that, covering the most extensive area in Zambia, satisfies about 80% of people and freight transports. Road transport is the fastest and most reliable mode of transportation in Zambia both for the movement of freight and passenger traffic. The road network infrastructure in Zambia consists of an interconnected network of trunk, main, feeder and district roads, of approximately 40,000 km.

The railway network, the backbone of the Zambian transport system, covers only a small portion of the country which accounts for a significant percentage of the movement of the country's bulk cargo and foreign trade. Historically, being the major carrier of minerals, the country's main export, the railways have continued to play a dominant role in the nation's economic development and have conveniently been the major carrier of bulk cargo. Zambia's railway network consists of two main systems, namely Zambia Railways and the Tanzania Zambia Railways.

Other railway systems include the Mulobezi Railway line and the Chipata-Mchinji Railway Project.

The airport system consists of 144 airports, aerodromes and airstrips spread over the country. The National Airports Corporation (NAC) manages the four major international airports of Lusaka, Livingstone, Ndola and Mfuwe. As regards air transport, a few projects are ongoing for improving this sector, such as runways enlargement to complement other modes of transport. In November 2005 has begun rehabilitation work of the Livingstone airport works. Rehabilitation works, supported by 8th EDF, include the extension of the current runway by 700 meters and the rehabilitation of the ground field

The contribution of inland water transport to the movement of goods and passengers in Zambia is presently not important. Although the country has abundant navigable lakes and rivers the development of the sector has been slowed by lack of technical know-how in the management of inland waterways

Transport has always been a major feature of the NIPs for ACP countries. The present priority attached to this sector can be seen as a result of the past experience of EU/ACP co-operation programmes. The EC considers it has an added value in this sector both in terms of expertise and financing capacities.

The transport sector is a top priority in the development agenda of the Government. This is demonstrated by the approval of the Transport Policy Document by Cabinet in May 2002, followed by the submission to the Donors of a Letter of Road Sector Policy signed by the Minister of Finance and National Planning in December 2003.

The Transport Policy Document established a comprehensive transport programme, divided into two priority categories:

- Preserving investment already made in infrastructure (e.g. roads) through maintenance.
- Establishing infrastructure, which aids economic recovery and poverty reduction.

During the period under review, three Road Authorities were set up:

- The National Road Development Agency (NRDA), under the Ministry of Works and Supply, responsible for planning, programming, procurement, supervision and monitoring of all road works;
- The National Road Fund Agency (NRFA), under the Ministry of Finance and National Planning, responsible for collection, disbursement, management and accounting of the national Road Fund;
- The Road Traffic and Safety Agency (RTSA), under the Ministry of Communication and Transport, responsible for traffic licensing and safety.

The three bills establishing the three Agencies were approved by Parliament in December 2002.

The GRZ set up the Road Sector Investment Programme (ROADSIP), a ten-year programme (1997 to 2007) with an original budget estimate of US\$860 million. The 8th EDF contributed to ROADSIP with the implementation of two road projects:

- the Monze-Zimba Road (rehabilitation of a 205-km section in the middle of the trunk road between Lusaka and Livingstone);
- the Kabwe–Kapiri Mposhi and Chisamba Roads (rehabilitation of a 62 km section in the trunk road between Lusaka and the Copperbelt, and a 21 km section of road into the agricultural area of Chisamba).

Other projects in the transport sector included the rehabilitation of the Mpulungu Harbour (completed 2002) and the rehabilitation and development of the Livingstone and Lusaka Airports.

The first phase of ROADSIP ended in December 2003 when ROADSIP II commenced.

The 9th EDF programme is focused on periodic maintenance of roads (trunk, main and district) and the maintenance and rehabilitation of feeder roads

A Financing Agreement under the 9th EDF was signed in December 2004, €70 million, for periodic maintenance of Trunk, Main and District Road. The agreement foresees to disburse:

- M€ 63.3 for a budget support component in three years tranches;
- M€ 6.7 for a capacity building component through technical assistance to the National Road Fund and National Road Development Agency, and road condition surveys.

The assistance in ROADSIP II programme includes also the axle road programme financed in cooperation with NORAD.

A feasibility study for a €20 million feeder roads programme was recently concluded with the target of presenting a proposal to the EDF Committee by the first quarter 2006.

The infrastructure sector includes also the programme of rehabilitation and development of Urban Markets which started in 2003. The design of the markets rehabilitation works was completed in December 2004 and the tendering is presently ongoing.

2.4.3 *Non Focal Sectors*

2.4.3.1 Health Sector

The Ministry of Health formulated a 5-year national Health Strategic Plan (HSP), for the period 2001-2006. Dialogue on the next 5-year plan was expected to start in 2005 and will take into account the PRSP/NDP process, the MDGs and new challenges to the basic health care package such as treatment for People Living with HIV/AIDS.

The EC, through the EDF, completed in 2004 the **support to the Zambia National Blood Transfusion Services (ZNBTS)**. Between 2003 and 2004, the ZNBTS made significant progress towards integration into the Zambia public health system. In mid-2004, it was finally accepted as an eligible beneficiary of the health basket system, with significant improved prospects for its sustainability. Since 2004, the ZNBTS has been declared eligible for further funding from both the Global Fund and PEPFAR. ZNBTS has also streamlined its structure nationwide, with centralisation of blood treatment and screening at nine provincial centres. This has seen an increase in blood collection from 8,700 units per quarter in September 2004 to 12,500 units in December 2004 and over 16,000 units per quarter in 2005.

With support from the EC, a comprehensive **assessment of the Zambian Health Management Information System (HMIS)** was conducted in July – August, 2005. The conclusion was that the HMIS is well established and functional at all levels of the health delivery system. Despite this optimistic conclusion, the HMIS still has a number of problems.

According to the FNDP, there is lack of indicators to monitor all MDGs; there is poor integration of vertical programmes and administrative information into the routine HMIS; the quality of data is not checked and the system of vital registration is weak. In addition, most staff are not trained in HMIS procedures and there is not much faith in the results coming out of the HMIS.

The EC completed in 2003 its **support to the health basket under the 8th EDF**. A new €10m financing proposal for basket funding under decentralisation modalities was not approved due to legal reasons. This means that most of the earmarked funds have not been spent under the 9th EDF. Presumably, this proposal can be re-activated in the 10th EDF.

Direct EC support to the Health Sector is minimal. EC preference is to have limited direct interventions in the Health Sector, as the EU Member States (MS) have a comparative advantage. The EC mainly provides general budget support in form of PRBS which includes a number of indicators relating to the Health Sector. As noted elsewhere, the implementation of the new EC PRBS culminated in 2004 in the assessment of health indicators against set targets linked to variable disbursements to the budget. In the period 2002-2005, the EC disbursed a total amount of € 60m on direct budget support. Although this approach is new to GRZ and CPs, it has brought new meaning and importance to planning and the use of indicators and targets as tools to resource utilisation and goal realisation. Our impression is that this has contributed to an improvement in some health indicators, including the strengthening of financial management systems in the Health sector.

2.4.3.2 Education Sector

The EC PRBS indirectly covers progress in the Education Sector. There is also direct EC support to the Ministry of Education (MoE) (sector support). In 2004 there was slow implementation of the AWP, due to capacity problems in the MoE (both at central and decentralized level). In order to address the capacity problems, the MoE agreed to create joint task forces, focused on specific implementation problems at the end of 2004. The EC is represented on three task forces (textbooks, procurement and infrastructure). These task forces were expected to complete their work within the first semester of 2005).

The Government has implemented an Education Strategic Plan which was presented to the donor community in February 2003. A Memorandum of Understanding was signed at the same occasion, providing the framework for sector support. Several EU-Member States (Denmark, Ireland, the Netherlands, Finland, and the United Kingdom) already signed the MoU. In June 2004, following the signature of the Financing Agreement for 9th EDF support to education, the EC joined the pooled funding mechanism.

The EDF-supported Zambia Education Capacity Building Programme (ZECAB) was completed in June 2004. While ZECAB did not contribute to the basket fund, its interventions were in line with the policy and strategy of BESSIP. The main interventions were the setting up of a Basic Education Bursary Scheme, the construction of 30 Community Schools, as well as continued support to technical and vocational education.

Also in the Education Sector, the introduction of the EC PRBS and the assessment of output/outcome indicators have had a significant impact. Starting in 2005, the envisaged 9th EDF support to EMIS (Education Management Information System) supports the integration of the community schools into the annual school census exercise and improves the overall reliability of the education information system.

2.4.3.3 Agriculture

The Government approved the new National Agricultural Policy for 2004-2015 in November 2004. The objective is to improve national and household food security, income generation and improved employment, sustainable industrial development and increased contribution to the national balance of payments.

To achieve these objectives the Government promotes market liberalization and support for private sector development (i.e. credit provision, marketing, input supply, out grower schemes, agro-processing), review of the legislative and regulatory framework (i.e. improved standards and sanitary requirements to promote exports), agricultural diversification (including promotion of fisheries), strengthened provision of agricultural services (i.e. extension services, research and capacity building of farmers organizations), irrigation development and prevention and control of pests, crop and livestock diseases. Emphasis is also put on the promotion of trade both in the region and beyond in view of recent developments in NEPAD, COMESA, SADC, WTO and EU/ACP.

The "Promotion of Conservation Farming and Crop Diversity for Increased Rural Household Food Security" project (M€ 1.97) was approved at the end of 2004. In June 2005, the financing agreement has been signed with the Conservation Farming Unit, who will implement the project, under the umbrella of the Zambia National Farmers Union (ZNFU). The main objective is to support rural farmers in the Central, Southern and Eastern provinces in the use of conservation farming techniques to improve their yields and income. Food Security Packs and Oxens will be distributed through field level involvement of the two main cotton companies in Zambia for the first time at the start of the season 2005-06. These companies cooperate in a public-private partnership arrangement, with the interest of improving the food security situation of their cotton out growers through a sustainable production of their staple food crop, maize, in rotation with cotton and a leguminous crop to maintain soil fertility.

At the mid-term review of the CSP/NIP it was decided to transfer M€ 15 from the B-envelope to the A-envelope in favour of a new 9th EDF food security/agriculture programme. Rather than to create a new focal sector, it was agreed to integrate this new support under the existing focal sectors of capacity building and support to non-state actors. The initial proposal from the feasibility study included support at three levels: 1) development of a national, multi-sector food security strategy 2) improved planning and activity-based budgeting as well as support to public extensions services at provincial and district level, and 3) support to non-state actors to implement food security interventions and income generating activities.

2.4.4 *Regional Level*

As a member of the Common Market for Eastern and Southern Africa (COMESA), Zambia benefits from the wide range of COMESA projects related to regional co-operation and integration. Zambia also benefits from the EC regional facility, approved in 2003, to support multilateral and regional trade negotiations with the ESA region. The main purpose of the project is to assist countries in the ESA region to develop trade negotiating capacities in the short term, in particular as regards EPA and WTO negotiations.

The Regional Strategy Paper (RSP) and Regional Indicative Programme (RIP) for Eastern and Southern Africa valued at €223 million, and to be disbursed over a 5-year period starting in 2003, is a programme jointly prepared by COMESA, the East African Community (EAC), the Indian Ocean Commission (IOC) and the Intergovernmental Authority on Development (IGAD).

Although the RSP and RIP of SADC is an independent programme, it is compatible with the RSP/RIP for Eastern and Southern Africa.

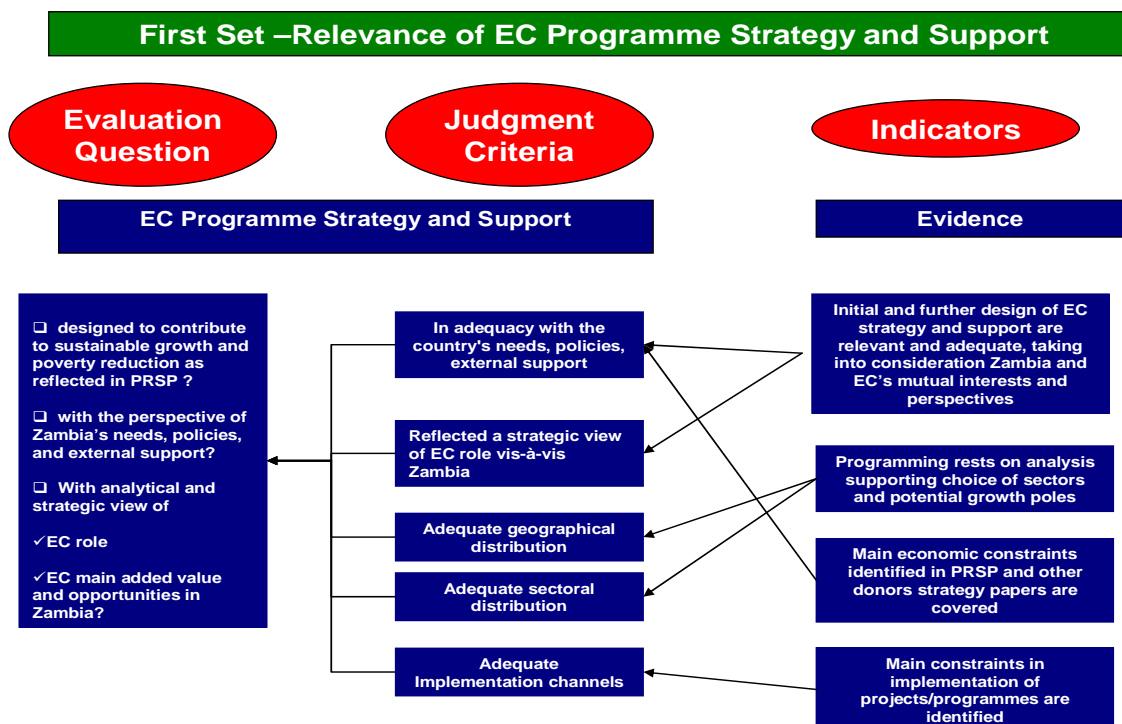
Under the Cotonou agreement a €20 million facility has been made available to all ACP countries to facilitate trade negotiations. Through this facility, in 2003, Zambia received 196,000 Euros for an EPA impact assessment study.

3 FINDINGS

3.1 Selection of the Evaluation Questions

The Evaluation Questions were selected during the desk phase study, in co-operation with the Consulting Group, in order to fulfil the full scope of the evaluation as defined by the ToRs and to prepare the ground for conclusions and recommendations for future EC programming. The evaluation takes place one year after the MTR; the EC programme will be further evaluated at the end of the programming period; at the current stage, some projects and programmes have not yet been implemented. The evaluation therefore provides only a partial picture at a certain date (end 2005) of a programme for which some components remain to be further elaborated.

3.2 First Set –Relevance of the Programme Strategy



Source: Consultant

3.2.1 *Zambian Country Needs and Policies*

With the formulation and implementation of the PRSP 2002-2004 (and its related TNDP covering 2002-2005), GRZ has set into motion an ambitious though urgent programme to reduce poverty focusing on promoting economic growth through macroeconomic stabilization, diversification and improving the quality of service delivery, while addressing crosscutting issues of governance, HIV/AIDS, gender, and the environment.

The initial EC cooperation programme with Zambia for 2001-2007 was globally in line with the Government strategy as it covers a number of critical sectors, such as health, education and transport, in addition to institutional reform and capacity building of public and private institutions. In financial terms, macroeconomic and budgetary support was identified to become the most important support channel to contribute to GRZ's efforts to achieve sustainable economic growth. An important contribution to good governance including accountability and transparency has been identified under the EC Capacity Building and Institutional Strengthening focal sector. The EC country strategy was however written before the final version of PRSP and did therefore not pay sufficient attention to creating space for other priority areas of support emanating from the PRSP.

In this context, an important omission in the original CSP is the absence of support to the Agricultural sector. Agriculture has been identified in the PSRP to be central in poverty reduction and in enhancing food security as well as a potential sector for economic growth and export. The main argument given in the CSP for this exclusion was the absence of a national country strategy with regard to agriculture. This National Agriculture Policy 2004-2015 was published by GRZ only in November 2004. The evaluators find the underpinning of this exclusion rather weak given the enormous challenges and good potential of this sector, its importance in terms of employment and income generation, as well as the relative limited attention to the sector by other donors. Support to the agriculture sector and food security falls well within the overall EC Development policy framework (notably priority area no 5: Food Security and Sustainable Rural Development) and should have been given adequate attention. Lack of an appropriate and independent analysis of the agricultural sector – including the role of government, private sector and other NSAs - has put at risk the relevance of EC cooperation to achieving poverty reduction for the majority of the Zambian population. To some extent this was corrected after the CSP MTR when agriculture and food security were introduced into the 9th EDF.

The PRSP strategy was a fundamental point of reference for dialogue between government, civil society, and the donor community.

EC consultations were mostly confined to GRZ officials and other donors. This restriction is to a great extent reflected in the choice of interventions. There were limited consultations with civil society or private sector, and consultations with Parliament have been absent all together. To some extent this was corrected after the CSP MTR.

It is a challenge to reconcile focussing on a limited number of focus sectors (2 or 3, at the most), for efficiency grounds, with expecting to efficiently contribute to long term poverty reduction: poverty is a complex phenomenon, pervasive, multidimensional, that would seem to request mobilising multiple means and tools in different fields (physical, economic, social, cultural, religious, environmental, etc.). Having resolved to concentrate its aid the EC made the implicit hypothesis that areas of concern for poverty reduction which are outside of EC sectors of concentration would be taken care of directly by GRZ or by other donors or other forms of support or intervention.

At present there is no evidence that all aspects of poverty in Zambia are taken care of one way or the other. The expected common donors' strategy for Zambia will probably deal with that issue as a priority.

Art 177 of EC creation states that: "Community policy in the sphere of development co-operation shall foster²⁶... the campaign against poverty in the developing countries". Fighting poverty is at the centre of the CSP. Yet the analysis of Poverty in Zambia presented in CSP is insufficient. The specific aspects of poverty in Zambia are not fully analysed. In particular, the CSP does not analyse the geographical dimension of poverty. It is not sufficient to state that poverty is omnipresent in Zambia. Since poverty reduction is the core of CSP it should have been the object of an in-depth analysis before deciding on the appropriate programme entirely devoted to poverty reduction. There was insufficient justification of sector selection. More generally, the determinants of poverty are not fully analysed. This may partly be due to limitations in available statistics at disaggregated geographical levels. As a result, there are no means to ensure that the proposed programme will effectively have an impact on poverty reduction; nor is there any demonstration that the allocation of funds between the various focal and non focal areas corresponds to any optimum in terms of expected efficiency in contributing to poverty reduction.

3.2.2 *Sectoral Coverage and Geographical Distribution*

Sectoral Coverage

There is no evidence of a comprehensive analysis of the EC's choice for the various sectors and issues indicated in the CSP. The criteria on which the areas of intervention have been selected are not always spelled out. The choice of the focal and non-focal sectors has apparently been instigated by the history of EC cooperation with Zambia and, to some extent, is a result of harmonization with other donor's efforts.

Support to the **Transport** sector is considered highly relevant in terms of contribution to economic growth under the condition that macroeconomic policies are conducive. Within this sector the main emphasis has gone to road maintenance and rehabilitation. Whereas the PRSP identified also rural roads as an important area of intervention, EC support has not exclusively focused its support there.

In recognition of **Agriculture** being a highly relevant sector for economic growth, distribution of wealth and providing a safety network to poor people, as well as contributing to national and household food security, streamlining of this sector in the CSP implementation has been an important step forward.

The EC chose to support **Health** and **Education** through two complementary channels: direct sectoral support and indirect budget support. The evaluation team considers this choice as relevant, as it combines two potentially strong tools. There is no doubt that as a major donor the EC must support those two sectors, however numerous other donors may be. Poverty alleviation and progress towards the achievement of the MDGs imply strong progress in Health and Education. Out of eight MDGs, the first six are directly dependant on progress in those two sectors.

²⁶ (among others)

However, it is our impression that the mechanism linking the progress of health and education indicators to the disbursement of funds by the EC could and should be improved; such mechanism lacks visibility and the results upon which the EC makes its decision are not always fully understandable. In particular, the new approach of assessing health indicators against set targets linked to variable disbursements to the budget needs strengthening. As four more donors will enter the process in 2006, the amounts of ODA disbursed against health and education targets will increase, deserving strong management, control and M&E.

Geographical distribution

EC support does not include a specific provincial or regional focussing. This is only applied in a limited number of projects. EC assistance to the agricultural sector is focussing on two Provinces, the North-West and Western Provinces. The choice for these provinces is mainly based on the criterion of presence of donors; in terms of poverty levels, food security situation and vulnerability criteria NWP is not among the priority provinces though WP is. In the transport sector rehabilitation of rural feeder roads will be confined to Central and North-West Provinces.

Budget support does not give the tools to target specific geographical areas. In the absence of goals and corresponding indicators related to the spread of impact over the country, budget support is not relevant for targeting remote and poorer areas. Using the poverty maps from CSO would make it possible to identify areas of greatest need and compare this with the geographical distribution of the EU's assistance to Zambia.

3.2.3 Economic Constraints

Out of the three main economic sectors for economic growth – agriculture, mining and tourism - none of these has been included in the original EC cooperation strategy under the 9th EDF. Nevertheless, commitment to support Private Sector Development that includes these sectors has materialized. However, in the absence of an appropriate macroeconomic analysis underpinning EC strategy for support, there is a risk of EC becoming a marginal cooperating partner as it comes to enhancing economic growth.

Most of the urgent economic constraints are covered. However, Agriculture, Food Security, Financial Service Sector, Electricity and SME manufacturing and trade operations are not or insufficiently covered. Cross-cutting issues such as HIV-AIDS and its impact on the economy are relatively low on the EC support agenda. Also the informal sector is not covered.

EC intervention takes into consideration Zambia's vulnerability to drought, external shocks (price of oil, raw materials). Initially it did not sufficiently anticipate the country's needs for food security and dealing with non state actors. This has been corrected following the mid-term review (reallocation of funds).

3.2.4 *Implementation Channels*

GRZ

EC has been the lead donor in providing budget support to GRZ. General budget support may not be the best instrument to address critical elements of poverty in Zambia which is the income inequality²⁷, although it has certainly been instrumental to support GRZ in creating macroeconomic stability. The evidence that with a selective choice of indicators certain sectors may be benefiting more from the increased availability of funds is lacking.

Implementation channels are a mix of different modes: overall budget support, sector-wide budget support and project support. The introduction of budget support was made possible following improvement of Zambia public financial management, as assessed by the EC and other cooperating partners. Increased harmonization between different donors including bilateral donors has enhanced the financial planning capacity of GRZ. The analysis of macro-economic climate and institutional capacity of the government follows the World Bank/IMF analysis and is sufficient.

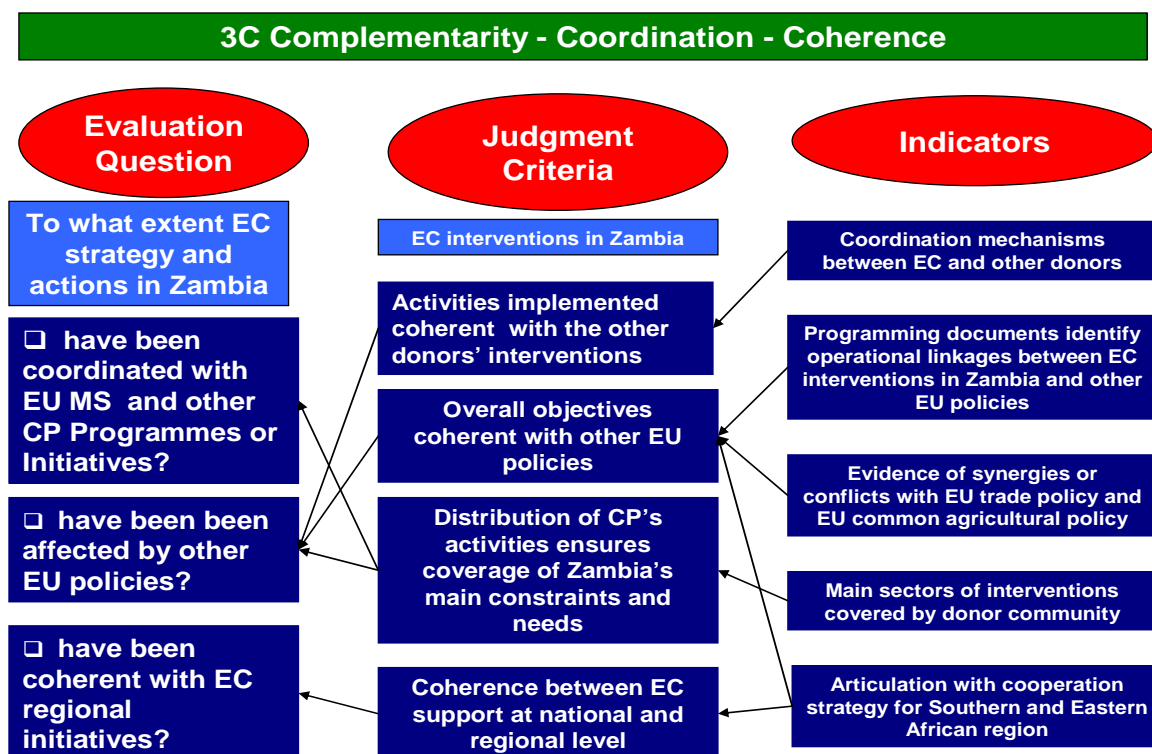
In non-focal sectors without a sector-wide approach, e.g. the agricultural sector, the main channel of implementation is project funding with international TA being tendered. Project or programme funding goes against the Declaration of Paris about harmonization of Development Aid which has been signed by the EU member states and the EC. There is no indication of a proper strategy – be it with or without other donors – to create a situation that would lead to agriculture sector-wide support.

