

PN-ACB-758

**USAID/ZAMBIA**

**COUNTRY STRATEGIC PLAN**

**December 1997**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

**MEMORANDUM**

**TO:** See Distribution  
**FROM:** Maureen S. Dugan, *MSD* Acting Director, AFR/SA  
**SUBJECT:** USAID/Zambia Country Strategic Plan Review Schedule  
**DATE:** December 22, 1998

Attached is USAID/Zambia's proposed Country Strategic Plan (CSP) for 1998 - 2002. We look forward to your participation and input during the review of the strategy in January 1998. For further information, please contact Meredith Scovill, AFR/SA, at 712-5731.

**I. Meeting Schedule**

**ISSUES DUE** COB Monday, January 12, 1998  
by e-mail to Meredith Scovill

**ISSUES MEETING** Thursday January 15, 1998  
2:00 - 4:00 pm, Room 4.8 E/F

**PROGRAM WEEK** Session I: Overview, Economic Growth and Basic Education  
Tuesday, January 20, 1998  
2:00 - 4:00 pm, Room 8.7 B/C

Session II: Health Sector  
Wednesday, January 21,  
3:30-5:00 pm, Room 2.9 E/F

Session III: Democracy and Governance, OE and workforce levels  
Thursday, January 22, 1998  
2:00 - 4:00 pm, Room 8.7 B/C

Wrap-Up Session: Friday January 23, 1998  
10:00 - 12:00 am, Room 2.9 E/F

## II. Introduction

USAID/Zambia's proposed Country Strategic Plan (CSP) builds on successes and experiences learned under the 1993-1997 strategy. The new strategy features: the first new education objective developed under the Africa Bureau's "Strategic Framework for Basic Education in Africa"; and an innovative basket financing mechanism in the health sector.

Zambia's "parameters setting" meeting was held in May 1997, in conjunction with its R4 program day. Walter North, USAID/Zambia Director, was present for the meeting. This meeting and resulting cable (see attachment) provided the guidance and framework within which USAID/Zambia prepared the new CSP.

In late 1991, Zambia began its transition to a market-oriented democracy. Through activities in privatization, agriculture, democracy and governance, and health, USAID/Zambia's previous strategy supported this transition. In the new 1998-2002 strategy, the Mission proposes to reorient and adjust these activities and to add basic education.

USAID/Zambia would combine the privatization and agriculture into a new economic growth Strategic Objective focussed on increasing rural sustainable incomes. Since the Zambian Government has largely fulfilled its commitment to privatize or close parastatals and to enact laws/regulations that encourage private sector activity, the program would address constraints such as: access to new technology, marketing, credit, and basic business skills.

The Mission would continue its health Strategic Objective which supports the Zambian Integrated Health Package. This is the Mission's largest Strategic Objective, encompassing HIV/AIDS, child health, and family planning. The Mission would add sector (nonproject) assistance to make a significant contribution to the Government's cutting-edge sector investment program.

USAID's democracy and governance efforts have been adversely affected by recent events, including a Constitutional Amendment which prevented former President Kaunda from running for President, and the resulting boycott of elections by major opposition parties. This Strategic Objective has been reoriented to focus on parliamentary process, governance and rule of law.

The Mission proposes a new basic education Strategic Objective, focused on more equitable access to quality basic education and learning, especially for girls. Zambia has a critical shortage of teachers, textbooks, and schools. The Government recognizes this problem and is preparing an integrated sector approach. The Mission considers this to be a critical time for offering assistance.

### III. The Strategy Review

The formal review of the Zambia strategy includes:

- an Issues Meeting on January 15, 1998; and
- Program Week Meetings on January 20-22, 1998 for a series of discussions, and a January 23, 1998 Wrap-up Meeting.

Since the goal of the CSP review is for the Mission and USAID/W to reach agreement on a management contract, we encourage all relevant parties to participate fully in this process.