Private Sector

For the private sector the main channel is through project funding; no programme funding on the basis of an organisational comprehensive strategic plan exists. Implementation channels in project support include loan facilities and Technical Assistance, both long-term and short-term. Loan facilities appear to be relatively easy to manage, but lack of an exit strategy hampers the final destination of the funds made available. Cumbersome and bureaucratic procedures hamper the swift and timely recruitment of short-term TA and disbursement of funds.

²⁷ Gini coefficient is 0.57; source: LCMS II 2002/03. The Gini coefficient is usually used to measure income inequality, It is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income).

3.3 Second Set: a Comprehensive Question on the 3C (Complementarity, Coordination and Coherence)

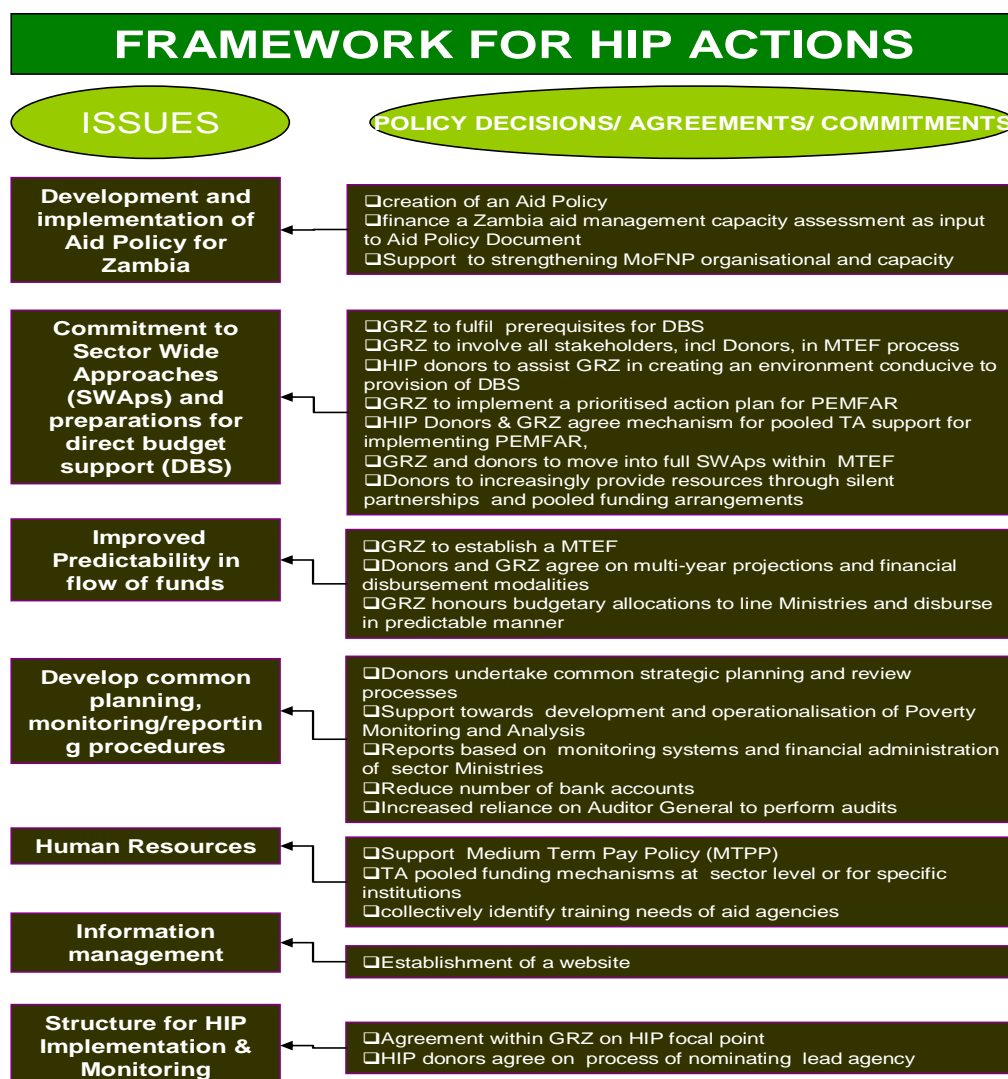


Source: Consultant

3.3.1 Complementarity, Coordination and Coherence with EU MS and other Donors

In the past, lack of coordination and complementarity between donors has often prevented sound development policies from being converted into tangible development achievements. The EU has gone a long way towards improving this situation, most recently at the High-Level Forum on Aid Effectiveness in Paris (March 2005). To go even further, the EU should now implement an Action Plan on Aid Effectiveness and apply it in Sub-Saharan Africa, including Zambia, as a priority. This Action Plan will pave the way for specific proposals for the creation of an operational and interactive EU donor atlas, agreement on individual country roadmaps for harmonisation, the adoption of joint programming documents and the development of common procedures. In addition, the EU should foster more general and sectoral budget support. This will not only make aid delivery more transparent, predictable and result-oriented but will also enhance the EU's collective political leverage. Overall, it will be important to demonstrate that the substantial increases in aid flows have served their purpose in helping recipient countries, including Zambia, in their attainment of the MDGs.

Various coordination mechanisms are already in place: Harmonisation in Practice (HIP), JASZ, G8, and Partnership for Africa. However, it is a long process, as issues are complex, due to strong differences in donors' approaches and mechanisms (see latest JASZ report). There is improved policy dialogue through the JASZ process, but with the donors as a whole, not the EC in particular.



Source: Consultant, based on Table: Framework for HIP Actions (2003), provided by the EC

Harmonization in practice, Zambia: a leading international consulting group²⁸ currently works with harmonisation of donor support by providing process consultancy for the preparation of a joint donor country assistance strategy for Zambia. This project spearheads the implementation on the ground of new principles for donor harmonisation and alignment as endorsed by donors and partner countries in the Rome and Paris Declarations.

Donor cooperation: Ten bilateral European agencies, Canada, Japan, the EC, the World Bank and the UN have signed a Memorandum of Understanding with the Government of Zambia. The Memorandum concerns Harmonisation in Practice (HIP) and includes a Matrix of Action.

²⁸ Cowi, <http://www.cowi.com/>

Common country strategy: one of the key actions of the harmonisation process is the development of a joint donor assistance strategy. Over one year, the consultant facilitates the conceptualisation and practical implementation of the preparation of the joint strategy, including facilitation of a future division of work between the donors based on the comparative advantages of individual agencies. The Joint Assistance Strategy for Zambia (JASZ) is a concerted effort of CPs to harmonise their actions. It is the framework for promoting the 3Cs. As the main CP, the EC has leadership. In the opinion of most donors, effective implementation of JASZ is expected within 3 years, as commitments have already been made by individual donors for their respective current programmes.

GRZ and harmonisation:

GRZ recently produced an aid strategy to help harmonisation (as GRZ takes the leadership). The document is not official.

Harmonisation will be easier when the new National Development Plan (NDP) and Poverty Assessment Framework (PAF) expected to be made official and public in March 2006, will be available (current work is carried out on the base of an intermediate Poverty Assessment Framework (iPAF)).

Example: donor coordination in agriculture: as part of Harmonisation in Practice (HIP) donor coordination in agriculture is undertaken by the monthly agriculture donor meeting under the chairmanship of FAO, with a good participation of major donors, who keep each other regularly informed about project interest and design. The Agriculture Sector Advisory Group (ag-SAG) under chairmanship of GRZ is a good mechanism for GRZ and donor coordination. The choice by the EU to implement the Food Security Project for WP and NWP is well reflecting the lack of donor support to these two provinces.

Similar Working Groups ensuring donor coordination are in place for other sectors as well.

Coherence: regarding coherence, the Evaluation Team has not found any evidence of a conflict between EC supported programmes in Zambia and EU wide policies for trade and agriculture, although there has been a lack of focus on trade related issues when developing the country programme.

There is insufficient focus from the donor community (except UNDP) on the role of decentralisation and mobilisation/active participation of local actors in the development process. Aid too centralised, there is too much focus on MFNP, with a risk of distortion and insufficient territorial coverage.

RECOMMENDATIONS:

In JASZ, explore further division of labour and ToRs of lead CP. Harmonisation is most needed for the definition of indicators (simple, limited number), M&E, planning of HQ visits, planning of reporting. Follow up indicators should include reporting documents.

Planned Disbursements in Zambia 2005 in million USD

	Macroeco including DBS	Agriculture	Tourism (Inc environment)	Mining	Industry	Energy	Infrastructure (including roads)	Health	Education	Water and Sanitation	Gender/ HIV/AIDS	Governance	Social Protection	Defence and Security	Law and Order	Foreign Relations	Information Services	unallocated/others	total
Canada	unknown							3,93	1,62									0,92	6,47
DCI								5,40	7,37	3,76	4,00	3,25						0,91	24,69
Denmark		0,51	5,27				11,73	5,95	11,73	2,21	1,70	2,55	4,25	0,85					46,75
EC	45,34	0,60		5,21	0,92		40,30	3,78	3,78			unknown	2,25						102,18
Finland		0,65	1,30						5,40									1,30	8,65
Germany									0,03	21,40	0,70	6,66	0,57					0,47	29,83
Netherlands		3,12	0,63					18,00	14,07	0,63	1,77	2,77							40,99
Norway	3,73	3,89	6,96				2,55		14,58		4,73	7,56						1,23	45,22
Sweden		6,40			2,15	1,70		12,90				5,40						0,85	29,40
UK	29,00	0,10						10,70	10,60		9,20	14,70	7,60					3,80	85,70
USAID		5,36	0,73		1,06			12,70	5,89		59,58	2,22							87,54
UNDP	0,65		7,50								1,60	1,20							10,95
FAO		1,35									0,15								1,50
UNFPA								1,00			0,30	0,20							1,50
ILO																			0,00
UNHCR		0,41	0,14				0,93	0,93	0,50	0,24	0,10	0,40	0,50		0,45			3,92	8,52
UNICEF								3,00	2,00	2,00	0,46		3,00						10,46
IMF																			no data
World Bank	21,73	13,00	9,00		6,00	18,17	27,81	6,00	18,82	0,81	8,81	5,88	0,81					5,00	141,84
Japan																			no data
WFP, WHO, UNAIDS																			no data
total	100,45	35,39	31,54	5,21	10,13	19,87	83,32	84,29	96,38	31,05	93,10	52,79	18,98	0,85	0,45	0,00	0,00	18,40	682,19

Consolidated JASZ Workplan

Task	Resp.	Date
<ul style="list-style-type: none"> Revise generic ToRs (incl. non-lead CPs, to take into account concerns raised) 	JASZ WG	15 Nov 2005
<ul style="list-style-type: none"> GRZ to clarify what is a sector, theme, sub-sector for which lead CP is required, in line with NDP. 	MoFNP	15 Nov 2005
<ul style="list-style-type: none"> MoFNP to identify capacity and support needed in MoFNP as well as in Line Ministries with less experience in coordinating CPs 	MoFNP	30 Nov 2005
<ul style="list-style-type: none"> Lead ministries to initiate definition of sector specific model, adapting the generic ToR to specific ones 	PS of Lead Ministries plus MoFNP where needed	25 Dec. 2005
<ul style="list-style-type: none"> Presentation of NDP 	MoFNP	End Jan 2006
<ul style="list-style-type: none"> Share Draft NDP, MTEF, sector plans, details of existing coordination arrangements as references for decision making 	SAGs + MoFNP + LM	31 Jan 2006
<ul style="list-style-type: none"> Draft sector ToR presented to all interested parties 	SAGs + MoFNP + LM	31 Jan 2006
<ul style="list-style-type: none"> Voluntary repositioning by CPs individually (including bids to act as lead CPs) 	CPs to communicate to MoFNP and Line Ministries	28 Feb 2006
<ul style="list-style-type: none"> GRZ to consult internally on its preferences on lead CPs and other CP presence 	MoFNP + LM	28 Feb 2006
<ul style="list-style-type: none"> CPs to review their commitments on (de-) concentration or clarify the steps required by them for complying with proposals 	CPs	15 March 2006
<ul style="list-style-type: none"> Decision phase: GRZ reviews CP and Line Ministry proposals for lead CPs and other CP presence, and presents a consolidated proposal to all stakeholders 	LM + MoFNP	31 March 2006
<ul style="list-style-type: none"> Drafting the JASZ, including phasing and transition plans, based on <ul style="list-style-type: none"> Funding gaps following adoption of NDP and MTEF Adjustments in CPs funding following phasing out and scaling up of CPs in the sectors 	MoFNP	15 June 2006
<ul style="list-style-type: none"> Consultative Group Meeting (on the basis of the completed Aid Policy, NDP and JASZ) in Zambia 	MoFNP + WB	15 June 2006

Source: JASZ consultations 18-19 October 2005

3.3.2 Complementarity, Coordination and Coherence with other EU Policies

Ensuring coherence between the objectives of the European Community's development policy, and its policies and goals in other areas, is an operational priority. The Commission ensures coherence by taking a comprehensive approach to external relations, security, economic and development policy. Such approach guided the preparation of the Zambia EC Country Strategy Paper.

The CSP states that coherence between development co-operation policy and other EC policies (trade, agriculture, environment, etc.) relevant for Zambia will be assessed on a permanent basis. In this context NIP resources may be used to complement resources from the RIP, budget lines, and trade-specific operations, according to needs and availability of funds. In particular, this may refer to support for efforts by Government departments and Non State Actors to prepare for the establishment of a coherent trade policy framework, with emphasis on preparing for the EPA and on WTO, and assistance for capacity-building for carrying out negotiations in a regional and multilateral context and in implementing the accompanying trade policy and structural reforms, including fiscal reform.

The support from the Commission is based on a balanced and coherent combination of both growth promoting and poverty alleviation measures. It does not introduce any competition or interference in relation to activities that are normally carried out by the private sector. Private sector led economic growth is for all components acknowledged as a necessary condition for sustainable poverty reduction.

3.3.3 *Complementarity, Coordination and Coherence with Regional Strategy*

3.3.3.1 Positive Aspects: regional programming support national programming

Under the 9th EDF, the regional organisations (COMESA, EAC, IOC and IGAD) have been mandated for the purpose of implementing the RIP, and this has improved the coherence between actions financed from the national and regional envelopes. The Common Market for Eastern and Southern Africa (COMESA) projects, related to regional cooperation and integration, is highly beneficial to Zambia (as a landlocked country), and on-going trade negotiations with Eastern and Southern Africa (ESA) region, for the signature of an Economic Partnership Agreement (EPA) between ESA and the EU, should also benefit Zambia.

There is an innovative arrangement where EC contributes to the budget of COMESA Secretariat (for 5 years). Agreement was signed in July 2005. It allows COMESA to reinforce its internal capacity in the area of regional integration. It gives COMESA a free hand in developing its own work programme, with EC support similar to budget support. Funds are released based on (approved) Annual Plans and Budgets. The Annual Work Plans and Budgets (AWPBs) will be shared with Brussels, but there is no formal process of approval. After the "OK" from Brussels, 80% of that year's allocation will be released, the remaining 20% depends on the approval of the internal audit of that year. The resources under this arrangement will not represent an increase compared to previous arrangements, but their "pooling" will make the budgeting and planning of COMESA more transparent.

3.3.3.2 Limits

In the CSP strategy it is said that NIP resources may be used to complement resources from the RIP, budget lines, and trade-specific operations, according to needs and availability of funds. In particular, this may refer to support for efforts by Government departments and Non State Actors to prepare for the establishment of a coherent trade policy framework, with emphasis on preparing for the EPA and on WTO, and assistance for capacity-building for carrying out negotiations in a regional and multilateral context and in implementing the accompanying trade policy and structural reforms, including fiscal reform.

It is clear from the analysis above that the EC regional initiatives are supportive of the (Zambian) national development agenda. However, there is more concern regarding the EC response at national level. Here, EC interventions are not focussed on regional or global trade issues and only in a few cases (such as support for the gem industry under MSDP), has there been an attempt at coherence in trade related issues.

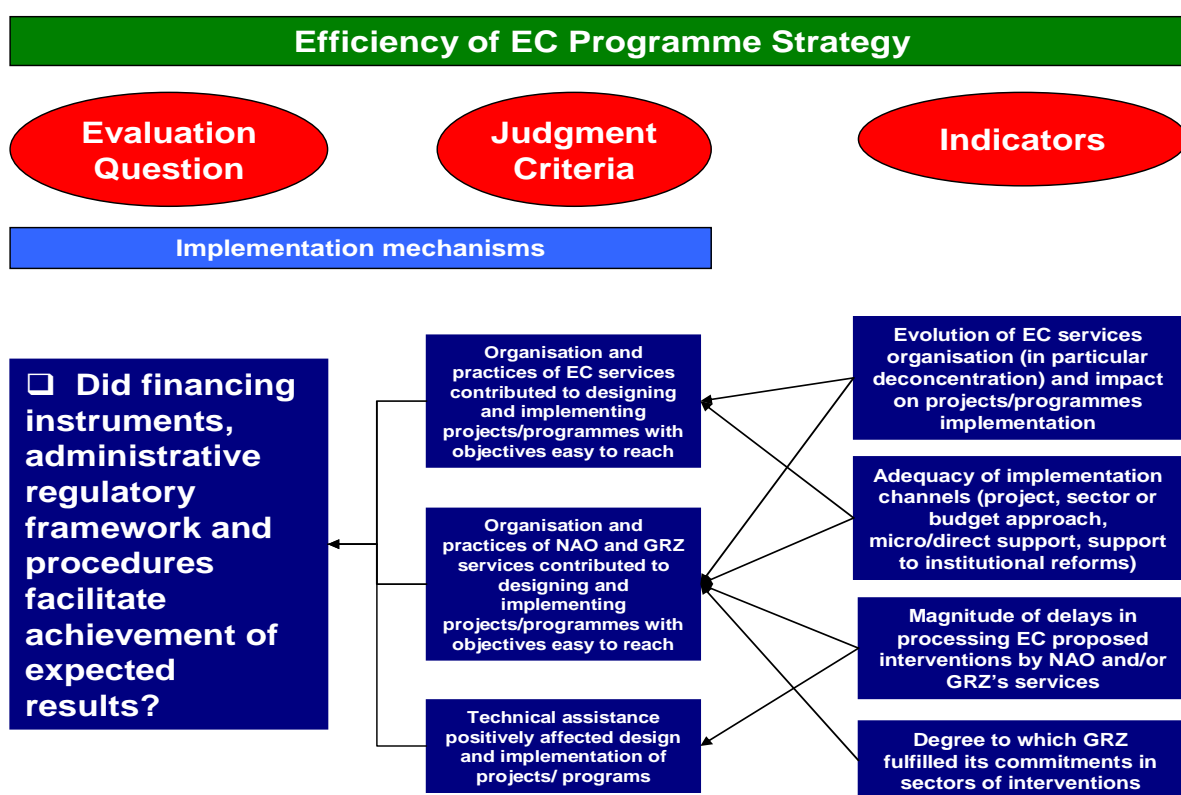
The evaluation team did not have sufficient time to probe trade issues to an important degree, but previous evaluations (such as the Evaluation of Trade-related Assistance by the EC in Third Countries, May 2004), have highlighted some of these issues and listed a number of relevant recommendations.

One of the major conclusions found in the evaluation quoted above is that the policy dialogue underlying the preparation of the country strategies has not been guided by particular actions to integrate trade into the domestic policy documents and to streamline trade into domestic policies.

This argument has relevance for support for trade related issues such as customs, but also where the EC provides support for other sectors such as agriculture and mining.

It is recommended that for the purpose of future programming previous studies such as the one above quoted are revisited.

3.4 Third Set – a Comprehensive Question on the Efficiency of the Programme Strategy



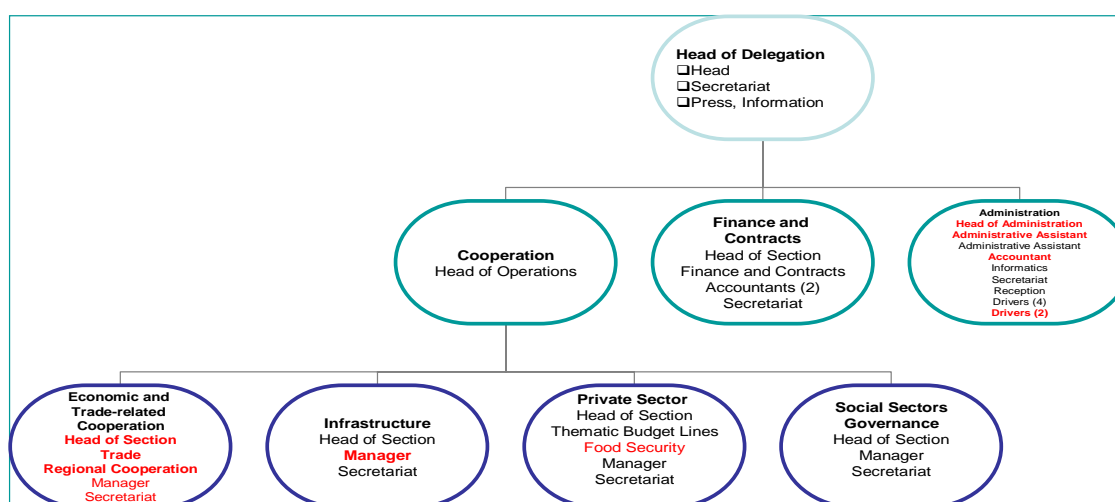
Source: Consultant

Evolution of the Commission's services organisation (in particular the deconcentration) and impact on projects/programmes implementation

Deconcentration has transferred the management of EC funds to the country level (or regional, for regional programmes). However, it has proved not easy for the delegations to take over such responsibilities in a relative short period of time. In Zambia, recurrent understaffing (see below) puts a high burden on the operational departments, not to mention the administration. Particularly difficult is the current lack of a macroeconomist, while the need for such profile is increasing together with increase of budget support.

In Brussels the situation is not easy either. The fact that the management functions have been transferred and that Brussels presently exclusively deals with the programming phase of the project cycle makes it difficult for planners to have strategic views of what should be done in future. In fact, the quality of programming and optimisation of the project cycle increasingly depends on the capacity of the different participants in the cycle to establishing links, circulate information. On the whole deconcentration has largely facilitated the work with GRZ, while it has complicated the task of the EC. The solutions to this change lie in the progresses of communication and use of communication tools between the scattered participants in the project cycle. In parallel, project management tools should be made available on dedicated website with a system of passwords and controlled access.

Organigram of Zambia EC delegation



Zambia EC Delegation is understaffed. **At the time of the field visit, 7 positions were not filled in the four operational sections, 4 of which in Section 1: “Economic and Trade-related Cooperation”**. High turnovers have negative impacts on projects/programmes implementation. The relative high turnover of EC Delegation staff creates a loss of institutional memory in specific sectors; there is a lack of some key specialized staff.

The EC’s engagement in policy dialogue and its use of PRBS assessments to engage in such dialogue largely depends on the particular EC staff involved and could be improved.

The EC has been strongly involved in discussions in both Health and Education Sectors about resource allocations and making more effective use of resources (there is a feeling that this is because of the individual in the country).

The procedures of the Commission are rather time-consuming. This is particularly true for project design, funding, contracting and tendering procedures.

Deconcentration has impeded quick and timely review of projects due to different interpretations and authority between Brussels and Lusaka.

Adequacy of implementation channels (project, sector or budget approach, micro/direct support, support to institutional reforms)

The selection of budget support as the main instrument for poverty reduction was risky, just in the same way as it was risky to focus the aid on a restricted number of sectors of intervention.

EC requirements for tendering procedures during project implementation severely delay activities.

Regarding PRBS:

- The EC approach is often a “one size fits all” approach. Within this approach there is little flexibility or scope to take consideration of country conditions.
- The assessment of GRZ performance is likely to engender better progress when it is based on more general policy review and dialogue process rather than focussing on specific indicators.
- The incentive effects of the variable tranche are hard to see. The very large variable tranche (90%) has led to extreme unpredictability, due to underperformance, as well as delays in finalising assessments and subsequent disbursements because of lack of data. In FY 2004 the late disbursement of PRBS funds led to both fiscal and management problems.
- Ambitious targets are likely to be missed, contributing to lower predictability.
- Outcome measures as disbursement targets should be used cautiously.
- Most recent May 2005 assessment of PFM indicators showed considerable progress in a number of areas (e.g. 2.5% increase in the share of GRZ discretionary budget allocated to the Education Sector) but targets were still missed. Literal application of methodology penalises GRZ for missing targets rather than rewarding for progress made.
- The preparation of progress reports depends upon embedded TA within MFNP, resulting in lack of ownership of indicators. Reports are produced on an ad hoc basis in response to donor demand. There is no clear evidence that linking of disbursements to outcomes is providing incentives to improved performance in focal sectors (Health, Education) or to improved PFM.

Magnitude of the delays in processing the Commission's proposed interventions by the NAO and/or GRZ's services

The MTR provided several criteria to assess GRZ performance with respect to EDF funds. The first criterion is the country's financial performance.

By end 2003 (MTR) global financial performance was considered average, in view of the fact that payments performance was borderline, progress in commitments, assignments and payments in 2003 had been significant (Zambia attained all the forecasts made in the 2003 Pretoria Screening Seminar, in spite of the huge EC Delegation staffing problems) and the forecasts for commitments, assignments and payments for 2004 agreed in the last Pretoria Screening Seminar were very good (€250.0 million in the pipeline was planned to be committed by the end of 2004). Zambia's absorptive capacity had significantly improved with the current political and socio-economic environment.