Due to space considerations, the number of participants at each formal session will be limited. Others not attending the reviews should feel free to give feedback to their office representatives. Proposed participation is as follows:

A-AA/AFR: 1	AFR/AMS: 1	BHR: 1
DAA/AFR: 1	USAID/Zambia: 3	M/B 1
GC/AFR: 1	M/MPI: 1	State: 1
AFR/SA: 6	Global: 7	Treasury: 1
AFR/DP: 4	PPC: 2	OMB: 1
AFR/SD: 4	PPC/CDIE: 1	

Please note that attendance at the January 23 CSP Wrap-up Meeting, the decision-making meeting held on the last day of Program Week, is limited to senior managers from the respective Bureaus, Centers and Offices.

#### A. **Issues Meeting: Purpose and Procedures**

The purpose of the Issues Meeting is to reach agreement on issues and concerns for Program Week and to finalize the agenda. Centers and Offices are strongly encouraged to submit one set of issues per Center or Office; and to limit attendance to one representative. Please submit issues via e-mail to Meredith Scovill, AFR/SA, by COB Monday, January 12, 1998.

To facilitate preparation of the issues paper, suggested issues should be presented in the following format:

**Issue:** In a few words, state the issue you would like to see addressed during Program Week.

**Discussion:** In three to four sentences, provide background on the issue and your reason for raising it.

**Recommendation:** In a few words, state your recommendation or preferred option.

For concerns, describe what they are, using no more than a few sentences for each.

Following the Issues Meeting, the final issues paper will be prepared and distributed for use during Program Week.

**B. Program Week: Purpose and Procedures**

Program Week enables senior Agency and Bureau management to review the proposed Strategy and to agree on programs, priorities, and to some degree on implementation actions. Broader programmatic issues, such as policy dialogue, donor coordination, macro and sectoral environment, the effects of various centrally and regionally funded activities included in the Strategy are examined. USAID/Zambia's contributions to Agency and Bureau goals is also assessed.

The "parameters" cable and following criteria are used to assess the Strategy:

- the degree of analytical support evident;
- the match between the underlying analysis of needs and selection of problems to be addressed;
- the degree of focus achieved in defining strategic objectives in the manageable interest of the Mission;
- the extent to which the accomplishment of the objectives is measurable; and
- the responsiveness of the proposed strategy to the Agency's strategic goals and Africa Bureau priorities.

**IV. Meeting Agendas**

**A. Issues Meeting: January 15, 1998, 2:00 - 4:00 pm**

- Introductory remarks by Chair:
- Discussion of proposed CSP issues.
- Agreement on Issues to be Discussed during Program Week and Finalization of the Program Week agenda.

**B. Program Week: January 20-23, 1998**

*The following is subject to change depending on the outcome of the Issues Meeting.*

**Session I: January 20, 2:00 - 4:00 pm**

- Introductory remarks by Chair
- Presentation of the Zambian Country Strategic Plan by USAID/Zambia Director Walter North.
- Discussion of Economic Growth and Basic Education Strategic Objectives.

**Session II: January 21, 3:30 - 5:00 pm**

- Discussion of Health Strategic Objective.
- Discussion of proposed nonproject assistance.

**Session III: January 22, 2:00 - 4:00 pm**

- Discussion of Democracy & Governance Strategic Objective
- Discussion of OE and work force planning levels

**Wrap-Up Session: January 23, 10:00 am - 12 noon**

*This session limited to senior managers from the respective Bureaus.*

- Summary and recommendations of the Issues Meeting;
- Agreement on a Mission - USAID/Washington management contract.

Additional meetings identified at the Issues Meeting (or during Program Week) may be scheduled. Requests for such meetings should be directed to Meredith Scovill, AFR/SA, 712-5731.

**Attachments:**

- (1) Zambia Country Strategic Plan/Annexes
- (2) State 198522 (10/21/97): Zambia CSP Parameters Setting Cable.

**Clearance:** AFR/DP/POSE, JBreslar draft Date: 12/19

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TAGS:  
SUBJECT: CSP PARAMETERS SETTING CABLE

1. THE AFRICA BUREAU MET MAY 5 TO REVIEW ZAMBIA'S R4 AND  
THE MISSION'S PARAMETERS-SETTING PAPER. THE REVIEW OF THE  
R4 WAS REPORTED IN STATE 154664. THE MEETING WAS ATTENDED  
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BY USAID/ZAMBIA MISSION DIRECTOR, WALTER NORTH, AND  
REPRESENTATIVES FROM AFR/DP, AFR/AMS, AFR/SA, AFR/SD, M,  
PPC, AND GLOBAL. THE OBJECTIVES OF THE PARAMETERS SETTING  
MEETING WERE TO (1) REACH AGREEMENT ON STRATEGY FOCUS AND  
BUDGET SCENARIOS AND (2) DETERMINE REQUIREMENTS FOR

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USAID/W SUPPORT DURING STRATEGY DEVELOPMENT. AFR/DP NOTED THAT THIS WAS THE FIRST TIME THE BUREAU HAS HELD A PARAMETERS SETTING MEETING IN CONJUNCTION WITH AN R4. WHILE THE FOCUS OF THE MEETING WAS ON REACHING AGREEMENT ON SECTORAL INTERVENTIONS, ALL AGREED THAT CROSS-CUTTING THEMES SHOULD BE A MAJOR PART OF THE STRATEGY. THERE WAS ALSO CONSENSUS THAT THE GUIDANCE SHOULD BE AS PRECISE AS POSSIBLE, BUT LEAVING THE MISSION FLEXIBILITY.

2. PROGRAM FOCUS: WHILE THE MISSION PLANS ESSENTIALLY TO CONTINUE WORKING IN THE SAME SECTORS, THE PROGRAM IS BEING

REORIENTED TO RECOGNIZE PRESENT OPPORTUNITIES AND CONSTRAINTS. ZAMBIA NOW HAS ONE OF THE MOST LIBERALIZED ECONOMIES IN AFRICA. THE PRIVATE SECTOR NOW NEEDS TO LEARN TO WORK WITHIN THIS STRUCTURE THAT PROVIDES PROFIT INCENTIVES. USAID INTENDS TO CONTINUE SUPPORTING LIBERALIZATION OF THE ECONOMY THROUGH INTERVENTIONS IN AGRICULTURE AND PRIVATE ENTERPRISE. THE USAID-SUPPORTED PARASTATAL DIVESTITURE PROGRAM, NOW ALMOST COMPLETE, HAS BEEN AN EXTRAORDINARY SUCCESS. USAID PLANS TO SUPPORT IT THROUGH THE FINAL STAGES. ZAMBIA HAS ESTABLISHED A DECENTRALIZED, INTEGRATED HEALTH CARE SYSTEM, AND USAID IS REFOCUSING ITS FAMILY PLANNING, HIV/AIDS, AND CHILD HEALTH ACTIVITIES TO CAPITALIZE ON THIS. WHILE THE MISSION PLANS TO CONTINUE WORKING IN THE IMPORTANT AREA OF DEMOCRACY-

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GOVERNANCE, DIFFICULTIES SURROUNDING THE NOVEMBER 1996 ELECTIONS HAVE CREATED CONCERN OVER THE GRZ'S COMMITMENT TO THE PROCESS OF DEMOCRACY AND HAVE RAISED QUESTIONS CONCERNING USAID'S ROLE IN THIS AREA. THE MISSION CONDUCTED A DG EVALUATION IN JUNE 1997 AND IS WORKING WITH GLOBAL/DG AND AFR/SD TO DETERMINE THE MOST VIABLE AREAS FOR USAID INTERVENTION. THE MISSION SOUGHT, AND RECEIVED, CONCURRENCE TO EXPLORE INVOLVEMENT IN BASIC EDUCATION. THE MISSION HAS CONDUCTED A RANGE OF ASSESSMENTS AND HAD CONSIDERED URBANIZATION AS A POSSIBLE AREA OF FOCUS BUT DECIDED TO MAKE IT A CROSS-CUTTING THEME, INSTEAD. THERE WAS GENERAL CONCURRENCE ON THE MISSION REMAINING IN ITS PRESENT GENERAL AREAS OF FOCUS. FOLLOWING ARE THE DECISIONS REGARDING PROPOSED PROGRAM SECTORS.