9th EDF Forecasts

1.	Calculated number of years to complete EDF commitments	3.24
2.	Calculated number of years to complete EDF assigned funds	8.71
3.	Calculated number of years to complete EDF payments	9.09

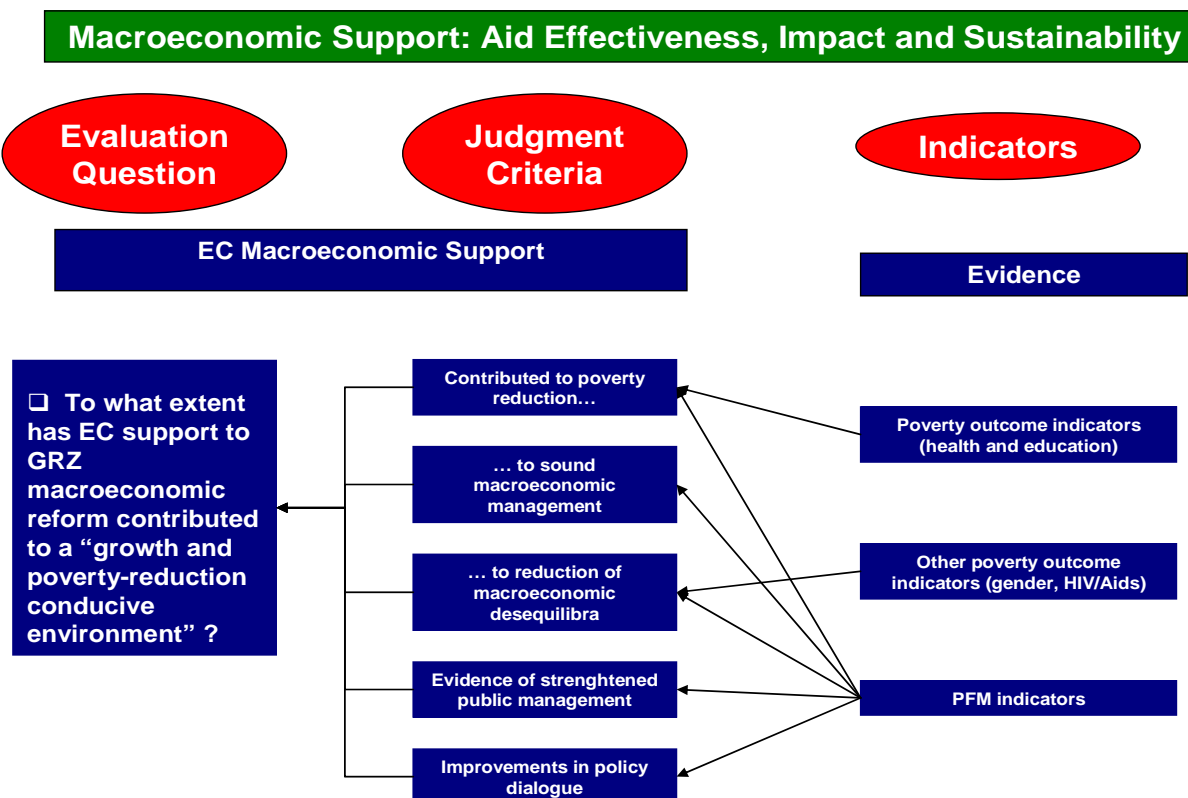
Level of utilisation of the 9th EDF A and B envelopes as at 31.12.2003

	Commitments	Assigned	Paid
•A+ transfers:	43.81%	0.00%	0.00%
•B:	10.87%	0.00%	0.00%

The trend in assignments/payments since the end of 2003 has confirmed the forecast, hence the improving absorptive capacity demonstrated by Zambia.

3.5 Fourth Set –Specific Questions on the Intervention Sectors

3.5.1 Aid Effectiveness, Impact and Sustainability – Macro-economic Support²⁹



The EC assistance for general budget support can be considered highly successful at the level of immediate effects (the implementation process), moderately successful at the result level (the system changes), positive but uncertain at the purpose level, and therefore highly uncertain at the impact level. The EC has made €117 million available under the Poverty Reduction Budget Support (PRBS01) programme and is expected to provide €65 million under PRBS02. The first programme was designed on a bilateral basis, whereas PRBS02 is a multi-donor supported effort by United Kingdom, Netherlands, Sweden, World Bank, European Commission, and Norway, with Germany, Finland and Ireland following in 2006.

3.5.1.1 PRBS01

The immediate effects³⁰ of the Poverty Reduction Budget Support (PRBS01) have been an increase in the share of externally-funded activities now channelled through

²⁹ General budget support cannot be classified under a particular sector, and must be seen as general support for GRZ's poverty reduction programme. Given its overarching character, the subject is treated in the Evaluation report before the other sector-related support by the Commission.

³⁰ The term "immediate effect" refers to the process of transferring inputs (GBS funds, conditionalities, policy dialogue, TA, donor harmonisation etc.) into the (expected) results.

the national budget; and a lively policy dialogue focussed on key budgeting issues and an improvement in donor harmonisation of activities.

At the results level, PRBS01 has contributed to a more favourable budget financing structure for GRZ, by improving the predictability of resource allocation and enhancing the fungibility of funds. It has also empowered GRZ in its dialogue with the EC and other cooperating partners and it has reinforced the internal GRZ dialogue between the MFNP and line ministries. The most important positive result of PRBS01 is the increased efficiency in public spending, monitored through the process of Public Financial Management (PFM) indicators. Although there have been delays in the expected progress on PFM performance, leading to “back-loading” of disbursements, overall progress has been important.

At the purpose level, PRBS01 is to support to GRZ's capacity to implement the PRSP. Additional funding for the budget provides the financial resources for essential public services, based on the premise that the PRSP can only be implemented with continued concessional external financial support. Evidence of progress against this criterion is less convincing, mainly because of difficulties in attribution, but there are a number of encouraging developments. Progress is mainly seen in the area of “government services effectively delivered and pro-poor” as measured by selected social sector indicators in the health and education sector and by budgetary allocations to the Ministries of Health and Education (both at national and district level), and the Poverty Reduction Programmes. The limited number of social sector service delivery indicators and the global nature of the budgetary allocations make the Evaluation Team less certain of the ultimate reach and effect of the poverty orientation of the services. Furthermore, and possibly more important, support to the PRSP implies support for the “growth-stimulating interventions” that are “at the centre of the PRSP”³¹. It is clear that without improved business confidence and appropriate actions to address market failures, the effects on poverty reduction will be limited if they occur at all.

Below, a number of issues regarding the implementation mechanisms of PRBS01 are discussed.

³¹ PRSP Zambia, 2002 page 37

Variable tranches

The Commission has opted for a large share of variable tranches in the overall financial package. Given the pilot character of the scheme, this provided the Commission - and more in particular the members of the EDF Committee -, with the assurance that disbursements could only be effected when there was evidence of marked progress in the areas of public financial management and in reaching a number of goals defined in the PRSP. It was argued that making the majority of funds dependent on progress against an agreed set of indicators would send a clear signal to GRZ that progress was needed in various departments of government and that the Commission was not willing to provide considerable resources, unless this progress was achieved. They provided a protection against the broadly debated fiduciary risks involved in budget support, while at the same time promoting the ongoing government reform agenda.

Experience to date shows that this political signal has been heeded and has prompted GRZ to continue on its course of public sector reform. However, it is arguable whether (further) changes in selected indicators are feasible in the short run and, perhaps more important, whether this would not undermine an essential element of budgeting itself: predictability of funds. With the mechanism for fund releases as defined under the Agreement, the funds can be released within the same fiscal year the assessment takes place. This creates uncertainties in the budgeting process and therefore delays in setting the necessary budgetary priorities.

Disbursement performance

The disbursement profile (see below) has proved to be more conservative than expected due to an initial lack of progress on the PFM and PRSP indicators.

Tranches	Conservative Profile – PRBS FA (in % of total amount)	EC Delegation Assessment (in % of total amount)
May 2004 – PFM	50.0	27.5
September 2004 – PFM	75.0	50.0
September 2004 – PRSP	60.0	81.2
May 2005 – PFM	75.0	60.0
Total	61.0	51.3

According to the Finance Agreement, unspent balances from the tranches will be accumulated to form the maximum value for the final variable tranche in 2006. As of May 2005, this amount had reached €36.5 million, or 36.5% of the total amount of the PRBS01 variable tranches. Given the large amount available, the Commission is now considering to amend this provision and to make the condition for release of the last tranche similar to that of the September round of assessment, i.e. including both PFM and PRSP indicators.

The argument is that this would continue the “business as normal” and it would continue to put pressure on GRZ to improve on social sector indicators. The Evaluation Team recommends the Commission to stick to its FA, thereby rewarding GRZ for its good performance on PFM and leave the trigger for disbursements on social indicators to the PRBS02 and its iPAF assessment³².

Social sector indicators and a possible role for Non State Actors

There is a continued and exhaustive discussion on the choice of social sector indicators and on the method of collecting the information. On the first item, the Evaluation Team would like to see a move towards an “optimal” set of indicators, followed by a concerted effort to design and implement the necessary institutional and organisational arrangements to collect this information. The point of departure for this ideal set of indicators would be the MDGs. The primary institutes to carry out this task of collecting and analysing data are the concerned Ministries and the Central Statistics Office. However, in order to enhance the reliability of the information and above all, the wide acceptance of the resulting disbursement process, a role for Non-State Actors (NSAs) can be foreseen. Whether this role includes all phases of data collection, and analysis or only some parts remains to be discussed, but it is clear that some involvement of NSAs would enhance the overall credibility the PRBS process and the efficiency and effectiveness in collecting relevant information.

The role of PRBS01 for the overall GRZ budget

For 2005, the Commission will have contributed some 21.6 per cent of all GBS available for Zambia. This is equal to 4.6 percent of GRZ poverty reducing spending or 1.7 percent of its total budget. Although these percentages indicate only a modest share for PRBS01 in financing of the overall budget, the contributions are clearly important in terms of discretionary spending related on social services. It is therefore important to raise the issue of attribution: is it likely that PRBS01 (or even GBS in general) is contributing to the observed improvements due to changes that have made the budget more focused on priority services and on results, and/or efficiency gains arising from the donor moving from projects to budget support. The Cooperating Partners would be well advised to continue exploring this question, in addition to the question whether similar or better results could be achieved with similar efforts in a project modality or using a SWAp common-basket approach³³.

3.5.1.2 PRBS02

A number of lessons learned from PRSB01 have already been integrated into PRSB02, where the EC has joined a number of Member States in defining the framework in which budget support can be continued. Under this framework (formalised in a MoU signed on June 1, 2005), a Finance Agreement between the Commission and GRZ is expected in 2006. The key role of the EC in relation to other donors (in particular the bilateral donors) can be illustrated by the following quote from the MoU: “PAF milestones, indicators and targets will be kept consistent with existing GRZ policies and ongoing programmes agreed upon with CPs, in particular the IMF, the WB and the EC”.

³² This recommendation concurs with the sentiments of a number of CPs present at an informal round-table discussion during the Evaluation Team’s visit to the country.

³³ Source: ODI, Evaluation Framework, Joint Evaluation of GBS by Andrew Lawson and David Booth, Feb. 2004. p.44

Some of the changes compared to PRBS01 are:

- Disbursement takes place in the Fiscal Year (FY) following the assessment, enhancing the predictability of the disbursement;
- the Performance Assessment Framework (PAF) is to be based on the M&E framework of the Fifth National Development Plan;
- there should be room for qualitative indicator to capture improvements in the quality of education;
- indicators on structural reforms include two private sector development reform benchmarks.

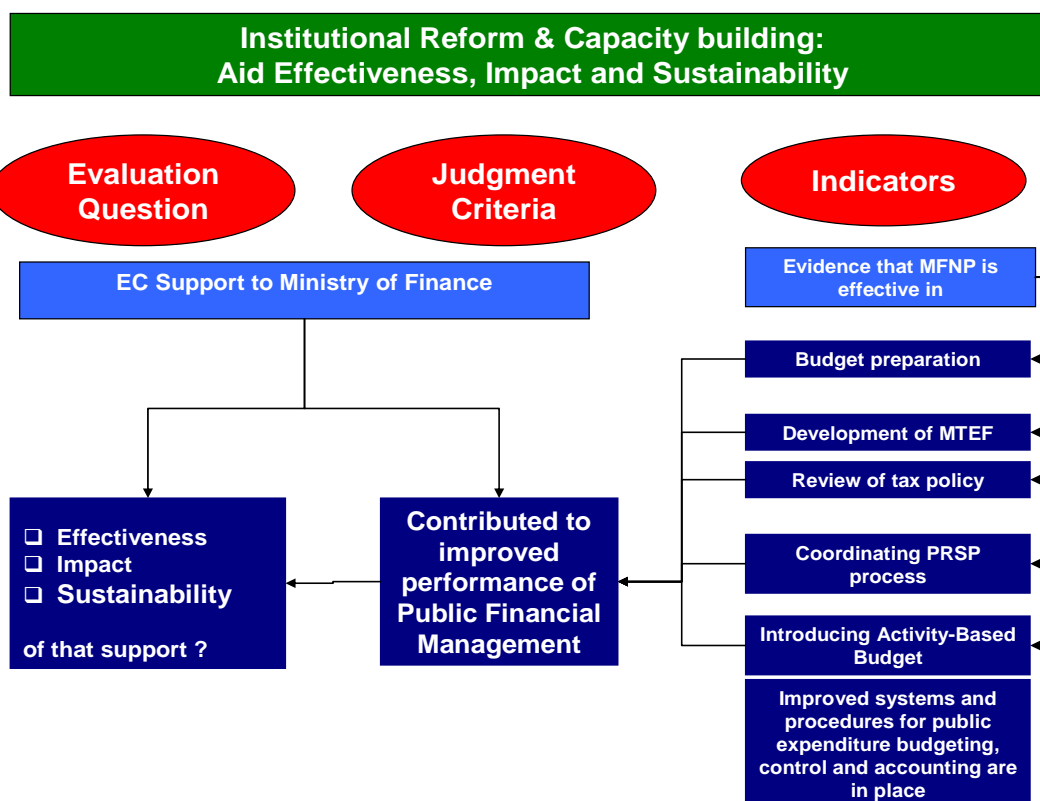
3.5.1.3 The Future of Budget Support

Discussions at various levels and with various players (both GRZ and CPs) indicate an overall willingness and even a certain eagerness to continue the use of GBS in the context of support for the development of Zambia. However, the Evaluation Team has recorded a number of reservations during their interviews that are important to list in this report.

- GBS is not the panacea for development assistance and may not even be the best instrument. It is clearly seen by most partners as one of several instruments;
- GBS is in its initial stage and needs to be followed closely, both by those directly involved, i.e. GRZ and the CPs, and by others such as academics, NSAs, and last but not least, Parliament.
- Some CPs are better placed to provide GBS than others. It is an instrument that can only be effective when relatively large sums are involved. Below a certain threshold, this type of support would be clearly inefficient. Therefore, it is generally the larger donors who (should) be involved, even though smaller ones may become "silent partners".
- GBS may not close off the CPs from ensuring that important development goals remain in focus (i.e. the MDGs).
- The Commission has built up a reputation on GRZ and should continue to support it. This should be reflected in the (relative) size of its contribution and in the support it can lend to the process through its Delegation services and through capacity building within GRZ.
- CPs and GRZ should consider an exit strategy for the PRBS. Questions to be answered include: When should GRZ be capable of finding sufficient resources to finance the budget in a fiscally sound manner, and what are the indicators?³⁴ What measures have to be taken to strengthen the tax base of GRZ?

³⁴ As demonstrated in Chapter 2 above, over the next EDF programming period, Zambia will not yet be able to finance its budget in a fiscally sound manner. The evaluation team is not aware of any long term financial projections that at this stage would allow to make provisions on an exit of Zambia from its high dependency on foreign aid

3.5.2 Aid Effectiveness, Impact and Sustainability– Institutional Reform and Capacity Building



At the time the CSP was designed, the Government of Zambia was struggling to re-build a functional administrative system. The EC responded by defining the support for financial and economic management as a focal sector. The activities supported by EC were to be developed in the context of the Public Service Capacity Building Programme, initiated by GRZ in October 2000.

The main elements of support under this component were eventually defined as “Financial and economic management capacity building” and “Capacity Building of the Ministry of Finance”.

There is sufficient evidence that improvements in the Public Finance Management have been achieved and it is equally clear that the EC has played a major role.

The Financial and Economic Management Capacity Building (PEMFA) programme supported by the Commission is a comprehensive package of actions covering all areas of the management and utilisation of public financial resources and it represents a coordinated effort on the part of GRZ and a large number of CPs (11 CPs signed the MoU). PEMFA took into account the lessons learned from budget support under SAF programmes III, IV and V, and the results of the Public Expenditure Management and Financial Accountability Review (Nov. 2003). Since the Financial Agreement is only signed towards the end of 2005, the Evaluation Team has looked at the ongoing efforts of CPs to support the PFM in general and the role PEMFA can play in particular.

It is clear that the last few years have seen progress in institutional development and capacity building, especially where it concerns public finance management. The improvements are reflected in the introduction of new economic management tools in the area of financial management and accountability.

These tools include: Public Expenditure Management and Financial Accountability Reforms (PEMFAR); Medium Expenditure Framework (MTEF); Activity-Based Budgeting (ABB); and the Integrated Financial Management Information Systems. Even though the Commission's support only became effective in December 2005, the EC has been actively engaged in Working Group deliberations on the topic, and was able to raise funds (€2.5 million) from other sources (PRBS). It is also important to note that the ongoing GBS plays an important role in encouraging GRZ to improve its performance in this domain. However, there are a number of issues that need to be addressed in the future and which could be addressed under PEMFA

- There are questions about the capacity of Ministry staff at lower levels. It is not evident that the use and understanding of the new economic management tools is shared throughout all levels of the Ministry and it seems there is scope to expand the circle of people trained in the new tools needs to be enlarged
- Activity Based Budgeting (ABB) has been introduced but only on budgeting side, not at expenditure side, rendering the ABB concept less useful. In addition, not all Ministries are at the same level of use and understanding of ABB.
- The Office of the Accountant General (AG) is supported, but the systems in the AG's office are slow and may be suspect to malfunction.
- To optimise the use of GBS some sectors will need to build their capacity to collect and consolidate the necessary information for each set of performance indicators under the PRBS system among other necessary capacity building requirements. The sector line ministries should be in a position to state what their capacity building requirements are.
- The implementation mechanism for the PEMFA programme, with the creation of a temporary PEMFA Secretariat (in MFNP) to be staffed with 6 TA, creates a liability to the internalisation of the proposed reforms. Given the weak present capacity of the Ministry the secretariat should use the services of the TA sparingly and wisely, avoiding a situation where the TA becomes the engine of the reform process.

The project "Capacity Building in the Department of Economic and Technical Cooperation (ETC), Ministry of Finance and National Planning" is a timely response to the National Authorising Officer (NAO). The project was recently reviewed and the present Evaluation concurs with the conclusions and recommendations of this review.³⁵

The project is filling a need of the Ministry to administer EDF procedures and has strengthened Government ownership of the NAO Office. By working closely with the ETC staff, the NAO support team has strengthened the working relationships between the EC and GRZ. With the EC also in the forefront of aid delivery through budgetary support procedures, the NAO Unit has played an important role in supporting ETC and MFNP in the implementation of these programmes.

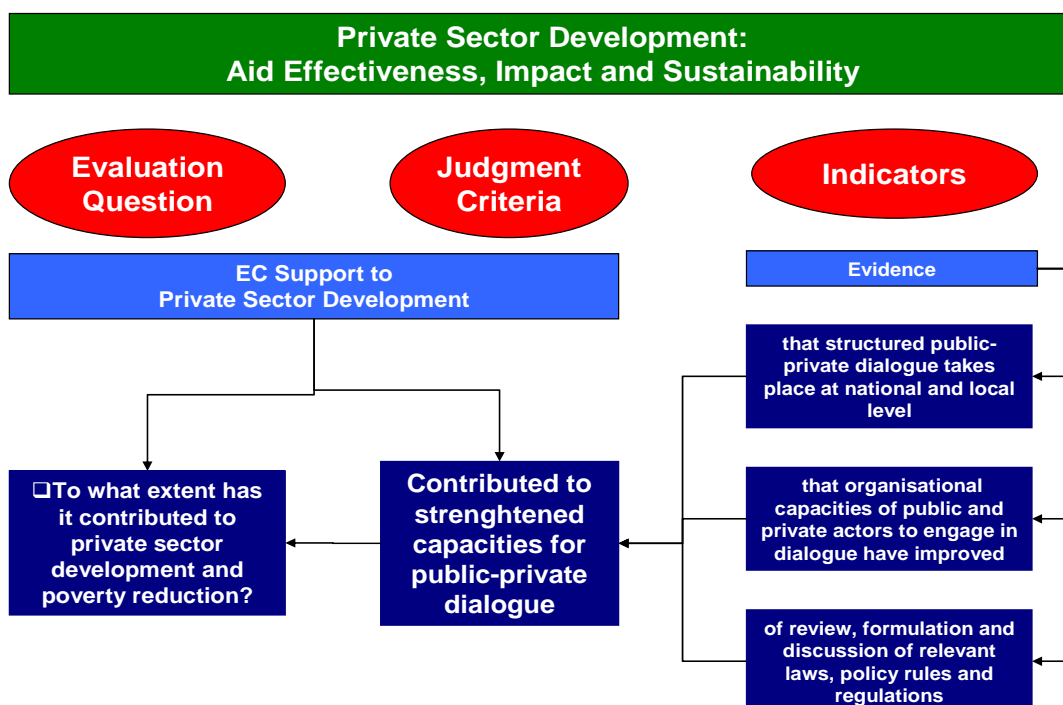
The results of the capacity building component have been mixed. A lack of human resources within Government and MFNP itself has been the main, although not the only reason for the absence of Counterparts to work alongside the outsourced staff to gain from their knowledge of what can sometimes be complex EC procedures. The absence of Counterparts created far more serious problems in that it left the TA and support staff having to absorb the full workload, and creates a situation that is weak on sustainability.

³⁵ Date of Final report is September 2005

Strengthening of relations with line Ministries in order that they can provide the technical information and liaise on EC procedures required by the NAO proved difficult. The Review Team recommended that this policy be discontinued. Project monitoring and evaluation in the field, and increasing the dialogue with civil society have not (yet) been effected as a result of the shortage of staff in the NAO Support Unit.

The large role of Budget Support in the EC portfolio³⁶ and the emphasis on donor harmonisation brings to the NAO office opportunities for streamlining of its activities, and this should be a major focus for the new project as recommended by the Review Mission. Another opportunity is to de-link the TA support under the new project from EDF-related administrative work, allowing the TA to concentrate on transferring skills to the Ministry staff.

3.5.3 Aid Effectiveness, Impact and Sustainability – Private Sector Development



³⁶ 78% of 9th EDF is earmarked for Budget Support initiatives.

Box: EVALUATION OF EC SUPPORT TO PRIVATE SECTOR DEVELOPMENT- ZAMBIA³⁷

Relevance and Design The areas of intervention chosen to support PSD in Zambia correspond to the areas proposed in the EC PSD strategy. The programmes address important constraints affecting the country's private sector. Yet, EC support to PSD in Zambia was programmed, particularly under the 9th EDF, in spite of the fact that – according to the CSP 2002-2007 - “of all constraints the most significant seem to be the absence of political commitment to the sector, and weakness of public and private sector institutions to formulate and implement policy”. Therefore, the proposed approach was a gradual, iterative and flexible one to design a capacity building programme. On the other hand, since the 9th EDF programming, the government and the private sector have taken a number of initiatives among which the PSD Reform Programme, a policy agenda to develop the private sector. Therefore, it is likely that the CB-PSD programme will need to be adapted to the new policy context. Otherwise it may end up not being in line with the progress on the government's side, which may therefore impact the programme's relevancy. While the PSD programmes under the 8th EDF were mainly focused at the micro level (EDP, PSDP, MDSP), the 9th EDF programme (CB-PSD) is mainly focused at the macro/institutional level. Some stakeholders express doubt about the relevance of focusing on institutional support. The main reason is certain mistrust on the capacity of the government to improve its performance in spite of the support to be received from the EC. Furthermore, the shift from micro to macro level is perceived by some stakeholders as a result of changes in the EC approach rather reflecting identified needs of the sector in Zambia.

Effectiveness EC programmes to support PSD usually attained expected outputs but were designed in a way that most often they could not attain sufficient outreach. Lessons from the “BDS for Small Enterprises: Guiding principles for donor intervention”, to which the EC subscribes, were not taken into consideration: In financial- and non-financial services to companies, the programme's key objective is the provision of these services during the life of the programme, rather than the reinforcement of local providers of these services. Further, this implies that the programme's objectives only partially correspond to the EC PSD strategy as presented in the COM(2003) 267 and the Guidelines to PSD support. Some programmes aim at a wide scope of beneficiaries, thereby missing opportunities to achieve higher impacts on a selected few. In the provision of non-financial services, more selectivity, i.e. the creation of winners with potential spill-over benefits on the whole industry, could have had more impact than spreading these services over a wide number of companies in different industries.

Sustainability Factors ensuring sustainability were not built into some programmes, reflecting a focus on outputs during the programme life rather than sustained impacts. Nevertheless, this statement should be qualified according to the type of programme: This applies particularly to programmes dealing with financial- and non-financial services for enterprises. In such cases, as mentioned for effectiveness, lessons from the “BDS for Small Enterprises: Guiding principles for donor intervention” were not taken into consideration. On the other hand, programmes or activities that involved reinforcement of institutional and human capacity are more likely to be long-lasting. The reinforcement of IO position through capacity building has enhanced the degree of sustainability of the services provided by these organizations to their members.

Coherence With other EC interventions can be largely improved. Bilateral and regional cooperation could be reinforced by better exploiting complementarities and synergies. In particular: Transport is the first focal sector and at the same time considered one of the main constraints faced by the private sector in Zambia. However, potential synergies are not sufficiently exploited. The EC provides macroeconomic support and it is expected that this will contribute to the reduction of the government's internal debt and as a consequence to a reduction of interest rates; one of the main constraints to private sector development. Potential synergies are not exploited either. The EC also provides support to Zambia through its regional cooperation programme (COMESA). Further, the CSP also describes the importance of regional trade for Zambia. Yet, no mention is made of the effects or possible articulation between bilateral and regional interventions. For instance, no mention of the customs harmonization programme is made by the PSD strategy or programmes. Coherence within PSD support could also be improved. Documentation and interviews identify no apparent incoherence in programme implementation but also do not mention any explicit attempts at maximising synergies or minimizing overlaps between PSD programmes. In the case of EDP and PSDP for example, there has been little attempts in ensuring that target companies do not benefit simultaneously from both programmes.