A. SO 1: REDUCE THE STATE'S ROLE IN THE PROVISION OF GOODS AND SERVICES. PRESENT WORK IN PARASTATAL DIVESTITURE WILL PROBABLY BE COMPLETED IN THE FIRST YEAR OR TWO OF THE NEW STRATEGY. THE MISSION ASKED FOR CONCURRENCE/GUIDANCE TO CONSIDER MICRO-CREDIT INITIATIVES. THE MISSION DIRECTOR REQUESTED SUGGESTIONS FOR FUTURE ACTIVITIES IN THE PRIVATE SECTOR AND ASKED WHETHER IT WAS WORTHWHILE TO LOOK AT MICRO CREDIT. HE WAS ENCOURAGED TO CONTACT G/EG AND WAS

ALSO URGED TO LOOK AT HOW MARKETS, PARTICULARLY RURAL FINANCIAL MARKETS, COULD BE MADE MORE EFFICIENT. THE MISSION IS ALSO EXPLORING OTHER WAYS OF ASSISTING THE PRIVATE SECTOR.

B. SO 2: INCREASING THE PRODUCTION OF RURAL ENTERPRISES IN THE ECONOMY. USAID PLANS TO STAY IN AGRICULTURE, HELPING FARM-FAMILY ENTREPRENEURS AND BUILDING ON PAST  
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REFORMS. THE MISSION ALSO SOUGHT CONCURRENCE TO CONSIDER MICRO-CREDIT UNDER THIS SO. THE MISSION WAS GIVEN THE SAME ADVICE RE MICRO-CREDIT AS FOR SO 1. THE MISSION IS INTERESTED IN BECOMING PART OF THE AGENCY'S FOOD SECURITY

INITIATIVE. THE BUREAU INDICATED THAT, DEPENDING ON THE FATE OF THE FOOD SECURITY INITIATIVE, ZAMBIA WOULD BE A STRONG CANDIDATE FOR PARTICIPATION IN THE INITIATIVE. THERE WAS A DISCUSSION REGARDING THE IMPORTANCE OF TRYING TO INTEGRATE ENVIRONMENT ACTIVITIES INTO THE OVERALL SO -- OR, ALTERNATIVELY, POSSIBLY TO UNDERTAKE ENVIRONMENT UNDER A SEPARATE SO OR SPO. THIS BECOMES ESPECIALLY CRITICAL SINCE IT IS LIKELY THAT FUNDING FOR ENVIRONMENT WILL INCREASE.

REGARDING ENVIRONMENT, ZAMBIA WAS URGED TO GIVE MORE CONSIDERATION TO THE IMPACT ON ZAMBIA OF CIRCUMSTANCES IN NEIGHBORING COUNTRIES. ZAMBIA'S ROLE AS ONE OF THE SADC STATES WAS ALSO DISCUSSED. ZAMBIA WAS REQUESTED TO NOTE POSSIBLE RESTRICTIONS ON CBNRM ACTIVITIES AS A RESULT OF CAMPFIRE IN ZIMBABWE. NRM ACTIVITIES IN ZAMBIA SHOULD ALSO BE CONSONANT WITH NRM ACTIVITIES IN RCSA. FYI: AFR/SD IS PREPARING A CONSOLIDATED PICTURE OF ENVIRONMENTAL ACTIONS IN SOUTHERN AFRICA (FRAME) THAT MAY BE USEFUL IN GETTING THE BROAD PERSPECTIVE.

C. COMBINING SOS 1 AND 2: THERE IS CONSIDERABLE SYNERGY AND OVERLAP IN SOS 1 AND 2, ESPECIALLY IF MICRO-CREDIT IS INTRODUCED, AND THE TWO SOS MIGHT BE COMBINED ESPECIALLY SINCE ACTIVITIES IN PARASTATAL DIVESTITURE ARE LIKELY TO BE CONCLUDED EARLY IN THE LIFE OF THE NEW STRATEGY. SUCH  
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A MERGER, HOWEVER, MIGHT NOT ADEQUATELY ADDRESS ZAMBIA'S FOOD SECURITY PROBLEM AND MIGHT LEAVE OTHER IMPORTANT AREAS UNADDRESSED. THE MISSION WILL EXAMINE THIS DURING STRATEGY DEVELOPMENT.