Coordination Donor coordination has traditionally been weak in the PSD sector and mainly consisting of donors informing the others about its own activities. The realization of several programmes overlapping, especially at the micro level, has encouraged the donor community to establish more formal mechanisms of coordination. The overlap of micro-level PSD programmes funded by donor agencies is illustrated in the PSD Reform Programme report which lists 21 donor-funded programmes aiming at improving the limited capacity of the Zambian private sector.

³⁷ Source: Extracted and adapted (shortened) from “Evaluation of European Community Support to Private Sector Development in Third Countries, ADE, Dec. 2005”

Cross-cutting Issues In the CSP 2002-2007, there is no mention of crosscutting issues and how they will or can be mainstreamed in the proposed sectors of intervention. In some programme documents cross cutting issues are mentioned (it is the case of two of the programmes) but none of the programmes actually incorporate these issues in their implementation.

In 2004 the Ministry of Commerce, Trade and Industry (MCTI) submitted a €15 million project proposal for support to the private sector under the 9th EDF, which was to focus on the intermediate level, i.e. on the policies and regulatory framework in which the private sector operates. The project has been approved recently and is based in MCTI but will provide support to statutory bodies such as the Export Board of Zambia, Zambia Investment Centre, Zambia Bureau of Standards and Zambia Competition Commission. Private sector intermediary organizations will also benefit. The programme is firmly based on the high level "Livingstone" private sector development (PDS) initiative and is part of the PDS Reform Project to which most CPs have pledged support through a basket funding mechanism. To the disappointment of many private sector actors, the new programme, in line with EDF procedures, does not provide any credit facilities.

The slow process of design has had a negative effect on the perception of the EC. The Commission should do well to emphasise (through improved visibility or other means) the credit facilities through the EIB. The Commission is also recommended to review the option of supporting the PAs in their capacity to extend financial services to their members, such as marketing studies, writing bankable proposals, etc. An important aspect of the new project will be the promotion of public-private sector dialogue on PDS issues. The Zambia Business Forum (ZBF) will be used as the prime vehicle for this dialogue, whereas the MTCI will also set up a Dialogue Unit to link up the various donor initiatives. Although the concept of an umbrella organisation as a conduit between the private and public sector such as ZBF is important, care should be taken not to drown the fledgling organisation in expectations and ambitions. Without strong PAs, the ZBF will never become a sustainable organisation.

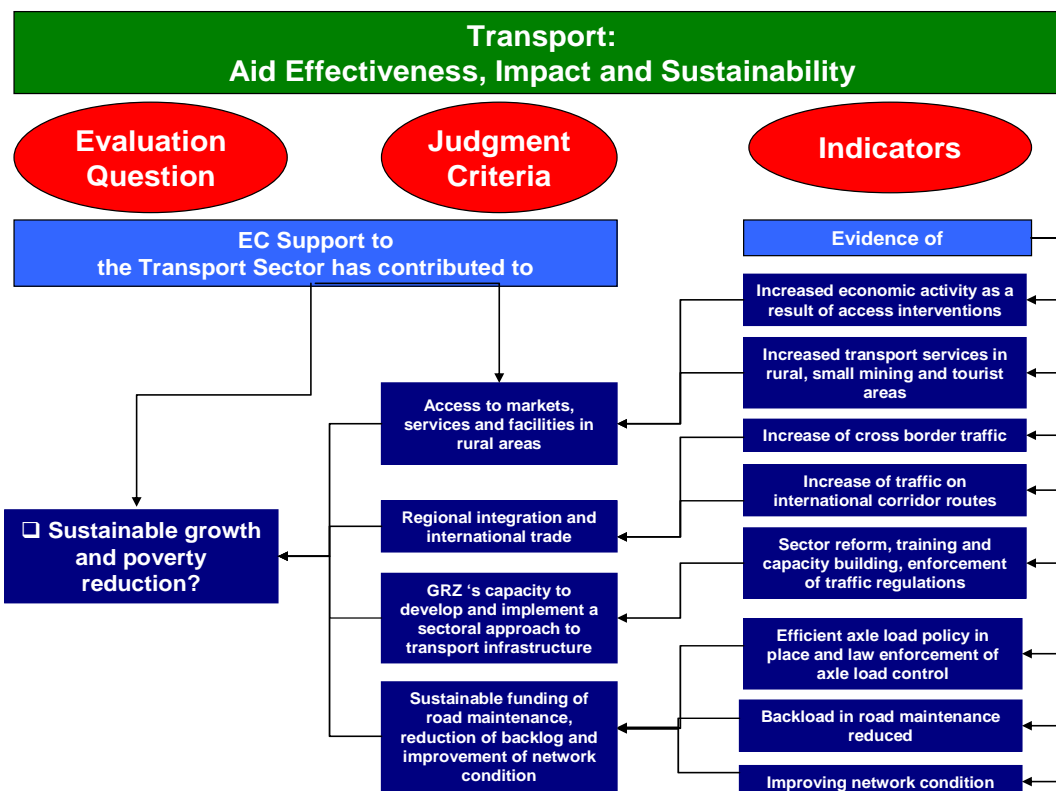
Given the late start-up of PS project under EDF 9, the Evaluation Team also briefly reviewed the results of PS projects financed under EDF 8, of which the results have been mixed.

The Mining Sector Diversification Programme (MSDP), which included credit financing, training and capacity building and provision of technical expertise components made an important contribution to the development of the sector at the time when the mining sector showed an increased level of activity since the near completion of the privatisation process. In a 4-year period (2001-04) over 700 licences have been issued. However, the project was less successful in widening access to credit. At the time of the Mid-term Review, only one loan had been issued, and it was decided to revise some of the stringent conditions attached to the loan facility. However, this resulted in only two additional loans being signed. Of the total of three beneficiaries, only one was a Zambian small-scale mining company.

The Private Sector Development Programme (PSDP), also financed under the 8th EDF, provided loans to small and medium sized enterprises (SMEs) as well as capacity building and infrastructure support. A Final Evaluation of the project confirmed a high success rate for the private sector companies who benefited under the project, and the recommendations from the report helped in the design of the new PSD programme under the 9th EDF, with a particular focus on institutional capacity building.

The third pillar of the EC support to private sector development under the 8th EDF was the Export Development Programme II (EDP II). Results include strengthened management capabilities of selected Producer Associations (PAs), a small number of loans approved with several applications in the pipeline, and strategic partnerships set up between Zambian companies and foreign owned ones. The Export Board of Zambia (EBZ) is also to benefit from Short Term Technical Assistance (STTA). EDP II assistance was limited to the smaller PAs that have only limited absorption capacity. There has been disagreement between the Programme Manager and the Commission on the position of individual companies in the programme, where the latter has insisted on their exclusion from the programme, which has left some quite frustrated. The issue was resolved during 2005, based on recommendations of the EDP II mid term review, but it seem to have had a negative effect on the credibility of the EC in general and EDP II in particular.

3.5.4 Aid Effectiveness, Impact and Sustainability, Transport



The European Commission support for transport is to assist the GRZ in its aim of supporting poverty reduction and thereby contributing to unbiased economic growth. In both cases, support to the transport sector is one of the main means of achieving these results by:

- increasing access to rural areas;
- improving access to social services;
- creating employment.

European Commission support to the transport sector, in order to respond to the wider development goals, as set out in COM (2000) 422 – Sustainable Transport in Development Co-operation, has aimed at a sectoral approach.

This approach that is valid for all the transport networks as well as well the services facilitating the movement of freight and people individuated a framework of principles for guiding sustainable transport. The main principles guiding transport's contribution to development, are:

- policy dialogue,
- stakeholder involvement;
- adequate maintenance finance;
- capable sector management institutions;
- human resource development;
- private sector involvement;
- mainstreaming of cross-cutting issues such as gender, environment, employment, HIV/AIDS and health;
- facilitation of transport regulations and legislation;
- and sustainability of a transport network that responds to national and regional economic and social needs.

Moreover, in the COMESA Treaty, Article 84, the member states have undertaken to evolve coordinated and complementary transport policies to facilitate inter-state traffic and to promote greater movement of persons, goods and services within the common market. In order to ensure that transport contributes effectively to the development of trade in the country and the region, appropriate measures shall be put in place to ensure that transport infrastructure and services are efficient and of good quality. The COMESA agenda, with specific reference to the transport and communication sector, focuses on both the development of infrastructure and the facilitation of the movement of goods and people in the region. One of the areas that the COMESA facilitation instrument addresses is an axle-load limit control harmonised with axle-load standards in order to reduce the impact of overloaded vehicles and improve road maintenance backlog.

The 9th EDF, with reference to the Transport Sector, indicates the following specific objectives:

- reduction of backlog in road maintenance,
- increased national funding of road maintenance,
- decrease of vehicle over-loading,
- improved capacity for management of road maintenance,
- improved access to rural areas with high productive potential, and
- facilitate improved decision making concerning future railway development in relation to development of other transport modes.

The major interventions foreseen are:

- preventive maintenance of trunk, main and district roads;
- maintenance and rehabilitation of feeder roads;
- transport mode study (rail/road) and studies for track upgrading.

At present only the first component of the three main area of intervention is fulfilled.

Regarding the second component, recently a feasibility study for the rehabilitation and maintenance of feeder road was completed. It is foreseen this intervention, 20 M €, will be funded by the 9th EDF Budget Support.

The third component, the transport mode study, has not yet been included in the 9th EDF envelope. The study could be helpful in order to analyse the future development of the transport system not only based on the road transport. The analysis of an integrated transport system based on the efficient combination of rail and road could facilitate the improvement of the planning and management capacity according to a wide approach.

It is relevant put in evidence that the major policy measures that the GRZ has to carry out, as a contribution to the implementation of the response strategy in the transport sector are the following:

- improved financing of road management;
- reform of the institutional for the management of roads;
- improvement of the financing mechanism of road maintenance;
- enhanced axle road control.

.As indicated above the overall objective of transport intervention is to promote equitable economic growth and support poverty reduction. It should be noted that according to the Poverty Reduction Strategy Paper (PRSP), the transport sector, notably the road sector, has been identified as one of the most important vehicle for the realisation of the PRSP programme because of its primary contributions to poverty reduction and economic growth in the country. Transport sector has been recognised, under PRSP, also as an important factor having a cross cutting impact on other programmes planned to reduce poverty and stimulating economic growth.

Moreover, the PRSP has defined the "Core Road Network" (CRN), which represents prioritisation of the total road network within the country, as the minimum requirement to be effective in combating poverty, through improved accessibility, connectivity and job creation.

In December 2003 commenced the second phase of the ROADSIP (Road Sector Investment Programme) II which overall objective is to contribute to poverty alleviation by supporting economic growth and regional integration. Hence ROADSIP II is compatible with the two major EC objectives in Zambia assistance: fostering a sustainable economic and social development and poverty reduction in accordance with PRSP.

ROADSIP supports the core aspects of the government development policy aiming at sustainable growth and poverty reduction as indicated in its PRSP. ROADSIP II will substantially contribute to the GRZ declared objectives of poverty alleviation, economic growth and enhancement of population quality of life by:

- providing access to employment opportunities, schools, health care and other social services
- stimulating economic growth by reducing transportation costs,

ROADSIP II interventions are focused on road rehabilitation and maintenance, periodic and routine. The programme foresees the improvement of road conditions according to the following annual scheme.

Year	Paved Network 7,250km						Unpaved Road Network 32,863 km					
	Good	Length	Fair	Length	Poor	Length	Good	Length	Fair	Length	Poor	Length
2002	57.0%	4,133	22.0%	1,595	21.0%	1,523	7.0%	2,300	19.0%	6,244	74.0%	24,31
2004	58.3%	4,227	22.8%	1,653	18.9%	1,370	13.3%	4,371	20.1%	6,605	66.6%	21,88
2005	59.6%	4,321	23.6%	1,711	16.8%	1,218	19.6%	6,441	21.2%	6,967	59.2%	19,45
2006	60.9%	4,415	24.4%	1,769	14.7%	1,066	25.9%	8,512	22.3%	7,328	51.8%	17,02
2007	62.2%	4,510	25.2%	1,827	12.6%	914	32.2%	10,582	23.4%	7,690	44.4%	14,55
2008	63.5%	4,604	26.0%	1,885	10.5%	761	38.5%	12,652	24.5%	8,051	37.0%	12,15
2009	64.8%	4,698	26.8%	1,943	8.4%	609	44.8%	14,723	25.6%	8,413	29.6%	9,72
2010	66.1%	4,792	27.6%	2,001	6.3%	457	51.1%	16,793	26.7%	8,774	22.2%	7,25
2011	67.4%	4,887	28.4%	2,059	4.2%	305	57.4%	18,863	27.8%	9,136	14.8%	4,86
2012	68.7%	4,981	29.2%	2,117	2.1%	152	63.7%	20,934	28.9%	9,497	7.4%	2,43
2013	70.0%	5,075	30.0%	2,175	0.0%	0	70.0%	23,004	30.0%	9,859	0.0%	

On the whole, the ROADSIP programme is considerably improving Zambian road conditions and reducing the backlog in road maintenance. The main objective is maintaining an acceptable road level of service for a 15-20 year period with only normal maintenance interventions. However, the direct and indirect expected results will be tangible only in the forthcoming years.

During the period 2003-2004 the percentage of paved roads in good condition went up slightly from 56% to 57%, whereas paved roads in fair condition reduced from 27% to 22% and paved roads in poor condition increased from 17% to 21%.

The slight improvement in the paved roads in good conditions was mainly due to the rehabilitation works undertaken by European Union on T2 and D176, Kabwe – Kapiri Mposhi and Chisamba Road (90 km) and KfW on M10, Livingstone – Sesheke Road. Regarding the 9th EDF, in order to meet the needs of the feeder roads of ROADSIP II programme, a €20 million provision was included in the CSP and MIP. The timing of disbursement has changed from the original period (2003-2005) and, currently, the provision should commence in early 2006.

During the period 2003-2004 there has been substantial deterioration in the condition of the paved network that was rated to be in fair condition caused by the inadequate periodic maintenance works undertaken during the year to prevent many roads getting into poor condition. EDF assistance is fully integrated with the multi-donor supported ROADSIP II investment programme whose objective, among others, is to reduce the backlog in road maintenance. The road sector assistance includes also the World Bank and several donors: Germany (KfW) Denmark (DANIDA), Japan (JICA), Norway (NORAD) and the African Development Bank. This assistance presently provides 60÷70% of capital financing for the road sector in Zambia. Recent developments include possible additional funding from the Kuwait Fund, BADEA and OPEC.

EU Funding mechanism for ROADSIP II, for trunk, main and district road periodic maintenance is provided under the Sector Budget Support (SBS). According to this funding mechanisms, common donor funding are allocated to the National Road Fund Agency (NRFA) that is responsible for funding all road expenditure. The main advantages of the SBS are the reduced layer of bureaucracy, flexibility in resource allocation, long term planning because of the recourse available and harmonisation of procedures and conditions of contracts.

A Financing Agreement under the 9th EDF was signed in December 2004 for a €70 million Road Sector Budget Support Programme. The programme is to disburse:

- M€ 63.3 for a budget support component in three years tranches;
- M€ 6.7 for a capacity building component through technical assistance to the National Road Fund and National Road Development Agency, and road condition surveys.

The Budget Support foresees a disbursement in three tranches corresponding to the financial years 2005, 2006 and 2007 according to the following indicative schedule:

Period	Tranche	Amount €million
February 2005	1 st	25.4
February 2006	2 nd	21.0
February 2007	3 rd	16.9
Total		63.3

Tranches release is subject to specific conditions (i.e. macro-economic framework assessment and public finance management situation). The first tranche disbursement, released in year 2005, was related to:

- establishment of the three road agencies
- 50% of the post staffing filled
- commence of EDF funded Technical assistance to NRDA and NRFA

According to NRDA, all the above indicators were fulfilled and, in addition, were

- maintained 6000 Km of paved roads in fair condition
- rehabilitated 200 Km of paved road

The release of the second and third tranches will be subjected to the satisfactory performance of nine indicators related to the Implementation of institutional reform, increase in road sector financing and road network maintenance conditions.

Recently a feasibility study for the rehabilitation and maintenance of feeder road was completed. It is high probable that this programme will be founded by the 9th EDF through SBS, for the road sector, to the GRZ.

The SBS appears to be a useful instrument that allows supporting, in a partnership with other Donors, a well detailed and efficient road maintenance programme. However, it is too early to evaluate the effectiveness of the SBS before the intervention is not completed and the all the performance indicators are fulfilled and, particularly, the Road Fund creation and revision of fuel levy.

Only recently the Monitor Evaluation Unit has been established as an integral part of ROADSIP II, in order to monitor and evaluate this relationship between roads improvements, poverty, economic growth and HIV/AIDS. These activities, whose methodologies are not yet well defined, foresee a baseline study, a mid-term evaluation study (at the end of the fifth year of implementation) and a final evaluation study to put in evidence the outline key developments.

According to SBS mechanism the road interventions are not directly focused on specific road links but to the whole road network, without specific reference to the border crossing and corridors.

However it should be noted that the ROADSIP II programme is finalised to obtaining a reliable road network that contributes to regional integration though the increasing of traffic on international corridor routes.

In particular we may indicate that the rehabilitation of Kanzangula Project is the only project that upgrades the pontoons infrastructures, increases access to neighbouring countries by improving river-crossing facilities. Moreover, the Rehabilitation of a 62 km Kabwe–Kapiri Mposhi contributed to increasing of traffic along the North-South corridor. Moreover, the foreseen rehabilitation of Zimba-Livingstone Road (85,9 km) will improve also the traffic along the same corridor.

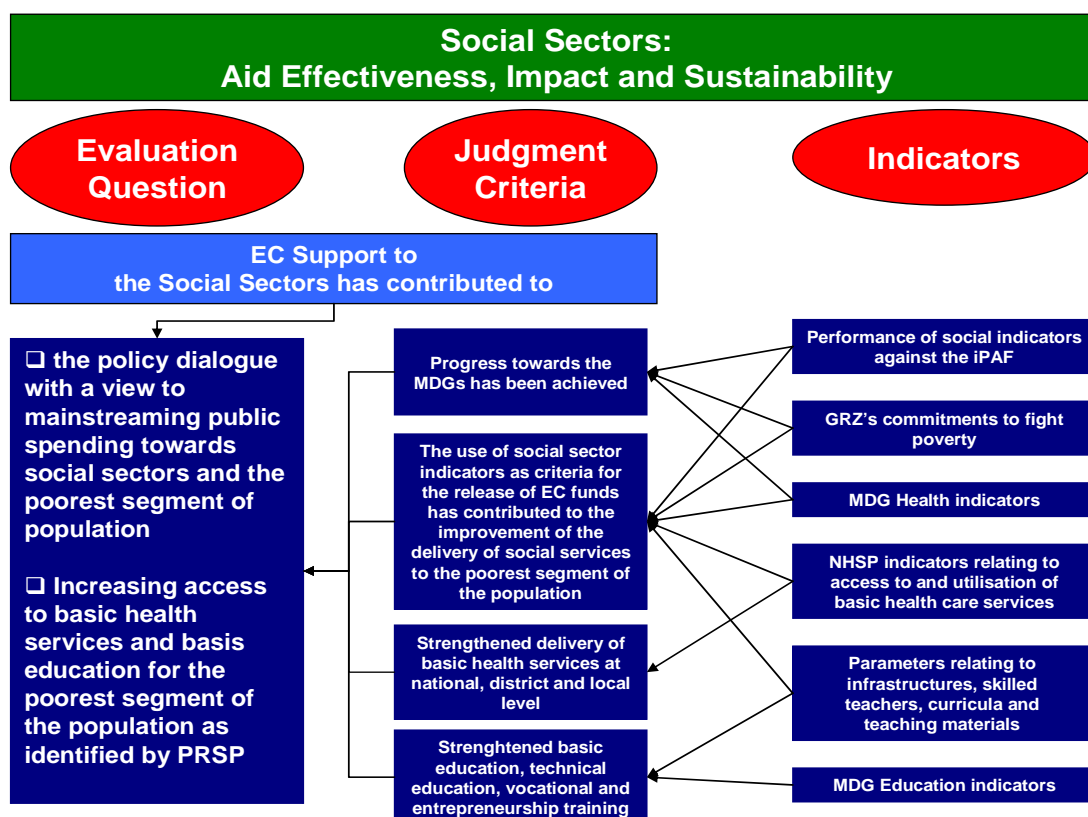
The road sector, according to ROADSIP II, started periodic maintenance of trunk, main and district roads that include, among others, the intervention to reinforce and consolidate the national capacity to manage road assets. It is foreseen the development of capacity building at the National Road Agency (NRDA), planning and operations (using the Highway Management System) and National Road Fund Agency (NRFA) in financial management and accounting.

The Axle Road Control Programme (carried out with NORAD) has the target of reducing the rate of overloaded vehicles from 20% to 5% or less, for the axles or in relation to the Gross Vehicle Mass (GVM) from 55% to 5%. Currently, waiting for the official data, experiences from recent operations indicate that the rate of overloading is significantly reducing on some parts of the road network where the implementation of some programme components has been successful. However, the first Axle load survey in December 2005 will give more reliable indications.

It is empirically supposed that the Axle Road Programme is contributing to a substantial reduction of overload vehicles running on the Zambian road network. The main reasons are related to effectiveness of the weighbridges and the sanctions. Nowadays, six fixed weighbridges and two sets of portable computerised weighbridges, and transporting vehicles, are in full operation. Moreover, the management team has instituted a good working relationship with the Anti-Corruption Commission (ACC). The information and awareness campaigns are based on pamphlets, posters and billboard; pamphlets and posters have been distributed and billboards have been installed along the road network. It is important noting that the message of the HIV/AIDS was included in the campaign with the practical help of the haulers association. It should also be noted that the strategy of focusing both on road rehabilitation and axle loads control is appropriate because it is a valid choice to increase the road investment profitability.

3.5.5 Aid Effectiveness, Impact and Sustainability– Non-Focal Sectors

3.5.5.1 Social Sectors



Evolution of Health Sector Reforms

Since 1992 there have been significant reforms in the Health Sector, whose underlying principal was decentralisation of healthcare delivery from the centre to districts and hospitals. The reforms have been complemented by the government's commitment to the realisation of the MDGs. The health-related MDGs and the PRSP (TNDP) presently serve as output indicators on investments in the health sector.

Health Sector Financing

The main sources of financing public healthcare services in Zambia include allocations from the Central Government, donor support, user fees and insurance schemes, employer contributions and other miscellaneous receipts, including donations in kind. The Government also receives financial support for the fight against HIV/AIDS from the Global Fund for the fight against HIV/AIDS, the World Bank (under the Zambia National Response to AIDS – ZANARA – Project) and the USA President's Emergency Plan for AIDS Relief (PEPFAR). This support is channelled through GRZ, NGOs, FBOs and other projects at various levels of intervention.

Under the current health reforms, GRZ and CPs have been moving towards targeted Health Sector budget support for Human Resources (HR) retention,

increased efficiency, financial management systems, drug supply systems and a Management Information System (MIS).

The EC MS and other CPs have signed the Harmonisation – In – Practice (HIP) MOU to coordinate their funding to the Health Sector. The Ministry of Health has its own sector budget support. This is seen as a good arrangement by MoH officials as there is no guarantee that the Ministry of Finance and National Planning (MFNP) can fund the MoH priorities.

Direct EC support to the Health Sector is minimal. EC preference is to have limited direct interventions in the Health Sector, as the EU Member States (MS) have a comparative advantage. The proposed programme under 9th EDF was not approved, due to legal reasons. The EC mainly provides general budget support which includes a number of indicators relating to the Health Sector.

Progress towards the MDGs

In the initial stage, the progress in indicators on health fell behind the planned level, but improvement has since occurred. The period 2002 - 2004 has witnessed an improvement in some health – related MDG indicators such as Target Five (Reduce Child Mortality). Although still relatively high, the under-five mortality rate (U5MR) has decreased considerably, from 162 per 1000 live births in 2000 to 131 per 1000 live births in 2004. The prevalence of underweight children went from 23.3% in 2001 to 18% in 2004; the under-five mortality rate per 1000 live births declined. However, it is improbable that the goal of reducing child mortality to 63 per 1000 live births by 2015 will be achieved unless significant efforts are made to reduce the current constraints facing the health sector, especially inadequate child health services, high prevalence of malaria and limited coverage of PMTCT (prevention of mother to child prevention) programmes.

On the other hand, some health-related MDG indicators like maternal mortality have worsened in recent years. Available evidence shows that the Maternal Mortality Ratio (MMR) has increased from 649 in 1996 to 729 in 2000 and an estimated 940 per 100,000 live births in 2005. This is despite high antenatal attendance (urban 80%, rural 68%) and increased attention to reproductive health in recent years. The reasons for the increasing MMR include poor quality of care, lack of skilled deliveries and lack of surgical and medical supplies.

As noted elsewhere, there are still enormous challenges in the Health Sector:

- The **AIDS/HIV pandemic** is playing havoc in the country. By September 2004, when Zambia declared HIV/AIDS a national emergency, one million adults and 200,000 children in Zambia lived with HIV infection (UNAIDS 2002). Mainly because of AIDS, life expectancy fell from 49 in the early 1990s to 37.5 years in 2003, and mortality has risen for both adults and children (UNDP Development Index website, 2005). The widespread prevalence of HIV/AIDS, particularly in urban areas and among women of childbearing age, puts tremendous strains on a system already failing to deliver basic services.
- **Malaria and respiratory infections** remain obstacles. They are the main cause of death, and there has been no improvement over the past years. The most common cause of death is fever/malaria (23 percent) followed by cough/cold/chest infections (11 percent) and TB (11 percent).
- Although the Government has increased its spending on poverty related programmes, the Health Sector suffers from limited absorptive capacity at district level and from an increasing brain drain.

Social sector indicators as criteria for the release of EC funds and improved social services delivery

Progress is being registered in some health-related MDG indicators. However, it is not easy to establish a direct relationship between an improvement in social sector indicators and the release of funds by the EC for three main reasons. First, there is a large number of non-EC players in the Health Sector. Secondly, the Health Sector is plagued with many problems. Thirdly, most EC support to the Health Sector is through DBS. In such a context, it becomes difficult to establish a clear link between the delivery of social services and the release of funds by the EC.

Our observation is that, given the many problems facing the Health Sector, the use of social indicators as criteria for the release of funds by the EC, can result in unnecessary withholding of funds which may result in a further deterioration of the social indicators. On the other hand, the release of funds without proper targeting and functional management systems in place, especially at lower levels, can result in misdirection or misuse of resources. The evaluation team, therefore, suggests that due consideration should be given to these factors before any decision to withhold or release funds is taken.

EC interventions in the health sector and strengthened delivery of basic services, at national, district and local levels, in the framework of the National Health Strategic Plan

Overall, there have been some improvements in the delivery of basic health services in recent years. However, access and utilization of health services vary according to location. In some health centres and hospitals, especially in urban areas, the levels of access and utilization are high. Rural areas are characterized by low access and utilization largely due to little investment in rural health infrastructure and a lack of qualified health workers (i.e. in the Ministry of Health/Central Board of Health (CBOH) only 50% of positions have been filled up).

In terms of institutional capacity, there is relative decentralisation in the Health Sector, with funds going directly to lower levels. At central level, there is strong institutional capacity, including strong financial management and accountability systems. However, MoH officials expressed fears about weak financial management systems at lower levels. The absorption capacity (utilisation of allocated funds) in the Health Sector is limited (as reflected in low drug procurement). Staffing within the Health Sector is at 50%, while staff retention remains a big challenge. There are no HIV/AIDS indicators (no baseline data and routine monitoring). National aggregates may not be useful for planning and monitoring. The Health Management and Information System (HMIS) does not provide gender-disaggregated data. This has resulted in poor gender monitoring of access to and utilisation of health care between females and males. At the time of the evaluation, the Health Sector (i.e. Ministry of health and CBOH) was going through restructuring to strengthen service delivery.

Other challenges in the Health Sector relate to the impact of HIV/AIDS which has amplified suffering at the household levels. The prevalence level now stands at about 16 percent. But malaria tops the list for disease burden, exacting a debilitating impact on agricultural output and food security. The provision of social services, such as water and sanitation, has declined over the years. Other social indicators have worsened, such as maternal mortality which declined from 649 in 1996 to 729 by 2002.

3.5.5.2 Education

Evolution of the Education Sector

Education is a key priority sector in Zambia. The Education Sector comprises four Ministries, namely, Ministry of Education, Ministry of Science, Technology and Vocational Training, Ministry of Sport, Youth and Child Development and Ministry of Community Development and Social Services. The Ministry of Education is mandated to guide education delivery as well as provide education at basic, high school and college (teacher education) levels.

Currently, under the Ministry of Education, education provision is guided by the education policy document, *Educating Our Future* (1996). This policy focuses on equitable access to quality education at all levels. The policy re-adopted the concept of basic education which led to the implementation of the Basic Education Sub-sector Investment Programme (BESSIP) in 1999. Actual implementation of the policy has, since 2003, been based on the Education Sector *Strategic Plan* (ESP), 2003-2007. The major sub-sectors now are basic, high school and tertiary education.

Financing Education

The Government has implemented the Education Strategic Plan which was presented to the donors in February 2003. A memorandum of understanding was signed at the same occasion, providing the framework for donor support. Several EU – member states have already signed the MOU. This means that there is harmonization among these donors according to their comparative advantages, through dialogue. The ESP is articulated in Annual Work Plans (AWP), which follow the National Implementation Framework. There is also direct EC support to the Ministry of Education (MoE) (Sector Support) towards pool funding. In 2004 there was slow implementation of the AWP, due to capacity problems in the MoE (both at central and decentralized level).

The EC's interventions in the Education Sector and Strengthen Basic Education and Technical Education, Vocational and Entrepreneurship training

Most donor support has focused on the basic education sub-sector. In accordance with the Education Policy, the Basic Education sub-sector is oriented towards the final goal of Universal Basic Education, and has three levels: Lower Basic for Grades 1-4; Middle Basic for Grades 5-7; and Upper Basic for Grades 8-9. During the period under review, some marked successes were recorded.

The MDC educational indicators are 'strong' for basic education in terms of enrolment and 'fair' for gender disparity. Enrolment in Grades 1-7 and Grades 8-9 has increased on an average of 9% annually since 2000, with near gender parity between males and females in lower basic. Gross enrolment ratios (GER) for Grades 1-9 went up from 75.1% in 2000 to 89.8% in 2004; net enrolment ratios (NER) went up from 68.1% in 2000 to 79.4% in 2004. In absolute terms, the number of pupils rose from 1.7 million in 1998 to 2.8 million in 2005. Despite these gains, there still exists a disparity between male and female pupils, with girls representing a GER of 86.4 in 2004 against 93.2 for boys and a completion rate of 65.8 and 78.3 respectively. The primary completion rate also improved from 63.3% in 2000 to 72% in 2004.

In order to ensure quality education, provision of teaching and learning materials (particularly textbooks) and more trained teachers were given priority during the period under review through GBS and PRSP. Teacher output rose from 3,500 in the

late 1990s to 5,000 per year by 2005. There has also been a marked increase in the teachers attending in-service training during the period. The curriculum for the basic school level was re-conceptualised in order to make it relevant to the needs of the learners and society. During the period 2002 – 2004, skills training also received financial assistance under the PRSP. The Education Information Management System (EMIS) is also receiving EC support. From 2005, the envisaged 9th EDF support to EMIS was supposed to support the integration of the community schools into the annual school census exercise and improve overall reliability of the education information system.

While enrolment is increasing, the gains in the quality of education have not matched the levels achieved in terms of access. Several factors have contributed to the low level quality of education, suggesting the existence of many challenges. The preliminary FNDP (2006 – 2010) identifies the major challenges as: raising the learning achievement in key subject areas through deployment of more qualified teachers to eliminate double shifting, shifting of more qualified teachers to teaching the foundation years (Grades 1 – 2), improving the quality, relevance and delivery of the curriculum, provision of more teaching and learning materials to match the increased enrolment; increasing access to vulnerable children, particularly improving the retention rate for girls; increasing school places for the 7-year old age group; and retention of girls to make sure they complete education and actually benefit from it. There has also been drastic deterioration in the quality of school buildings in recent years, while the motivation of teachers is falling, resulting in less and less time being given to children's education.

Significantly, the focus on the basic education sub-sector in EC and other donor funding appears to have created more imbalances in the Education Sector. In 2004, the Ministry of Education had a total number of 5000 basic schools, compared with only 320 high schools. On the other hand, lack of funding means that the high school sub-sector has remained stagnant over the last three decades in terms of infrastructure expansion. Thus, despite an increase in enrolment, just a third of pupils from basic schools proceed to high school. Latest figures for primary schools show that only 126,384 pupils out of 250,639 who sat for Grade Seven final examinations in 2005 have been selected to Grade Eight (Times of Zambia, December 24, 2005). The number of selected pupils is further reduced at Grade Nine level. In addition, the quality of high school education has not benefited from the same level of investment as basic education.³⁸ The challenges facing the high school sub-sector are, therefore, enormous and include massive interventions to increase access and improve quality.³⁹

The decision by the EC to withdraw its funding to the technical education sub-sector has not helped the situation. Currently, most support to the technical education sub-sector comes from bilateral partners, principally the Netherlands and Denmark. The sub-sector has its own absorption capacity and planning problems. But donor conditions also make project implementation difficult.

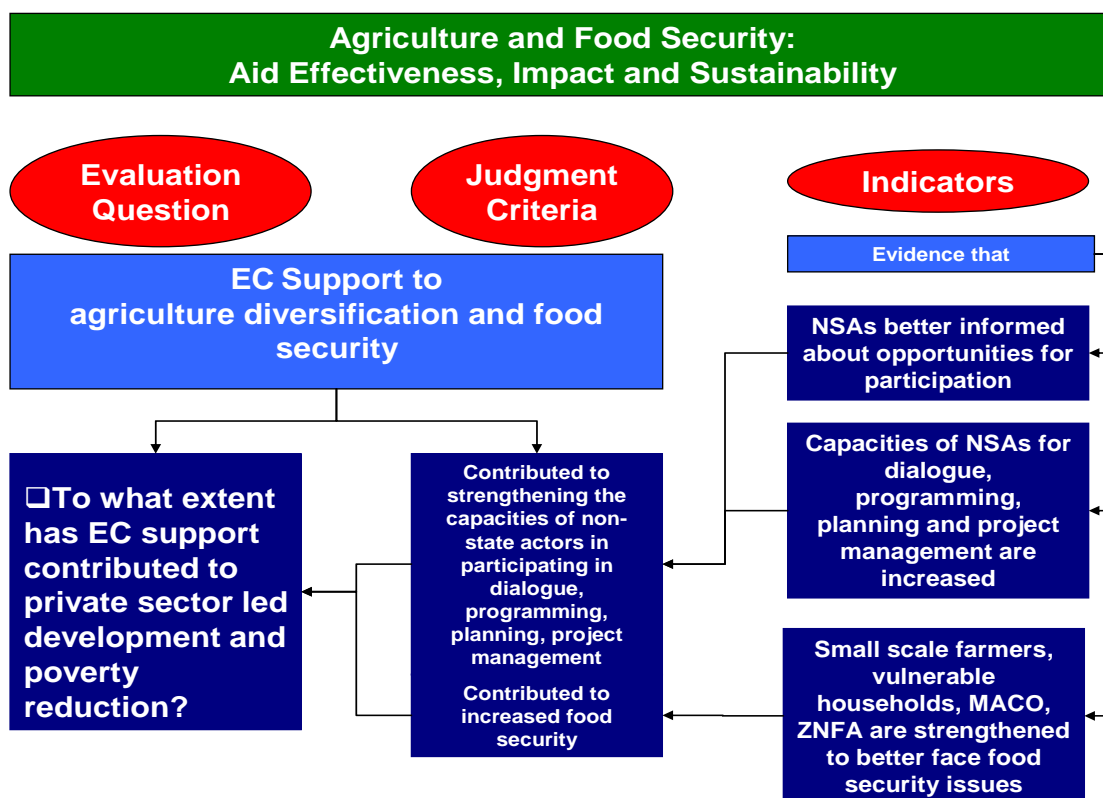
³⁸ Pupil/teacher ratios have worsened from 10.9 in 2000 to 16 in 2004. Although the figures for 2004 show a relatively acceptable ratio, it hides the fact that there is a dire lack of teachers in key subject areas such as physics, chemistry, biology and mathematics. In addition, many of the teachers in this sub-sector are only qualified to teach at upper basic level.

³⁹ They include: increase in school places through infrastructure investment; training and deployment of qualified teachers; revision of the curriculum; and significant investments in production and procurement of teaching and learning materials. Ensuring access to high school education for OVC, including children from poor rural families, is a particular challenge, as children from disadvantaged families tend to drop out of the education system earlier to take up employment to sustain themselves and their families.

HIV and AIDS – with its attendant problems of high teacher morbidity and mortality rates, and an increase in the numbers of orphans attending schools – also pose other challenges to the education system in Zambia. School drop-out rates have risen, as poverty and the deaths of many parents have forced more and more children to leave school and fend for themselves. At present, there are an estimated one million orphans in Zambia.

MoE officials, as those in the health Sector, also expressed fears about weak financial management capability at lower levels (lack of budget discipline); poor absorption capacities (utilisation of allocated funds); and poor understanding of programme objectives and indicators. In some cases, this was creating bottlenecks at lower funds, resulting in the under-utilisation of funds, poor programme delivery and funds misuse. These problems have been compounded by lack of procurement management skills at district level.

3.5.5.3 Agriculture and Food Security



Zambia is consistently failing to meet its food needs from domestic production. Over the past 17 years only in 4 years national agricultural production was able to keep up with demand. As a result Zambia has become a net importer of food. Even in good production years with a bumper harvest in maize and other cereals, significant numbers of households fall short in their food availability. Appropriate utilization of available food is mainly an issue for under-five children as well as for people living with HIV-AIDS (PLWHA). High levels of malnutrition - coinciding with high incidence of stunting, underweight and wasting of under-five children, are in the first place a result of persistent national and household food insecurity (FAO 2004). But this situation is often exacerbated by lack of adequate knowledge and application of nutrition with regard to child care, especially during weaning.

Furthermore, good nutrition plays an important role in delaying the full development of AIDS-related symptoms for people living with HIV-AIDS (NFNC 2004).

This situation is difficult to understand as Zambia has excellent potential for development of the agricultural sector, and is considered to be potentially a bread-basket for the Southern African Region. The country is well-endowed with both surface and underground water, and climatic conditions are suited to a wide range of crops. Only five million (or 7%) out of Zambia's 75 million hectares of arable land are under cultivation. Of the economically viable irrigation potential of 523.000 ha only 100.000 ha has been realized, mainly in commercial export-oriented agriculture (FAO Aquastat 2004). In many parts of the country the small scale farming sector is regressing from draught animal power to hand hoe cultivation. In the livestock sector, the "corridor" disease decimated cattle population in the south and west of the country some 6-7 years back, therefore urgent restocking of farms is needed.

The agriculture sector represented 22.2% of GDP in 2002 with agriculture accounting for 68% of total employment (formal and informal). About 60% of the total population lives in the rural areas (FAOSTAT 2004). Non-traditional exports have increased significantly over the past few years.

Over the past decade, the agriculture sector has suffered from the uncertainties of the liberalisation process that started in the early 1990's. The removal of price subsidies, the dismantling of marketing institutions and inconsistent government policies with regard to farm input supply, export bans and the Food Reserve Agency (FRA) have resulted in a restrained private sector involvement and investments, especially in maize marketing and food processing. Local market prices are in general below the import parity price with exception of years with severe production shortages due to adverse climatic conditions. Over the past years, domestic maize prices have fluctuated substantially between US 100.=/ ton and US 350.=/ ton in time of shortage. On average, the price trend since 1994 is upward from US 100.=/ ton to US 150.=/ ton in 2005. Maize import prices are subject to several factors including price levels at the commodity market - the South African Exchange - , transport costs the exchange rate of the Zambian Kwacha, as well as consumer preferences and the operation of the FRA. Import parity prices also show an upward trend over the years as well as during the marketing season (in 2005 from US 210.= to US 320.= per ton). In years of regional shortages transport availability by road and rail tend to increase substantially. Formal maize imports are mainly from South Africa whereas informal imports occur in border areas with neighbouring countries. Informal exports take place to the copper towns of Southern Congo (FSRP 2005).

In years of inadequate domestic maize production, there is a clear distinction in response. At national level, private traders, policy makers and (local) politicians almost exclusively focus on the availability of maize through imports – mainly with the urban consumer in mind - whereas rural producers increasingly resort to cassava production and consumption, In this context large-scale maize imports are an occasional phenomenon and should be characterized as a market of last resort in years of deficiencies as maize import parity prices are in general higher than prices of locally produced maize. Private large-scale milling companies are the main importers of maize from South Africa. The informal food trade with neighbouring countries should be considered as an extension of the national market as they reflect local price differences. Import duties on maize are likely to be transferred to consumers (FSRP 2005). However, to some extent they provide protection to local producers of both maize and cassava.

Restricted government and donor spending in the agricultural sector, in each case about 5% of total spending in 2005, have further aggravated the situation of under performance of the agricultural sector (FSRP 2006; JASZ 2005).

The government funding allocation is increasing but still short of the 2008 African Union target for spending (10%) in the agricultural sector (CAAPD/ Maputo commitment). Moreover, more than half of the government allocation to agriculture is spent on the Fertilizer Support Program (FSP) and Crop Marketing through the FRA. Only 5% of the government allocation is used for investments (irrigation and infrastructure). The fertilizer subsidies through the FSP in general mainly reach out to the wealthier farm households that also acquire from private traders. On top, the economic return of this subsidy is negative as the costs are higher than the benefits (FSRP 2006).

Chronic food insecurity is not exclusively a result of drought and lack of inputs as is often the argument used in Zambia. Food insecurity is a result of chronic poverty due to low levels of assets in a context of economic, health and natural uncertainties. Government policies focussing for too long on maize production have resulted in lop-sided sector development and a continuous decline in soil fertility. Large parts of the rural population grow maize in below-optimal conditions thus becoming more vulnerable and dependant on food relief. Local storage methods in rural areas often affect availability and quality negatively (it is estimated that up to 30% of available food can be lost due to poor storage), whereas local processing methods influence the quality of food uptake, eg preparation of legumes. On top, due to the HIV-AIDS pandemic, traditional coping mechanisms of community and extended family support are under considerable tension. As a result labour and capital availability is restrained at for most households. Recent trends indicate a greater hectarage and production levels of cassava, cotton, tobacco and legumes. In terms of total production, cassava has become the largest single crop in Zambia, whereas cotton is the most important cash crop (FSRP 2006). Tobacco has increased annually by almost 10% during the nineties (FSRP 2005).

EC Support to Agriculture and Food Security

Conservation Farming Unit

The EC support to the Conservation Farming Unit is an appropriate and highly relevant response to the existing problems in the agricultural sector. Its focus on the restoration and sustainable maintenance of soil fertility without increasing the household labour input is a major step towards the realization of household food security, and ultimately towards restoration of the agricultural sector at national level. Through this system of fertility and water management yield level increase has been realized of 100% on average in maize and more than 50% in cotton (FSRP-MSU 2004, IFPRI 2003). In the main maize-based farming systems of Agro-Eco Region II more than 150.000 producers are applying this system. The current project supported by the EC is aiming at another 3000 farm households per year as well as a re-oxenisation programme for 300 households per year (EC Financing Proposal 2004). Given the fact that timely planting and concentrating soil nutrient repletion under the conservation farming approach enhance significantly productivity per hectare as well as per labourer, it is expected that spontaneous dissemination to other farmers will take place at a significant scale.

The Conservation Farming Unit operates under the umbrella of the Zambian National Farmers Union (ZNFU), the major farmer organisation of Zambia representing over 30.000 small, medium and large private farmers. The project operates through the extension network of Dunavant, the largest cotton company operating in Zambia with over 50 % of the national ginning capacity. The project approach of private sector involvement in reaching out to cotton growers who are interested in increasing their food production is potentially very relevant.

The focus to diversify production to include a legume crop in the rotation will certainly contribute to improvement of availability of protein-rich food specially during the lean season. It is expected that through the private sector operations a good number of the intended beneficiaries can be assisted. This is certainly true for families affected by HIV-AIDS as the labour reducing elements of Conservation Agriculture are very attractive for families suffering from labour shortages, as the labour requirements during the critical period of land preparation and weeding are less.

The main constraining factors are the contractual conditions under the EC regulations that may hamper efficient implementation. E.g., the need to tender the transport of the Food Security Packs before the season is considered by project management a serious threat to timely delivery of these packages. Solutions have been found to overcome those problems for the 2006-07 agricultural season.

Agricultural Diversification and Food Security in Western and North Western Zambia

This recently formulated project (October 2005) aims at contributing to poverty reduction and increased food security by supporting the formulation of a National Food Security Strategy and by improving the performance of rural smallholders in Western and North Western Provinces. In the context of national and household food insecurity the project is highly relevant (see above). Most of the population in these provinces depends on a mixed livelihood strategy, combining crop farming, livestock keeping, fishing and natural resource exploitation. The rural economy is mainly subsistence-based, and is subject to high levels of uncertainty and variability as it is prone to adverse weather patterns and livestock diseases (IUCN 2005). Most of the soils are semi-arid which makes crop farming difficult. Most crops are grown in the lower plains of the Zambezi River except for cassava, which is mainly grown on the uplands. Most people live alongside these plains and other wetlands.

The component that supports the formulation of a National Food Security Strategy and related action plans for these provinces is a commendable effort to support the GRZ in coordinating the different governmental institutions in realizing this goal. However, the financing proposal does not include the approach of establishing a safety net for destitute households that lack the necessary labour to make a living. Most of these households are affected by the HIV/AIDS pandemic and are headed by grandparents or orphans, and will not be able to access nutritious food at the market without external support.

The second component assumes that the public extension sector will be able to contribute to the achievement of the stated project overall objective. This is highly questionable as there is no clear analysis of what are the main causes of food insecurity and vulnerability, what the best strategy would be to tackle these problems and what the role of the public extension service could be.

This component aims at tackling to identified causes of rural poverty : low productivity of land and labour and limited crop diversification and access to cash crop. Those issues can be tackled through improvement of the delivery of extension services to train farmers and help them develop new profitable crops. For that purpose, the programme also foresees a strong partnership with local communities and local actors through the support to NSA's so farmers priorities and needs are taken into consideration. For instance there is no reference to previous work done in this context during the twenty years of Dutch assistance to the Agricultural Sector in these provinces. As a result, if such analysis and strategy are not developed, the project may not reach its purpose of improved agriculture diversification and food security. Thirty years of public extension support to the agricultural sector in both Provinces have not lead to significant improvements.

Agricultural innovations have mainly been developed and disseminated by farmers themselves or by the national agricultural research capacity in crops like maize, cassava, sorghum or millet. The inclusion of the priorities of the final beneficiaries should be taken more into consideration as agriculture in both Provinces is undertaken in a highly diverse and often adverse economic and natural environment. Public investments in the eighties and nineties in the livestock have had more impact on rural livelihoods. A clear development strategy should be based on support to the livestock sector, the artisan fishing sector, further enhancement of cassava production and processing, investing in crops with comparative advantage for the Copperbelt urban centres and in improved water management around wetlands and dambo's. All this is either already foreseen or foreseeable in the programme through components two and three.

The project provides a fair balance between support to Government, private sector and civil society. However, the set-up of the project management, supervision and implementation is such that appropriate collaboration between government public services and the NSAs (private sector and civil society) will not be enhanced. In a difficult economic, social and environmental context as encountered in WP and NWP, a multi-stakeholder approach including traditional leadership and final beneficiaries should be at the basis of any development process aiming at poverty reduction and food security.

That is what the intervention at the three (national, provincial and community and NSA level) is actually meant for. Communication channels have to be created between those levels specially to make sure that the local initiatives identified through the baseline survey (foreseen at the programme inception) and the NSA components feed back into the planning of the activities at provincial and national level. Separate funding and implementation channels are not conducive to this process. Only through close collaboration of all stakeholders, capacities in terms of participating in dialogue, programming, planning and project management will be strengthened. For instance, NSAs including traditional leadership should be represented at the Steering Committee in order to create wide ownership of the programme.

In conclusion

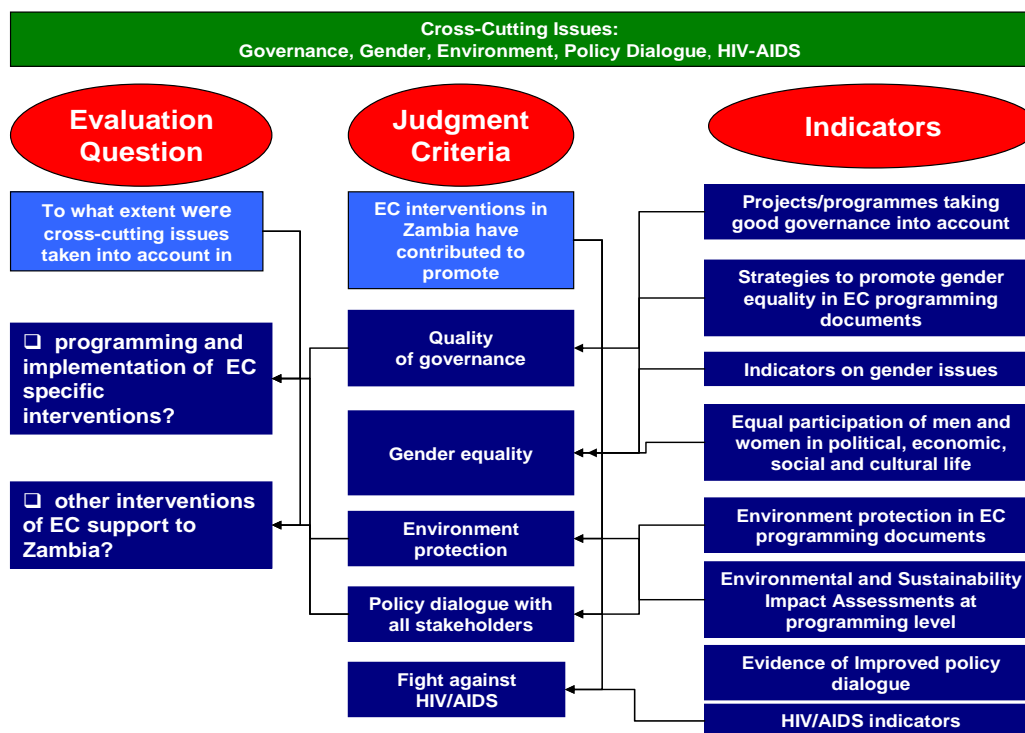
Overall, the effectiveness and impact of EC support to Agriculture and Food Security under the 9th EDF is not yet visible as one project has recently started (CFU agreement has been signed in June 2005) and the WP and NWP Food Security project still has to be formally approved. It is expected to start in June 2006. The Conservation Farming Unit project has the potential to contributing significantly to Private Sector Development in the Agricultural Sector (both primary producers as well as their support institutions). Potentially, the Conservation Farming approach could benefit up to 400.000 farm households in Agro-Eco Region II thus significantly contributing to poverty alleviation of substantial parts of the Zambian rural population. The WP and NWP Food Security project raises doubts about the analysis of the underlying problems of food insecurity and the applicability of the chosen strategy. It is questionable whether the relative large proposed funding of this project will be a cost-efficient investment to achieve the formulated objectives. Support to the formulation of a National Food Security Strategy under this funding allocation is commendable. This is actually ongoing in through a partnership between GRZ FAO and EC under component 1.

The main implementation channel in this non-focal sector is project support. This is mainly due to the fact the National Agricultural Policy paper is of recent date (November 2004) and has not yet been followed by an implementation plan jointly agreed by GRZ and its main sectoral donors.

Donor coordination in the sector is taking place in the Sector Advisory Group under JASZ and the more informal Agricultural Consultative Forum where NSAs participate. A strategy to move up to a Sector Wide Approach (SWAP) in the Agriculture sector is included in the project document. It is envisaged that the Food Security project will contribute “to exploring the future potential of a SWAP”. Close collaboration with other donors will be pursued towards realizing this goal. However, National management and policies related to the sector are still considered by most donor agencies to be relatively weak and is therefore considered not yet to be ready for a SWAP or more integrated forms of aid delivery (personal communications - November 2005).

The geographical choice of Western and North Western Provinces for EC support to promote Agricultural Diversification and enhance Food Security is based on an analysis and ranking of provincial poverty levels, food insecurity, vulnerability and donor presence. With WP scoring number two and NWP being number six out of nine – in order of priority according to the used ranking criteria - the main decisive factor for inclusion was donor presence in other provinces and absence of major donor funding over the past five years in the selected provinces (Italtrend 2005, page 32). In the absence of an agricultural SWAP, the only meaningful way for geographical allocation of project resources is to avoid conflicting approaches and overlap within one area.

3.6 Fifth set: A Comprehensive Question on Cross-Cutting Issues: Governance, Gender, Environment, HIV-AIDS, Policy Dialogue



The vision on cross cutting issues is to improve the quality of life of the people through the achievement of population trends, which are commensurate with socio-economic development by 2030. According to the National Population census of 1963 there were 3.5 million people, 4.1 million in 1969, 5.7 million in 1980 and 7.8 million in 1990. In 2000, the population increased to 9.9 million and it is estimated to be 10.7 million in 2005. In 2015 the population projection according to Central Statistical Office is 15.3 million taking into account HIV and AIDS. It was projected that the population would have been 15.9 million without HIV and AIDS. The size of the population is primarily a function of the interplay between the levels of fertility and mortality. In Zambia, fertility levels are still considered high. In 1969 the Fertility Rate was 7.4, 7.2 in 1980, 6.7 in 1990 and 6.0 in 2000. This scenario poses a serious concern from both health and development perspectives as population growth rate is supposed to be commensurate to the GDP. Ideally, for any meaningful development to happen the GDP is supposed to be higher than the population growth rate. As regards to the life expectancy at birth, it has reduced over the years from 52 years in 1980 to 47 years in 1990 and 50 years in 2000. According to Central Statistics Office the current life expectancy is 50 years.

On the whole, EC programming and reporting documents attach substantial importance to cross-cutting issues (governance, gender, environment, policy dialogue). These aspects are rarely neglected. The MTR review confirms that the cross-cutting themes of gender, environment, involvement of non-state actors, governance and HIV/AIDS were discussed during the preparation of the CSP, monitored during the following Joint Annual Reviews and mainstreamed in projects and programmes prepared or/and approved under the 9th EDF.

3.6.1 *Good Governance*

Under the heading "governance" are included the issues of democracy, human rights and good governance. The Government has committed itself to develop a culture of good governance with a programme launched in March 2000. GRZ (white paper) and CSP had identified the following areas as requiring further improvement:

In the area of **democracy**, civil society should have a greater role in the promotion of change. Furthermore, political opposition must be allowed to play its proper role in a multiparty democracy.

The **electoral reform process** should be advanced alongside respect for the Constitution. Voter registration needs improvement. The independence of the Electoral Commission and a revision of the Electoral Code of Conduct are key elements to be addressed. The multiparty system suffers from the fact that political parties do not have substantively different ideologies and policies. The race for office is therefore essentially one between individuals.

Political awareness has increased in recent years, not least due to the relative freedom of speech. However, voter participation has not kept pace with the general political awareness.

In the area of **human rights**, attention should be given to ratification of international conventions, strengthening of the Human Rights Commission, prosecution of human rights violations and improved legislation concerning the freedom of the press. Greater gender equity should be promoted.

Good Governance remains a major area of concern, and **corruption** – related to poverty/abuse of power – affects both the public administration and the private sector. An important element in the demand for privatisation of parastatals is the ambition to reduce corruption.

Whereas policies in the area of good governance, human rights and democracy on paper are of a rather high quality, their **implementation** is not, and that is partly due to lack of resources.

Zambia has been instituting a number of measures to instil good governance in the country such as the review of the constitution, democratization of decision making process through the review of the Electoral Act and equal access to media coverage. Other measures included the review of the Constitution to balance the powers of the executive and guaranteed justice for all citizens.

As regards financial governance a number of measures were also instituted such as the efficient, equitable and transparent management of public resources through improved budgetary control system, the introduction of the Medium Term Expenditure Framework (MTEF) and the implementation of Integrated Financial Management Information System (IFMIS).

The weak economic and financial governance remains a fundamental limitation to broad-based growth and to the country's capacity to attract investments.

The CSP stated that the Government needed to renew its commitment and will to implement reforms in the governance area. Increased efforts will have to be devoted to improvements in the area of economic and financial governance within the public sector.

3.6.1.1 Good Governance Issues in EC projects and Programmes

In their Statement on the EC Development Policy of 10 November 2000, the EU Council and the EC selected institutional capacity-building, particularly in the area of good governance and the rule of law, as one of a limited number of areas contributing towards reducing poverty and for which Community action provides added value.

The 9th EDF Commission's support is focused on Budgetary Support, Transport and Institutional Reforms, Capacity Building and Good Governance. The CSP stated that the need to improve economic governance is increasingly emerging as a central issue. Corruption cases and bad records of public finance management, including the management of EC supported counterpart funds for budgetary support, need to be clarified and appropriate corrective measures will need to be applied. Provided that this effort is deployed, macro-economic support by the EC will continue to be disbursed in the form of budgetary aid, either channelled directly through the Treasury or through special arrangements under discussion with GRZ and donors.

The MTR mentioned that regular and meaningful EU-Zambia political dialogue has been established, focusing inter alia on constitutional and electoral reform, the fight against corruption and economic governance; that Zambia has benefited from the Community budget lines to support operations in human rights through the budget line "Human rights, democracy and good governance".

However, it should be highlighted that Zambia is not a focus country for the European Initiative for Democracy and Human Rights⁴⁰ (EIDHR) and that in spite of several requests no other additional funds have been allocated to support good governance and human rights initiatives in the country.

It also noted that PFM was the donors' main concern; that the weak capacity of the NAO department and of the local administration was the other most important constraint.

JAR2004 noted that that, among others, improvement in governance continues to be needed in order to achieve the MDGs, including sustainable poverty reduction.

In the 9th EDF the EC is mostly involved in economic and financial governance, through macroeconomics and direct budget support. The discussion about the efficiency, impact and sustainability of such support is dealt with in a previous section. Regarding the more political issues (fight against corruption, human rights, judiciary, democracy, elections, constitution, etc.), although such issues are crucial in the perspective of development, in Zambia they are not directly tackled by the 9th EDF. The allocation and disbursement of EDF funds is not directly linked to the progress of some indicators in those fields: only economic, financial and social indicators are taken into consideration.

This is probably one of the major weaknesses of current ODA in Zambia. Emphasis has been put on progress towards reaching two kinds of targets: economic/financial targets, MDGs targets. The MTR performance appraisal provided a mixed (if not confusing) picture of Zambia's progress over the period covered, with a global "average" or "sufficient" rating, on the basis of which it was decided to pursue EC support. Issues of good governance other than economic/financial were not explicitly taken into consideration in the decision for further financing.

In future, it is the opinion of the evaluation team that political requirements (democracy, rule of law, elections, judicial system, anti-corruption policy, minority rights, property rights, justice, freedom and security, etc.) should be given more importance in the attribution of EC aid to Zambia and the system of monitoring and evaluation of country progress. Since the EC (as well as the other donors) has less and less means to directly monitor by itself the good use of the funds given and the progress of the achievement of the goals that the funds are supposed to contribute to, the EC has now more freedom to impose (or at least negotiate) its conditions for aid disbursement independently of the specific programmes it directly contributes to.

In other words, the EC is in a position to de-link the criteria for aid allocation from the performance of aid funds. It gains one degree of freedom in its negotiation with the country it supports.

In future, one could imagine a distribution of the monitoring/evaluation functions of the donors' community, dividing such functions into three groups: macroeconomic and financial, political, humanitarian.

Thus, the IMF/World Bank Group could, for example, take care of the follow up of all macroeconomic and financial indicators, being responsible vis-à-vis the donor community.

⁴⁰ Established upon the initiative of the European Parliament in 1994, the main aim of the European Initiative for Democracy and Human Rights (EIDHR) is to promote human rights, democracy and conflict prevention in third countries by funding activities pursuing these goals. In 2004, the EIDHR funded projects worth more than 100 million euros in 32 countries around the world http://ec.europa.eu/comm/europeaid/projects/eidhr/index_en.htm

The EC could take care of the follow up of all political and good governance indicators, being responsible vis-à-vis the donor community. To define the system of criteria and indicators the EC could be inspired by those criteria it imposes to countries wishing to enter the EU (European standards).

The UN Group, for example, would be responsible for the human (or humanitarian) criteria, and would follow up in details the progress in the MDGs, in Health, Education, Food Security, etc.

Hence the decision of a given donor to disburse funds would not be based on a limited number of indicators (simplistic, risky, false simplified representation of a complex reality). It would be based on the consideration of the full set of economic, financial, political and human indicators. The relative weight to be given to those indicators by each donor could be left to its appreciation, but should be made public. Of course, for such a rationalisation in the system of follow up of aid to take place, much effort would have to be put into: (i) upgrading the country's statistical system, at all levels; (2) the distribution of monitoring, evaluating and reporting functions between the donors. Such process starts being implementation through the harmonisation, JASZ processes; yet the current tendency for the donor community in Zambia (including the EC) to look for a simplified system, based on a very limited number of indicator, to decide on aid distribution should be discarded, as it may be considered as mismanagement of limited funds. It is an obligation to urgently upgrade the aid management system, in order to rationalise and optimise aid allocation. The EC should envisage financing specific research on the issue of aid management and the choices of criteria for aid allocation.

The EC support to the Private Sector under the 9th EDF contributes to the achievement of Good Governance. Consideration of small-scale and new businesses and of equity is highlighted through a financing facility for civil society (trade unions, etc.). Improved dialogue between the private and public sector contributes to the development of good governance, as performance of Government becomes more accountable.

There have been in 2004 different consultations with NSA during the preparation of projects involving their participation (private sector, food security....), under current activities in social sectors and on the governance area.

The WP/NWP Food Security Project does not explicitly take into account good governance. It includes support to MACO central services and Provincial and District Capacity Building. However, the unrealistic financial planning may have a reverse impact on governance.

A "Public Expenditure Tracking Survey" for the agricultural sector, to be implemented by the WB in 2006, will be used by the EC to determine its position on the potential of sector support.

Another important area of coordination is governance/elections, through the agreed Joint Working Group GRZ-external partners that will be in charge of following electoral reforms and preparing support for elections.

3.6.2 *Gender*

The low-income countries experience the high costs of gender discrimination. In Zambia women constitute a large share of the labour force and play a central role in rural economies and food production. Women are also the primary guardians of the next generation. Gender discrimination creates inefficient use of individual abilities, limiting the contribution of women to economic development and it undermines the effectiveness of development policies.

In Zambia, gender imbalances are mainly a result of certain cultural beliefs and customs, which has disadvantaged women. The process of socialization in Zambia has disadvantaged women, placing a heavier burden on girls and women than boys and men in division of labour, particularly in the performance of household's chores. In certain instances the roles assigned to girls, tend to make them submissive and develop an inferior complex. This has been perpetuated in terms of appointment of women to decision making processes.

The removal of gender discrimination will create capacity and increase earning power of women which will in turn spread to the welfare of their children and families and will eventually multiply women contribution to national development. Empowering women will propel the country forward in achieving the MDGs and improves lives of all citizens

On gender issues, the CSP includes only a general commitment: « as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building ».

The EC support to the Private Sector under the 9th EDF contributes to promote gender equality and empower women (MDG n°3). Improved services for the private sector will provide services to businesses of all sizes owned by women. Key areas of interest for women are access to land, employment and small business development. At the level of micro and small scale businesses, gender issues are often highlighted in terms of access to credit and business opportunities. Special interest groups exist: Zambia Women in Agriculture, Zambia Women in Mining, Women's Finance Trust. These intermediary organisations could play a strong two way role, dialoguing with GRZ and training members.

In the road sector the ROADSIP II programme includes considerations on gender issues.

3.6.3 *Environment*

3.6.3.1 Background

Zambia has not been spared by environmental problems such as global warming which has led to a change in the rain pattern. Reliance on environment especially in Agriculture has greatly been affected by the changing rainfall pattern. Coupled to this a growing population has also added pressure to the environment and its biodiversity.

The Government enacted the environmental and pollution control Act that established the Environmental Council of Zambia (ECZ) with a primary mandate of incorporating environmental concerns in all development programmes.

Other environmental concerns in Zambia are:

- Atmospheric air pollution from industrial activities
- Land degradation from mining activities and uncontrolled erosion
- Soil and water pollution by fertilizers and chemicals
- Spillage of oils and chemicals into the environment

For example:

- Land degradation. Much land was not rehabilitated after quarrying subjecting it to erosion. This is very common around the country. Invasive weed has colonised some rivers disrupting the ecosystem of the area. Then the river is unable to purify itself naturally.
- Industrial activities are a source of great concern for the environment. Technologies for air pollution abatement need to be implemented to reduce air emissions. Industries are one of the major sources of ambient air pollution in Zambia, because many of them do not measure stack emissions. Oils and chemicals are often illegally discharged into the drains from industries. These drains eventually discharge into rivers and lakes causing severe water pollution.
- Mine activities on the Copperbelt have had impacts on the ambient air, with the mine concentrator plants discharging into ambient air. The reclamation of the mine dumps on the Copperbelt has had impacts on the environment such as suspended solids finding their way to the local streams, causing water pollution. There are numerous examples of poor mine dump site management. A dump eroding sends much of its silt into the local streams. Other causes of environmental degradation in Zambia are the gullies left as a result of quarrying activities and abandoned without proper closure.
- Often, transportation machines are old and poorly maintained. Some emit a lot of smoke into the environment. Road traffic accidents have been a danger to the environment, especially for vehicles transporting toxic substances.
- Open air burning is practised widely in Zambia; however, it is illegal and contributes to a lot of chest-related ailments. For example, stones are burnt for easy breaking and crushing.
- Lot of waste, in many cases including hazardous medical waste, is indiscriminately dumped in un-authorized areas without treatment, a situation which puts people and the environment at great risk. Zambian cities have been littered, a situation resulting in very poor sights. These sights are common in many public places and markets.

The Environmental Council of Zambia has the mission to regulate and coordinate environmental management, promote awareness, and ensure environmental protection through enforcement of regulations and the prevention and control of pollution in support of sustainable development-so as to provide for the health and welfare of persons, animals, plants and the environment of Zambia.

Persistent Organic Pollutants (POPs) are chemical substances that persist in the environment, bio-accumulate through the food web, and pose a risk of causing adverse effects to human health and the environment. With the evidence of long-range transport of these substances to regions where they have never been used or produced and the consequent threats they pose to the environment of the whole globe, the international community has now, at several occasions called for urgent global actions to reduce and eliminate releases of these chemicals. The Website for the National Implementation Plan for POPs in Zambia and the Website for the Copperbelt Environmental Project will be available by 31st January 2006.

The United Nations Environment Programme (UNEP) is spearheading efforts to address global environmental challenges. In Zambia UNEP have various activities that are geared towards addressing national priorities. It has selected the Environmental Council of Zambia (ECZ) as the national Focal Point for its activities.

3.6.3.2 Environmental Protection in Commission's Programming Documents

On environmental issues the CSP includes the above-mentioned general commitment: « as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building »: Also, reference is made to the fact that "Concerning environment, the present National Environment Action Plan (NEAP) has made Environmental Impact Assessments (EIAs) obligatory in most development activities".

Under the 9th EDF, the EC support to the Private Sector contributes to integrating the principles of sustainable development into country policies and programmes and reversing the loss of environmental resources (MDG n°7). An improved regulatory framework will promote environmental issues and improvements in regulatory enforcement will assist in reducing uncontrolled industrial development.

CFU: the Conservation Farming approach is relevant to address problems of declining soil fertility and soil degradation.

These activities are also complemented by several regional projects financed under the budget line "Environment in Developing Countries".

WP/NWP Food Security Project: the applicability of the proposed Conservation Farming is questionable in a number of WP and NWP districts, due to their specific sandy soil conditions. No deforestation mitigation strategy is included in the project.

In the road sector the ROADSIP II programme includes environmental considerations.

On the whole, while environment protection issues are not forgotten in the CSP and taken into account in some sectoral projects and programmes ((PSD, Agriculture, roads), environment protection is not a top priority of the 9th EDF and the EC 9th EDF strategy was concentrated on development/growth and poverty reduction, not considering environmental sustainability as the third pillar on which to base any long term development planning. It is recommended that 10th EDF stops considering environmental issues as simple cross cutting issues and gives them more importance in the programme, as poverty reduction, in the long term, is crucially linked to the capacity of Zambia of protecting its environment and managing its natural resources. This is all the more important that, in future, opening of the country linked to increased trade and globalisation may have accelerated negative impacts on environment and resources, thus contributing to acceleration of poverty instead of reduction.

3.6.4 *Policy Dialogue*

Agriculture and Food Security projects have a good mix of involvement of Government, Civil Society and Private Sector. However, in the design phase Civil Society is often left out (e.g. WP/NWP Food Sec Project).

3.6.5 *HIV/AIDS*

The HIV / AIDS epidemic is a serious health and development concern throughout much of sub-Saharan Africa, including Zambia. According to UNAIDS the number of infections worldwide was about 37.8 million by the end of 2003, of which about 25 million were in sub-Saharan Africa.

In Zambia HIV / AIDS spread quickly throughout the population during 1980s and early 1990s. In 2002, the HIV prevalence rate for the entire country was nearly 16 percent according to the Demographic Health Survey. In urban areas, the prevalence rate among 15 to 49 year olds was more 23 percent while in rural areas it was about 11 percent.

Overall, HIV / AIDS prevalence remains high in Zambia. The Demographic and Health Survey indicates that adult HIV / AIDS prevalence was 15.6 percent in 2001 / 2. The Central Statistics Office (CSO) projections, the number of HIV / AIDS infected persons in the population (including Children) would rise from 293,600 in 1990 to 877,000 in 2000 and 914,700 in 2005 and would then drop to 881,100 by 2010.

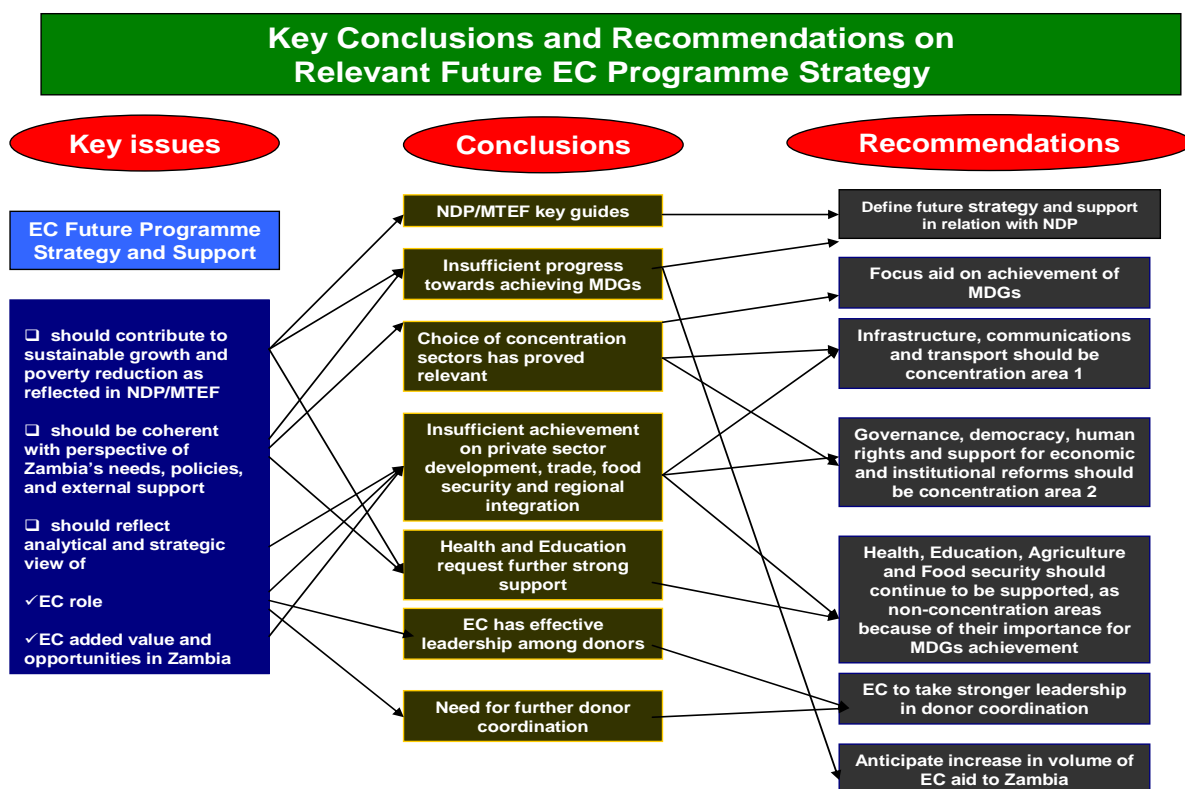
HIV / AIDS kills a number of people in Zambia and has caused and is continuing to cause untold suffering among those infected with the virus and those indirectly affected by the epidemic. The epidemic has a direct impact on the social economic development of the country as it takes the most productive age group and has set a new phenomenon of increased orphans in the population. The epidemic also has a pervasive impact on social and economic development of the country. The impact of the introduction of ARVs is yet to be determined.

In the road sector the ROADSIP II programme includes HIV/AIDS considerations.

4 CONCLUSIONS AND RECOMMENDATIONS

4.1 At Analytical Level

4.1.1 On Programme Strategy



The EC working with GRZ to reach the MDGs

The Zambian government should reprioritise its national policies to be consistent with MDG-related interventions.

According to a recently released Millennium Project report on the cost of meeting the MDGs⁴¹, a typical low-income country will need to initially invest around \$70 to \$80 per capita at the beginning of 2006 and scale this up to between \$120 and \$160. Zambia will need to invest an average of \$110 per capita per year in capital and operating expenditure towards meeting the MDGs.

Budget support provided by EC has strengthened public finance management (e.g. MTEF, role of the Auditor General), and provided GRZ with important resources.

There is (yet) little evidence of a correlation between PRBS and the improved poverty orientation of GRZ budget allocations.

Improved monitoring mechanisms are needed to guide the cooperating partners in their process of using budget support for poverty reduction purposes

The EC should continue to use instruments other than general budget support to channel assistance to Zambia (e.g. programme aid, sector wide approach and targeted budget support).

Other cooperating partners and GRZ regard the EDF funded operations as cumbersome and bureaucratic. Understaffing and a lack of institutional memory at the Delegation have contributed to this negative perception of the EC's operations.

The ongoing process of donor harmonisation is strong and continues to be strengthened in a concerted effort with GRZ.

Private sector development support under 9th EDF is slow to start up.

The decentralisation process should be recognised as an essential element of sustained and equitable development in the Zambia.

There is a need for an increased focus on non-state actors (to balance the primacy of support for GRZ controlled operations).

The Zambian parliament should become an integral element in the development relationship between the EU and Zambia.

Direct budget support to the social sector should include improved budget monitoring and tracking in order to rationalise the expenditure side of the ABB.

EU support to the Health and Education Sectors should be consistent with, and supportive to, the member states' programmes already working in these areas.

EU support to the Health and Education Sectors should be a combination of both direct budget support and sector support

There is need for Enhanced Public Sector Managerial Skills Development at lower (district) levels in the Health and Education Sectors and in line ministries in order to strengthen governance in programme implementation.

There is need to streamline reporting procedures in EU programmes to lessen the burden on Government officials.

There is need for a comprehensive poverty monitoring and evaluation system developed between the EU, CPs and Zambia with MDGs as the core indicators.

⁴¹ <http://www.unmillenniumproject.org/reports/fullreport.htm>

Support is needed to set up a safety net system to provide direct cash transfers to destitute households who comprise about 10 percent of total households.

The role of NSA and the Parliament in programme monitoring and evaluation should be strengthened

Support to Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) should be resumed to offset some of the imbalances caused by increased enrolment in basic schools.

There is need to develop a clearer understanding of gender mainstreaming through substantive discussions at programme levels.

4.1.2 *On Complementarity, Coordination and Coherence*

- Increase predictability of donor aid

Unpredictable donor aid was one of the major factors affecting Zambia's ability to spend on MDG-related programmes. Last year about \$789 million was pledged in aid but only about 38 percent, or about \$298 million, was actually received by the government.

Donors often withdraw their pledges after conditions attached to the funding are not met, and partly because of the Zambian government's inability to utilise the funds in a timely manner.

- Adjust financial commitments to MDGs

The Zambian government and foreign donors will need to double their financial commitments to enable the country to meet the UN Millennium Development Goals (MDGs) by 2015⁴². Not only does the country need more money but double the amount. The government currently spends about US \$400 million on MDG-related programmes, which will have to be doubled to \$800 million by 2015 to help it achieve its targets. Zambia is unlikely to meet three of the 10 goals: halving poverty and hunger, and reducing the maternal mortality rate.

- Adjust donor conditions to Zambia development priorities

Donors negotiate conditions with the government and domestic stakeholders to avoid glitches. Those conditions should be aligned with the country-owned development priorities.

4.1.3 *On Efficiency*

4.1.3.1 Conclusions

It is too early to appreciate the efficiency of general budget support. However, some positive aspects are already visible: clear procedures for the transfer of funds; mutually agreed indicators for the assessment of GBS; multi-donor cooperation in GBS. In the Transport Sector, the move towards sector support has improved efficiency.

⁴² 'The Cost of Meeting the MDGs in Zambia', commissioned by a groups of NGOs, the Civil Society for Poverty Reduction, Jesuit Centre for Theological Reflection (JCTR) and the Catholic Centre for Justice Development and Peace. The MDGs include a 50 percent reduction in poverty and hunger, universal primary education, reducing child mortality by two-thirds, cutting back maternal mortality by three-quarters, the promotion of gender equality, and reversing the spread of HIV/AIDS, malaria and other diseases.

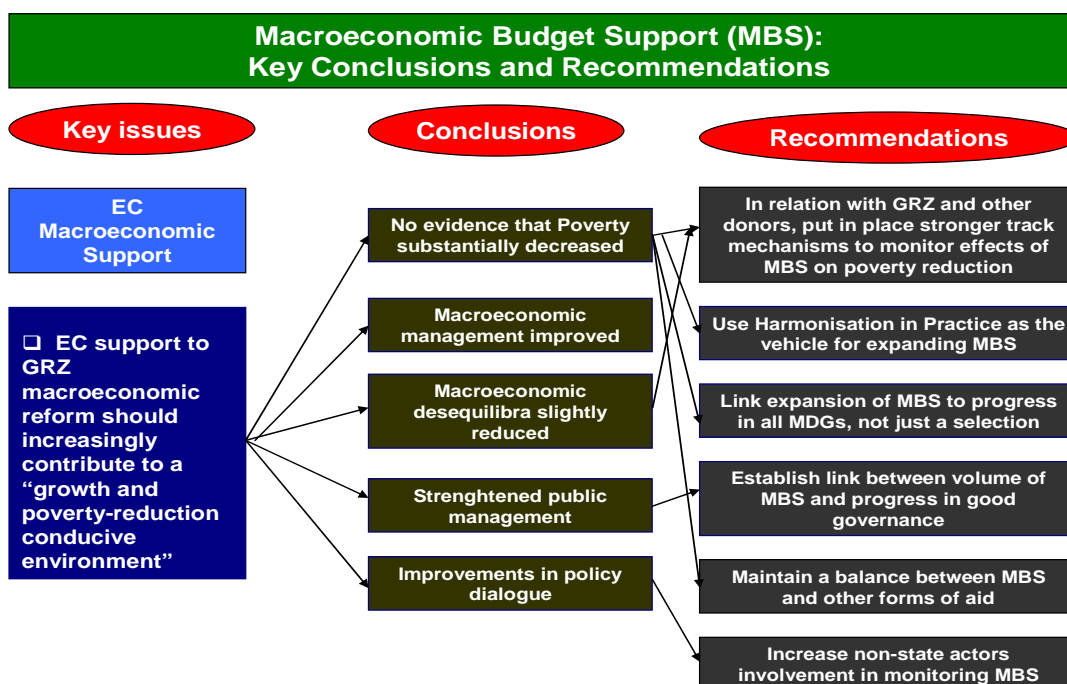
However, efficiency of EC project support is limited, due to: slow project identification, design and contracting; bureaucratic procedures; EC tender procedures not conducive to project implementation; high turnover of Zambia EU Delegation staff; limited institutional and sectoral capacity at the EU Delegation; in particular, the absence of a macroeconomist for the last six months is a serious handicap.

4.1.3.2 Recommendations

In future, efficiency gain should be made, mainly through a strong reinforcement of the EC delegation, currently understaffed and not sufficiently trained to face increased responsibilities linked to devolution, harmonisation, increased complexity of interventions. Measures should also be taken to discourage the high turnover of staff at the delegation.

4.1.4 Specific on Intervention Sectors

4.1.4.1 Macroeconomic Support



Conclusions

The interventions indicated in the CSP are not completely fulfilled (the railway sector has not been taken into consideration and the transport mode study has not taken place); more emphasis is given to the road sector, through SBS, and to the airport system.

The role of transport as focal sector for interventions is well recognised. According to the Poverty Reduction Strategy Paper (PRSP), the transport sector, particularly the road sector, has been identified as the single most important vehicle for the realisation of the PRSP Programme, and its underlying implications on poverty reduction in the country.

The transport sector development in landlocked country, such as Zambia, is important for the integration of the country and trade development with neighbouring countries. Furthermore, the direct impact of transport project (the decreasing of transportation costs, increasing of accessibility, etc.) and the indirect impact (job creation, gender issues, etc) are crucial for country economic and social development.

The PRSP has given birth to the definition of a Core Road Network (CRN), which represents prioritisation of the total road network within the country, as the minimum requirement to be effective in combating poverty, through improved accessibility, connectivity and job creation.

The European Commission's approach to the road sector has been strategic with the aim of supporting a sector wide approach in partnership with other donors. Interventions under the 9th EDF have just started to produce social and economic benefits but their quantification will be available only in the next years whether reliable statistic surveys will be carried out.

It is well known that infrastructure projects usually need long time to be completed (project and construction phases). so that a short period of time, from the beginning of the projects/activities, is not well indicated for a proper evaluation of tangible benefits. Also for this reason it is very important that the evaluations of poverty reduction and economic growth should be supported by reliable (ex-ante, on going and ex-post) statistical surveys.

EDF assistance is fully integrated in ROADSIP programme whose objective, among others, is to reduce the backlog in road maintenance. EU Funding mechanism for ROADSIP II, for trunk, main and district road periodic maintenance is provided under the Sector Budget Support (SBS). The main advantages of the SBS are the reduced layer of bureaucracy, flexibility in resource allocation, long term planning because of the recourse available and harmonisation of procedures and conditions of contracts

The required indicators of quantity and quality, necessary to obtain the first tranche disbursement for the 70 M € SBS, for trunk, main and district road periodic maintenance, were satisfactorily fulfilled by the NRDA (i.e. 50% of the Agency posts filled; TA assistance contract signed; 6000 km of routine maintenance on paved roads in fair condition)

ROADSIP II programme doesn't foresee, for the main road network, systematic traffic surveys. The development of this activity will be very useful both for Highway Management System (HMS) and traffic development and planning analysis (O/D matrices, Highway Design Management, traffic safety programme).

The strategy of focusing both on road rehabilitation and axle loads control is appropriate for reducing road maintenance backlog. The Axle Road Policy is contributing to a substantial reduction of overloaded vehicles running on Zambian Roads.

Recommendations

Transport sector has been recognised under PRSP as an important factor in achieving poverty reduction and economic growth and having a cross cutting relationship on other sectors. Transport sector has a crucial impact in the national development facilitating trade, both nationally and internationally, and the accessibility to services (social, health, education) and markets. Moreover, the rural access improvement is also fundamental for agriculture development.

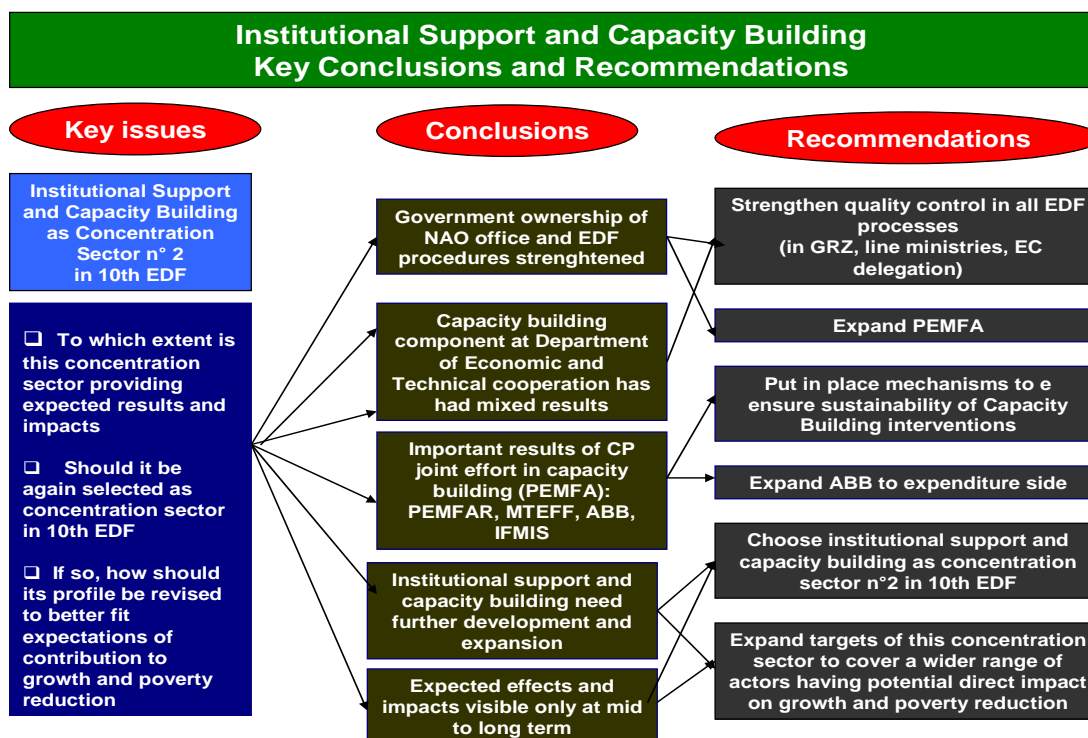
The relevance of the sector and its direct and indirect impacts on the economy and population welfare indicate to continue considering transport as a focal sector.

The transport mode study will be helpful for the Country impact analysis of a combination on different transport mode. In order to evaluate the potential contribution of an efficient railway network to the transport sector, presently dominated by road transport, it is important to reconsider the possibility of carrying out the foreseen transport mode study.

In order to better evaluate the real impact and benefits of the transport projects on the economy it is recommended to include in the transport programme reliable statistical surveys, (ex-ante, on-going and ex-post) on social impact and economic growth. The problem of gathering data on socio-economic situation, carrying out surveys, and producing reliable statistics was emphasised also in other cross cutting sectors.

Although the first phase of SBS is completed the methodology of traffic surveys is not yet well defined and planned. It is important to sustain systematic traffic surveys, for the main road network at least, in order to gather helpful data for road maintenance programme and traffic-flows forecasts.

4.1.4.2 Institutional Support and Capacity Building



Conclusions

Capacity Building in the Department of Economic and Technical Cooperation, MFNP⁴³

The Evaluation Team concurs with the recent conclusions and recommendations of the Mid-Term Review. The project is filling a need of the Ministry to administer EDF procedures and has strengthened Government ownership of the NAO Office. The NAO support team has strengthened the working relationships between the EC and GRZ. With the EC also in the forefront of aid delivery through budgetary support procedures, the NAO Unit has played an important role in supporting ETC and MFNP in the implementation of these programmes. The results of the capacity building component have been mixed. The absence of counterparts has left the TA and support staff having to absorb the full workload. Strengthening of relations with line Ministries in order that they can provide the technical information and liaise on EC procedures required by the NAO proved difficult, and the Review Team recommended that this policy be discontinued. The large role of Budget Support in the EC portfolio and the emphasis on donor harmonisation brings to the NAO office opportunities for streamlining of its activities, and this should be a major focus for the new project as recommended by the Review Mission. Another opportunity is to de-link the TA support under the new project from EDF-related administrative work, allowing the TA to concentrate on transferring skills to the Ministry staff.

The Financial and Economic Management Capacity Building (PEMFA)

The programme represents a coordinated effort on the part of GRZ and 11 CPs. The Commission's contribution is not yet effective. There has been important progress in institutional development and capacity building, especially in the area of PFM, as reflected in the introduction of new economic management tools for financial management and accountability such as PEMFAR, MTEF, Activity-Based Budgeting (ABB), and the Integrated Financial Management Information Systems.

Recommendations

Capacity Building in the Department of Economic and Technical Cooperation, MFNP⁴³

- Capacity building support to the NAO / Office of NAO, including the issue of counterparts, should be addressed in the context of an overall capacity building strategy for economic management under EDF 9;
- The Economic Adviser is to concentrate more on advisory activities;
- Greater attention should be paid to improving 'quality control' in the application of EDF procedures by the line Ministries, NAO Office & EC Delegation through: (i) Increasing the capacity in the line Ministries regarding the application of EDF Procedures; (ii) Clarifying the roles and responsibilities of the EDF Liaison Officers in the line Ministries and Project Management Units in relation to this issue; (iii) More consistent application of procedures by the Delegation in respect of (a) definition of and response to errors in the application of procedures by the NAO Office and (b) bypassing of the NAO by the Delegation and TAs in the Line Ministries; and (iv) Establishing an effective forum where quality control / aid management issues can be raised, discussed and resolved.

⁴³ Abstracted from the Draft Mid Term Review

The Financial and Economic Management Capacity Building (PEMFA)

- The capacity of Ministry staff at lower levels needs to be upgraded;
- Activity Based Budgeting (ABB) has only been introduced on the budgeting side. This should be expanded to the expenditure side;
- Some sectors will need to build their capacity to collect and consolidate the necessary information for each set of performance indicators under the PRBS system among other necessary capacity building requirements.
- The implementation mechanism for the PEMFA programme, with the creation of a temporary PEMFA Secretariat (in MFNP) to be staffed with 6 TA, raises questions on internalisation and sustainability of the proposed reforms.

4.1.4.3 Private Sector Development

Conclusions

The PSDP (8th EDF) provided loans to SMEs as well as capacity building and infrastructure support. A Final Evaluation of the project confirmed a high success rate for the private sector companies who benefited under the project, and the recommendations from the report helped in the design of the new PSD programme under the 9th EDF, with a particular focus on institutional capacity building.

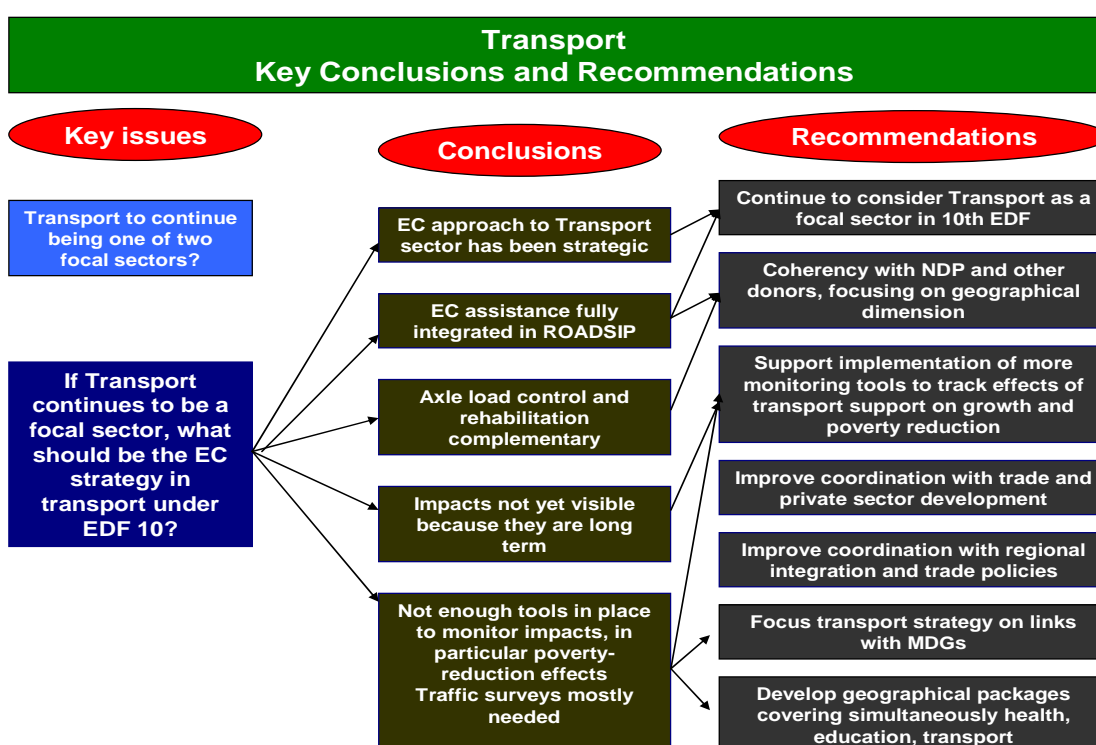
Results from EDP II include strengthened management capabilities of selected Producer Associations (PAs), a small number of loans approved with several applications in the pipeline, and strategic partnerships set up between Zambian companies and foreign owned ones. The EBZ is also to benefit from Short Term Technical Assistance. EDP II assistance was limited to the smaller PAs that have only limited absorption capacity. Individual companies' exclusion from the programme, based on recommendations of the EDP II mid term review, have had a negative effect on the credibility of the EC in general and EDP II in particular.

The €15 million Private Sector Capacity Building programme was inaugurated shortly before the Evaluation Mission visited the country. The project is based in MCTI but will provide support to statutory bodies such as the Export Board of Zambia, Zambia Investment Centre, Zambia Bureau of Standards and Zambia Competition Commission. Private sector intermediary organizations will also benefit. The programme is part of the PDS Reform Project to which most CPs pledged support. The new programme does not provide any credit facilities, such function being more appropriate for EIB or the private banking sector. The slow process of design has had a negative effect on the perception of the EC. The Commission should do well to publicise credit facilities through the EIB. The programme should also review the option of supporting the Producer Associations in their capacity to extend financial services to their members, such as marketing studies, writing bankable proposals, etc. An important aspect of the new project will be the promotion of public-private sector dialogue on PDS issues. ZBF has, at least for the moment, a "de facto" monopoly of the representation of private sector organisations. Nevertheless the Financing Agreement does not foresee any specific role for ZBF. Only the representation of intermediary organisations in the Steering Committee is foreseen. ZBF does not have any "privileged" access to funds.

Recommendations

- The Commission should strengthen the visibility of credit facilities available through the EIB.
- The programme should review the option of supporting the Producer Associations in their capacity to extend financial services to their members, such as marketing studies, writing bankable proposals, etc.
- The Programme should critically monitor and assess the role of the Zambia Business Forum (ZBF) as the prime vehicle for public-private sector dialogue on PDS issues, and consider alternative options.

4.1.4.4 Transport



Conclusions

The interventions indicated in the CSP are not completely fulfilled (the railway sector has not been taken into consideration and the transport mode study has not taken place); more emphasis is given to the road sector, through SBS, and to the airport system.

The role of transport as focal sector for interventions is well recognised. In the Poverty Reduction Strategy Paper (PRSP), the transport sector, particularly the road sector, has been identified as the single most important vehicle for the realisation of the PRSP Programme, and its underlying implications on poverty reduction in the country.

The transport sectors development in landlocked country, such as Zambia, is important for the integration of the country and trade development with neighbouring countries.

Furthermore the direct impact of transport project (the decreasing of transportation costs, increasing of accessibility, etc,) and the indirect impact (job creation, gender issues, etc) are crucial for country economic and social development.

The PRSP has given birth to the definition of a Core Road Network (CRN), which represents prioritisation of the total road network within the country, as the minimum requirement to be effective in combating poverty, through improved accessibility, connectivity and job creation.

The European Commission's approach to the road sector has been strategic with the aim of supporting a sector wide approach in partnership with other funding agencies. Interventions under the 9th EDF have just started to produce social and economic benefits but their quantification will be available only in the next years whether reliable statistic surveys will be carried out.

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Recommendations

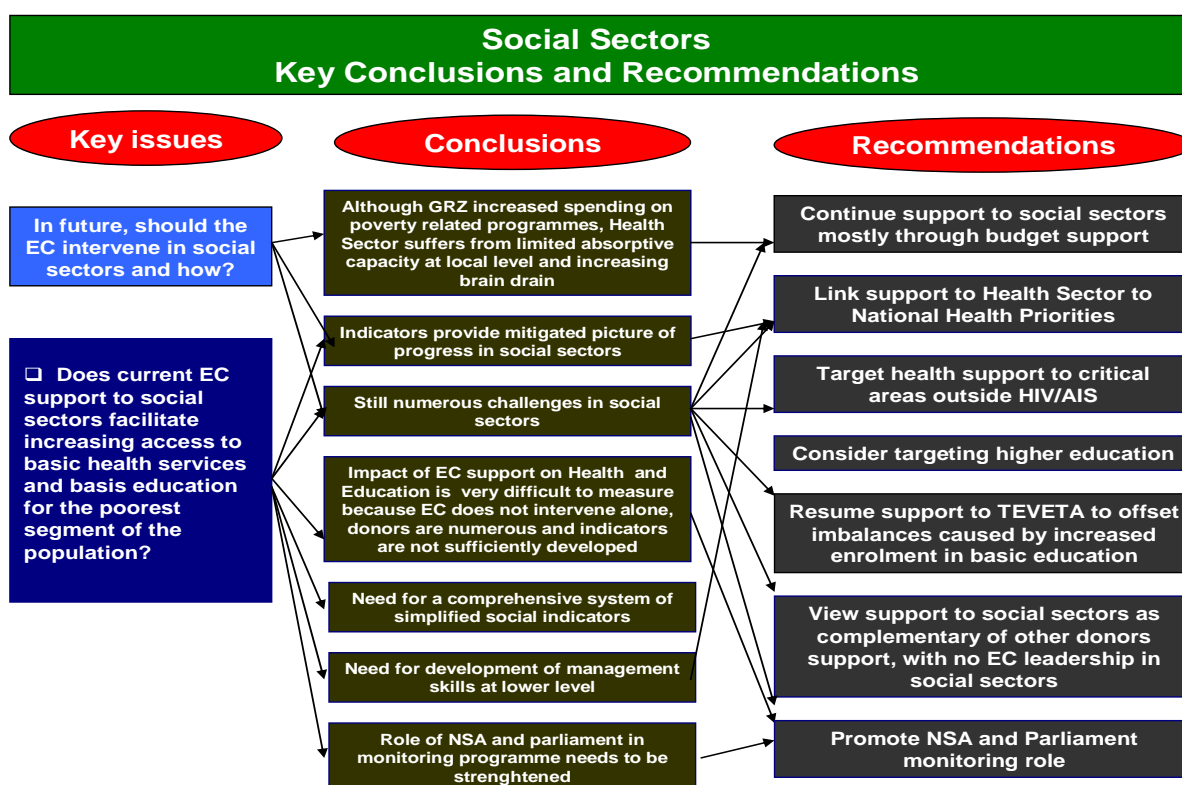
The transport sector has been recognised under PRSP as an important factor in achieving poverty reduction and economic growth and having a cross cutting relationship on other sectors. Transport sector has a crucial impact in the national development facilitating trade, both nationally and internationally, and the accessibility to services (social, health, education) and markets. The relevance of the sector and its direct and indirect impacts on the economy and population welfare indicate to continue considering transport as a focal sector.

The transport mode study will be helpful for the analysis of a combination on different transport mode In order to evaluate the potential contribution of an efficient railway network to the transport sector, dominated by road transport, it is important to reconsider the possibility of carrying out the foreseen transport mode study.

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4.1.4.5 Social Sectors



Conclusions

At present, the major challenge in the Health Sector is to manage limited resources in an equitable and effective manner to ensure the delivery of quality health services, while in the Education Sector it is to improve quality and increase access and gender parity at higher levels.

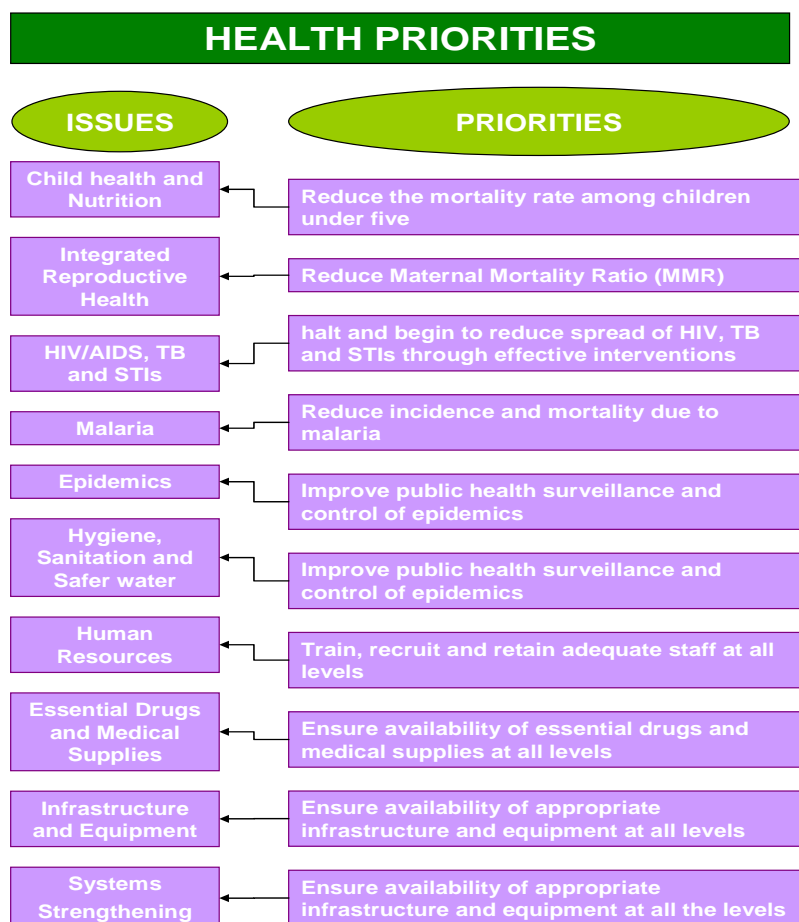
- EC support to the social sectors should continue through DBS and eventually targeted sector support. However, given the involvement of many donors in this sector, more emphasis should be given to DBS.
- Given the many problems facing the social sector in Zambia, there is need for careful use of social indicators as criteria for the release of funds by the EC, as this can result in unnecessary withholding of funds which may result in a further deterioration of the social indicators.
- Direct budget support to the social sector should include budget monitoring and tracking in order to rationalise the expenditure side of the ABB.

- There is need for a comprehensive system of simplified social indicators.
- There is need for continued support to the information management systems for the social sectors.
- There is need for continued support for enhanced public sector managerial skills development at lower levels in the social sector.
- There is need to streamline report writing in order to avoid over-burdening government officers, and
- The role of the NSA and Parliament in programme monitoring and evaluation should be strengthened.

Recommendations

Health

- EC funding in the 10th EDC, especially the unutilised 10 million euros, should be reviewed in the context of what GRZ has identified as 'National Health Priorities' in the FNDP (Graph below). Overall, however, EC funding should be channelled through GBS. Both the PRSP and the TNDP (2002-2005) state that the Health Sector is facing numerous problems resulting from the double burden of declining resources in real terms against the escalating disease burden, and
- EC support to the Health Sector should be targeted towards critical areas other than support for HIV/AIDS programmes which are receiving a lot of donor support at the moment. The preliminary FNDP indicates that there are huge gaps between budgetary allocations and requirements in these areas.

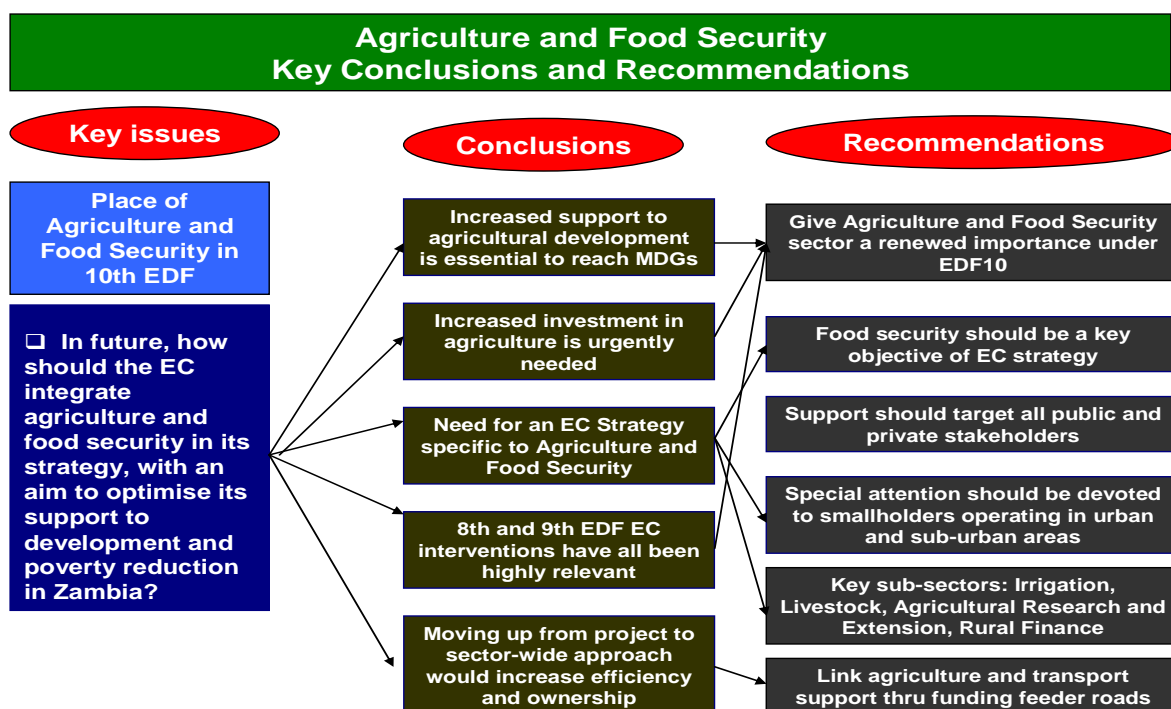


Source: Preliminary FNDP (2006 – 2010)

Education

- The EC should consider targeting the high education sub-sector in its support to the Education Sector, and
- EC support to TEVETA should be resumed to off-set some of the imbalances caused by increased enrolment in basic schools.

4.1.4.6 Agriculture and Food Security



Conclusions

Significance and priorities

It is generally recognized that the Zambian agricultural sector has a great potential and is very important for overall economic development and for reducing poverty levels in the rural areas. This potential is recognized by GRZ in their PRSP 2002-2004 and the NDP 2006-2010, where it is included alongside mining and tourism as one of the three main economic sectors for development and investment.

Sixty percent of the Zambian labour force is working directly or indirectly in the agricultural sector whereas 62% of the rural population is poor, with 40% extremely poor. Of all Zambian poor 72% reside in the rural areas and most of them are vulnerable to economic and natural shocks. This vulnerability is further exacerbated by the HIV/AIDS pandemic. As a consequence most of these rural households are seasonally but chronically food insecure (World Bank Poverty Assessment on the basis of the LCMS 2002/03; June 2005). It should be realized that without further development of the agricultural sector, achieving the MDGs target of halving poverty in 2015 remains an unrealisable goal.

In November 2004, MACO has released its National Agricultural Policy which identifies the priorities for agricultural development. Contrary to other sectors such as health, education and transport, there is no Sector Wide Approach for agriculture and food security. It has been tried in the mid-nineties after the formulation of the Agricultural Sector Investment Programme (ASIP) but this proved unsuccessful due to unrealistic planning and lack of prioritization. Most of the donor support is through the channelling of funds to individual projects implemented by GRZ and/ or the private sector. The EC support to agriculture is not different. Overall, donor support to agriculture is about 5% of total donor support in 2005, as compared to 11%, 12%, and 14% for respectively infrastructure, health and education (JASZ Consultations Oct 2005). GRZ also fall well below the NEPAD agreement of investing 10% of its annual budget in agriculture and food security. **It is obvious that increased investment in the agricultural sector by both GRZ and the donor community is urgently needed.** Moreover, the role of the public sector in this productive sector should be clarified, as close collaboration of the public and private sector including the NGOs is not stimulated. Donors use either government or the private sector as their funding channels.

In this context an **appropriate EC support strategy in Agriculture and Food Security** to respond to the problems and potential in this sector is missing. On the one hand, the EC intention to support – in close coordination with other donors - the formulation by GRZ of a National Food Security Policy is commendable. On the other hand, a clear approach and strategy on the basis of an in-depth analysis of potential sub-sectors is required. Important sub-sectors as livestock, irrigation, food processing (e.g. cassava has expanded rapidly over the past ten years and has great potential for marketing, drying and processing both for home consumption as well as livestock feed; Haggblade and Zulu, 2003) are not thoroughly analysed in order to formulate intervention priorities supported by all stakeholders including the farmers and their community leaders.

Potential Impact

The resumption in 2004 of EC support to the agricultural sector under the 9th EDF in order to contribute to poverty alleviation and food security improvement at national and household level is a very relevant choice. Agricultural development is one of the GRZ's main priorities for economic recovery and sustainable growth as recognized in the NDP. However, the impact of this support is not yet visible due to the recent development of the two projects under this non-focal sector.

The EC support to improve the food security situation in Zambia and Western and North Western Provinces is commendable as it includes the formulation of a National Food Security Strategy in combination with Provincial and District action plans for the targeted Provinces. In terms of funding allocation a fair balance exists between support to GRZ, private sector and civil society. However, in terms of project preparation and formulation there is little evidence of neither inclusion of farmer priorities nor promotion of stakeholder collaboration. The distinct project components focusing at the strengthening of public extension on the one hand and creating a grant facility for NSAs on the other hand is not conducive for a much needed multi-stakeholder approach. Given the difficult economic, social, health and environmental situation of these two provinces, a more in-depth analysis of past development efforts as well as a clear priority setting of activities with good potential should have been included. Consequently, it is rather questionable whether the Food Security Project in WP and NWP will reach its intended purpose of a 25% improved performance of rural smallholders with respect to agricultural diversification and food security.

The EC support to the Conservation Farming Unit is highly relevant for achieving sustainable agricultural development and enhancing food security through reversing trends in declining soil fertility. Although the project has only recently started and is preparing for its first season, the activities – promotion of conservation farming, restocking of oxen and processing of tree oils - under this project are highly relevant to restore the asset base of rural households as well as their income-generating capacity. The choice of the private sector to channel the support to thousands of farmers is a relevant one as it will make use of already existing extension services of the cotton industry.

The EC contribution under the 8th EDF to non-traditional export development sector has been quite successful though limited in scope. A good number of producer associations supported since Sept 2003 under the technical support and loan facilities in the agricultural sector such as leather production, crocodile farming, organic agriculture producers, castor oil processing, coffee smallholders, etc.

The main implementation channel in the agriculture and food security sector is project support. In order **to enhance ownership, good governance and transparency by GRZ and the NSAs a clear strategy is required to move up to a sector-wide approach** that recognizes the role of the different stakeholders in the sector.

Recommendations

The main recommendation is to **give the Agriculture and Food Security sector a renewed priority under EDF10**. While “Rural development, territorial planning, agriculture and food security” is not proposed as a concentration area because two other concentration areas are already proposed (based on EC comparative advantage and the current harmonisation process), enhancing national and household Food Security should be a major objective of EC support. **If the system of concentration areas does not allow providing sufficient funding to Agriculture and Food Security through EDF10, other sources of funding must be found, through regional programmes and/or through specific budget lines.**

Support is needed to set up a safety network system to provide direct cash transfers to destitute households. This is already developed by DFID in partnership with GRZ. Therefore we are focussing on the support to rural productive sector as you recommend in point 2).

Coordinated multi-donor support to the MACO should take place before budget support may be envisaged for the Agricultural sector. A condition for enhanced support should be the progressive phasing out of the Fertilizer Support Programme by Government and a reorientation of the Food Reserve Agency.

1) Agriculture and Food Security should receive important EC support. There is a good sectoral potential to contribute to GDP growth with multiplier effects to non-farm income generation and to non-traditional exports; furthermore it is indispensable for any Poverty Reduction strategy as 72% of the Zambian poor live in the rural areas.

2) The EC support should be done as support to productive sectors that include GRZ and its relevant Ministry of Agriculture and Cooperatives, as well as the NSAs active in the fields of agriculture and food security (private commercial sector, producer organisations and Civil Society Organisations).

3) Enhancing national and household Food security should be a major objective of EC support. Zambia has a good potential to reach self-sufficiency in food production, to half the levels of food insecurity and to reduce malnutrition. In this context, **special attention to Private Sector Development in agriculture should be given to smallholders operating in urban and peri-urban areas.** In a relatively urbanized country like Zambia, the economic potential of (peri-) urban agricultural producers is significant to respond to local consumer demand. The support to the agricultural sector must also include appropriate strategies to mitigate the impacts of HIV-AIDS and attend gender issues in order to restore rural livelihoods.

4) Agriculture sub-sectors, hopefully to be included in an EC support strategy, are: **Irrigation, Livestock and Agricultural Research and Extension, and Rural Finance.** Of course this will only be possible if it is also GRZ priorities (translated into budget allocations, if possible). All of these sub-sectors can significantly contribute to improving agricultural production and to enhancing food security as they have positive returns to investment (FSRP 2006). The comparative advantage of EC financial support in combination with technical assistance is highly relevant to these relative capital-intensive investment sectors. The recent National Irrigation Plan as published last July 2005 by GRZ provides a good opportunity for a further dialogue on possible inclusion in the EC support strategy (GRZ 2005). The National Irrigation Plan recognizes the role of the private sector as partner in irrigation development. Agricultural research and extension related to the crop sector must include conservation farming as a strategy to restore soil fertility and to improve labour productivity in an era of HIV-AIDS. The Livestock sector has proven in the past to be an important sub-sector with growth and export potential. The public-private collaboration in this sector has shown good returns to improving services as well as the diversification of livestock-based products. Crucial for this sector are appropriate animal health care and veterinary services. Cassava processing for animal feed is another potential for forward linkages in the agricultural sector. In Zambia, rural financial services are poorly developed, especially for the small emergent farmer. New initiatives are urgently needed in this respect and need appropriate donor attention for policy reform and improvement of financial services. Linking of agricultural support to the transport sector through the funding of feeder roads should be pursued. Opportunities for a national system of Insurance against drought through e.g. hedging have been suggested by several donor agencies on the basis of other African experiences; these opportunities could be reviewed and – if positive – supported financially.

4.1.5 *On Cross-Cutting Issues*

4.1.5.1 Conclusions

On the whole, EC programming and reporting documents attach substantial importance to cross-cutting issues (governance, gender, environment, policy dialogue). These aspects are rarely neglected. The MTR review confirms that the cross-cutting themes of gender, environment, involvement of non-state actors, governance and HIV/AIDS were discussed during the preparation of the CSP, monitored during the following Joint Annual Reviews and mainstreamed in projects and programmes prepared or/and approved under the 9th EDF.

Probably one of the major weaknesses of current ODA in Zambia is that emphasis has been put on progress towards reaching two kinds of targets: economic/financial targets, MDGs targets. Disbursement of EC funds is not linked to achievement of any good governance targets.

4.1.5.2 Recommendations

On Good Governance: In future, political requirements (democracy, rule of law, elections, judicial system, anti-corruption policy, minority rights, property rights, justice, freedom and security, etc.) should be given more importance in the attribution of EC aid to Zambia and the system of monitoring and evaluation of country progress. The EC is in a position to de-link the criteria for aid allocation from the performance of aid funds. It gains one degree of freedom in its negotiation with the country it supports.

On Gender: in future, even more emphasis should be placed by the EC, in its programme, on the promotion of gender equality, as a strong factor liable to have a direct impact on poverty reduction and achievement of MDGs.

On environment: in future, the management of the environment (in the broadest sense) should stop being considered as a simple cross cutting issue, that, without being forgotten, is considered as additional rather than central . It should be given the same status, in the EC long term strategy towards Zambia, as development and poverty reduction. While development and fight against poverty are the object of all EC communications on EC aid and development strategy, in direct relation to the current WTO trade negotiations and EPA negotiations, environmental considerations have not been granted a similar status. This may come from the (wrong?) idea that you cannot talk about environment to someone who is hungry. However, the link between environmental management and poverty reduction is so strong that the EC should consider reviewing its global strategy and put environmental issues at the core of its development/poverty reduction strategies, in particular in Zambia. Probably environmental and good governance considerations are not less important in the fight against poverty as institutional development and capacity building, transport, health and education.

On policy dialogue: Considerable progress is being made on policy dialogue in the course of the 9th EDF, in close relation with GRZ that is progressing on that issue and the donor community that is sensitive to these issues and takes dispositions to associate NSA at all levels of the project cycle. This tendency should still be reinforced in the next programming exercise, while maintaining the right balance between the roles of Parliament and individuals in the planning process and monitoring of aid management.

On HIV/AIDS: in spite of the dramatic situation in this field in Zambia, taking into account the importance of international mobilisation, it is recommended that the EC follows and accompanies actions undertaken in the field, but avoid taking any leadership, as the EC has no specific competitive advantage in this field and should thus let it be managed by more specialised bodies.

4.2 **At Strategic Level**

As a general conclusion to this evaluation, the Evaluation Team would like to make the following comments:

The general context of this evaluation taking place in 2005 is different from the context five years ago (2000), at the time the Zambia EC country strategy was written. Significant events have changed the general picture and even the conception of Aid, in general, with particular application to Zambia. In particular:

Poverty reduction and achievement of the MDGs are more than before the focus of all Aid to the ACPs, including Zambia

Trade is increasingly considered as a motor to development and progress is made in increasing international trade in the context of the Doha round and EPA negotiations between the EC and ACP regions. In that context, a country like Zambia is expected to witness considerable changes in future. While it has increasing chances to be integrated in a larger regional framework that will reduce its handicap of being a landlocked country, it will also be confronted to increasing competition linked to opening its frontiers.

Within these deep changes currently taking place, Zambia can be a winner or a loser. Much depends on its choices as well as on the strategies of the donor community towards Zambia.

It is of interest to Zambia and the international community that Zambia gets out of the vicious circle of poverty and be strengthened as an open economy with increased standards of living and elimination of poverty.

To contribute to achieving these goals the EC should not act alone. It should further strengthen its links with the donor community and GRZ, in order to optimise its future strategy and make it fully coherent, compatible and complementary to other donor strategies. The evaluation team did not have access to the donor strategy currently under preparation for Zambia. The next EC strategy should be guided mainly by the National Development Plan and the negotiation with GRZ should be made first with all donors, then with the EC, not the other way round. EC strategy should be fine tuned on the basis of demand expressed through the NDP, the response of the donor community and the wishes of EC member states. EC and MS strategies should complement each other.

Under the 10th EDF the EC should continue general budget support, support for capacity building in the public sector, and strongly support transport, agriculture, food security and private sector development, as well as environmental protection; in addition to possible selective support to the health and education sectors.

Of the envelope A for EDF 10, the Evaluation Team proposes that the two concentration areas be: 1: **Infrastructure, communications and transport** (about 25%); 2: **Governance, democracy, human rights and support for economic and institutional reform** (about 60%); Concentration area 2 would cover several sub-sectors: Governance, democracy, human rights, support for economic reform, including private sector development, institutional reform. Budget support should be the main channel for EC funding in concentration area 2.

These concentration areas are in line with the matrix that is being discussed in the JASZ process.

The non concentration areas (15%) would cover **agriculture, food security, environmental protection, possibly the social sectors, provisions for NSAs and a technical cooperation facility**. If it proves impossible to include here so many fields of intervention, then GRZ and the EC should explore the following possibilities: (i) mobilising other sources of funding in addition to the 10th EDF, such as specific budget lines, regional programmes, etc, to make sure to cover all these areas; (ii) and/or eventually abandoning direct support to the social sectors, after verification that such direct support is not an absolute necessity and that EC Member States (Netherlands, Norway, Sweden, UK in particular) and other cooperating partners (UNICEF, WHO, etc.) are able to assist GRZ in reaching the MDGs without direct EC participation. In that case, the EC should insist that it obtains regular tangible information on the impact of its global budget support on the social sectors (through improved MER on global budget support).

Such dilemma, as presented above, stresses the importance that EC pursue active participation in donor harmonization through JASZ. The EC, in collaboration with EU Member States, should contribute to and enhance policy research and review in the sectors where it focuses its development assistance. The EC should continue balancing its development assistance through different channels in order to contribute to targeted poverty reduction.

The EC should incorporate MDG indicators in 10th EDF programming. The EC should improve sectoral knowledge and analytical capacity at the Zambia Delegation. The EC should improve institutional memory at the Zambia Delegation through balanced EU/Zambian staffing. The EC should strengthen dialogue with and participation by NSAs including private sector, civil society and traditional leaders.

4.3 Wrapping up: Overall Conclusions and Recommendations

The evaluation team fully agrees with the following overall findings, conclusions and recommendations, as expressed in a recently published document⁴⁴:

The new report by AFRODAD on the impact of the IMF Poverty Reduction and Growth Facility (PRGF) in Zambia finds that the signalling role of the IMF Poverty Reduction and Growth Facility continues to negatively affect predictable and stable aid flows to these countries. As Zambia goes off track on macroeconomic policies and targets with the IMF, other bilateral and multilateral donors withhold often much needed finance. For example in Zambia external finance suffered a dramatic drop from US\$746.1 million in 2002 to US\$404.5 million in 2003 partly due to absence of a PRGF in the latter half of 2003.

The report also finds that whilst there have been some improvements in spending on social sectors this has not come without its costs. The authors argue that the poverty reduction part of the PRGF plays a poor runner-up to macroeconomic targets when it comes to the Fund's interventions in the country. They conclude that the IMF tends to work narrowly within the given financial envelope to constrain government from overspending. In other words, **the macro-economic stability is put before poverty reduction and human needs.**

The report forms part of a larger AFRODAD research project in six African countries including Ghana, Sierra Leone, Tanzania, Malawi and Zambia. The Zambia study looks in detail at the influence and poverty impact of the PRGF in Zambia. It examines the link between the PRGF and the country PRSP, whether other aid flows are affected by the IMF signalling role, conditions linked to the finance and whether fiscal policies and objectives tied to the PRGF have been open to public debate. The main conclusions of the report on these issues are the following:

- Certainly Zambia's experience with the PRGF highlights the fact that **more needs to be done to make it respond more favourably to the local policy needs/demands and social service delivery system.** While it can be noted that in the last two to three years there has been a corresponding increase in budgetary allocations to the social sectors, it is difficult to state with certainty that there has been a corresponding reduction in poverty levels.
- Given the adverse impacts that privatisation of utility services continues to have on the poor and vulnerable communities, **there is need for government to urgently step in and regulate the sector for the benefit of the poor.** This paper argues strongly that the Government has a paternalistic role to play in ensuring that none of its citizens is alienated from enjoying social and economic rights such as access to clean and portable water, education and health services on account of one's poor economic status.

⁴⁴ Choice of extracts and adaptation made by the evaluation team.

- The paper also urges both Government and its cooperating partners to continue to address institutional and policy failures by way of **building the necessary capacities so that development programmes are self-sustaining.**
- This paper further notes that rather than working with the Zambian government to help it formulate a realistic poverty-focussed budget and to lobby the donor community to finance it, the IMF tends to work narrowly within the given financial envelope to constrain government from “overspending”. In other words, the macro-economic stability is put before poverty reduction and human needs. **The IMF needs to reverse this tendency and put the overall goals of the MDGs first.** It needs to find ways to work with the government and donors to loosen the macroeconomic constraints as much as is possible. Thus, rather than poverty reduction goals being constrained by the macroeconomic situation, the IMF needs to help the Zambian government to demonstrate to the donor community and its citizens where the opportunities lie for making poverty reducing expenditures if more finance is made available.
- **Zambia on its part needs clear policy targeting on the poor people with measurable indicators.** Hence, this study asserts that development is about improvement in people's livelihoods. But it is also about ownership of ideas/programmes and empowerment of local people. Currently the PRGF does not free up enough policy space to the Zambian government, civil society and other stakeholders to be able to exercise flexibility in terms of setting their own benchmarks and targets. This means that **the PRGF in its current form cannot effectively be used to deliver social services and ultimately promote the MDGs.**

In light of this, the report proceeds to offer the following **recommendations:**

Zambian Government

- Government should demonstrate commitment to fighting poverty through a pattern of public expenditure consistent with poverty reduction priorities within the framework of MDGs. This should be reflected in increased social sector allocation for strong impacts on poverty levels
- Government should adhere to the full disbursement of budgeted resources for poverty reducing programmes
- Government should continue to pursue expenditure financial reforms as well as fiscal policies that promote transparency, accountability and prudence in the usage of public resources
- Government should clearly define the linkages between the PRGF, MTEF and the national Budget
- Government should continuously build and retain capacity in its institutions to be able to design, implement, monitor and evaluate policies and programmes
- With or without IMF pressure, Government should continue to pursue sound and stable macro and microeconomic policies in order to enhance investment decisions by both local and foreign investors
- To the extent that development cannot be imposed upon a people, the Government of Zambia should therefore take responsibility for setting its own development policies
- Government should continue to recognise the importance of partnership with civil society. Based on this, engagement with civil society should be more structured and institutionalised

International Financial Institutions (WB/IMF)

- Open up the PRGF to more stakeholder participation and involvement;
- Move away from imposition of development policy on poor countries as a pre-condition for development aid;
- The donors/creditors should fulfil their pledge made at the G8 Gleneagles Summit in Scotland and other fora in order to expedite the implementation of development programmes;
- Since Zambia is just emerging from a heavy debt overhang, this paper proposes that the IMF, the World Bank and other development partners, to as much as possible, deliver finance in form of grants until the country has fully recovered from the adverse effects of the external debts;
- IFIs should drop all austere conditionality and give Government policy space to be able to set its own priorities;
- The IMF and World Bank should show commitment to making ex ante Poverty and Social Impact Analyses (PSIAs) and make them an integral part of all their major reforms through their support to low-income countries;
- A central objective of PSIA processes should be to generate country-level debate of a range of policy options, in order that a broad range of stakeholders may have the opportunity to appraise each other on potential policy choice in the light of supporting evidence. However, experience has shown that the allocation of roles and responsibilities in undertaking PSIA is still very unclear. A lot of CSOs are left out in these exercises hence defeating the purpose of broad involvement and ownership. We therefore recommend that more CSOs should be brought on board;
- The IMF should also move away from acting as a “gate keeper” of development programmes in poor countries to a more useful role of an equal development partner.

Private Sector

- The private sector should be given space to input in the formulation and implementation of agreed upon policies and targets within the PRGF;
- The private sector in close collaboration with Government and other stakeholders should accelerate the implementation of the Private Sector Development Plan (PSDP). The PSDP aims at, inter alia, to release the potential of the private sector to become the engine of economic growth and hence contribute to the overall goal of poverty reduction.

Civil society

- Civil society should as a deliberate move, build its own capacities to be able to engage meaningfully in PRGF policy issues especially around macroeconomic issues. It should be realised that it is not so much the quantity of engagement that will count but the quality of engagement
- Improve participation and empowerment of civil society institutions in the PRGF process and;
- Empower civil society organisations to contribute to and monitor the implementation process of PRGF programmes in Zambia;
- As noted in the CSPR Evaluation Report (2005), civil society engagement in national policy dialogue should be broadened to include actors in the more peripheral areas where poverty is highly manifest;
- This report further reinforces the observations of CSPR that civil society in Zambia needs to strive to participate in the broad-based and open discussions of macroeconomic policy alternatives with Government as well as its cooperating partners.