D. S.O. 3: HEALTH. THE MISSION PLANS TO REMAIN IN THE HEALTH AREA, SUPPORTING THE ZAMBIAN INTEGRATED HEALTH PROGRAM (ZIHP) AND CONTINUING TO WORK IN HIV/AIDS, CHILD SURVIVAL, AND POPULATION. USAID/ZAMBIA SOUGHT AND RECEIVED USAID/W CONCURRENCE TO EXPLORE ADDING AN NPA COMPONENT TO ITS HEALTH SECTOR ACTIVITIES. THE MEETING ENDORSED THE CONTINUATION OF THE HEALTH SO, SUPPORTING ZAMBIA'S INTEGRATED, DECENTRALIZED HEALTH PROGRAM AND COVERING HIV/AIDS, CHILD SURVIVAL, AND POPULATION. THE MISSION WAS CAUTIONED REGARDING THE DIFFICULTY OF CLEARING NPA ACTIVITIES WITH CONGRESS, ESPECIALLY ONES IN THE HEALTH SECTOR. IT WAS NOTED, HOWEVER, THAT ZAMBIA IS A SHOW CASE FOR HEALTH SECTOR REFORM, AS KENYA IS FOR HEALTH-CARE FINANCING. THE MISSION REQUESTED NPA ABOVE THE PROPOSED BASE BUDGET SCENARIO -- \$20 MILLION FOR THE MISSION'S OYB (SEE PARA 4). THE MISSION WAS ADVISED THAT SINCE ADDITIONAL FUNDING BEYOND THE BASE SCENARIO IS UNCERTAIN, IT SHOULD DEVELOP AN INCREMENTAL PROPOSAL WHICH BEGINS WITH THIS PLANNING LEVEL.

E. S.O. 4: DEMOCRACY-GOVERNANCE IS AN AREA WHERE THE MISSION PLANS A REFOCUS, MORE TOWARDS INSTITUTION BUILDING AND POSSIBLY RULE OF LAW. SINCE THE PARAMETERS MEETING, A MID-MAY ASSESSMENT WAS CONDUCTED AND IS INFORMING THE STRATEGY DEVELOPMENT. THE AFR/SD D/G ADVISOR STRESSED THE UNCLASSIFIED

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IMPORTANCE OF LOOKING AT CROSS-SECTORAL LINKAGES. WHEN ASKED WHETHER WORK COULD BE DONE ON THE ZAMBIAN LEGAL AND REGULATORY FRAMEWORK, DIRECTOR NORTH NOTED THAT MANY OF THE KEY CONSTRAINTS HAD BEEN ADDRESSED, E.G., A NEW INVESTMENT CODE, BUT THAT THERE WERE POSSIBLE OPPORTUNITIES TO HELP INSTITUTIONS REAP THE BENEFITS OF THE NEW LAWS. LIBERALIZATION IN CAPITAL MARKETS WOULD HELP, BUT SUPERVISION IS A PROBLEM. NO SPECIFIC INTERVENTIONS WERE ENDORSED. THERE WAS CONCERN OVER THE IMPACT OF GOVERNANCE PROBLEMS ON THE USAID PROGRAM. PEOPLE WANTED TO KNOW IF LAST YEAR'S ELECTION WAS A SUFFICIENTLY IMPORTANT ISSUE TO AFFECT OUR STRATEGY DEVELOPMENT. SOME SUGGESTED THAT ZAMBIA, IN SOME RESPECTS, MIGHT BE SEEN AS A DE FACTO WATCH COUNTRY. THERE WAS A BROADER CONSENSUS, HOWEVER, THAT THERE ARE OTHER COUNTRIES IN THE REGION WITH DG DIFFICULTIES. ZAMBIA SHOULD BE TREATED LIKE A FULL-FLEDGED SUSTAINABLE DEVELOPMENT COUNTRY AND AS LONG AS THE HUMAN RIGHTS SITUATION IS ALL RIGHT, WE SHOULD NOT REQUIRE MORE OF ZAMBIA THAN OF OTHER COUNTRIES. THE STRATEGY SHOULD BE PLANNED BASED ON WHERE ZAMBIA IS NOW.

F. BASIC EDUCATION:

- (1) PARTICIPANTS CONSIDERED BASIC EDUCATION AN IMPORTANT POTENTIAL AREA FOR USAID/ZAMBIA, CONCERN ABOUT RESOURCE CONSTRAINTS -- BOTH STAFF -- IF THE MISSION WERE TO ADD ANOTHER PROGRAM. WHEN ASKED WHETHER THE MISSION COULD ADD BASIC EDUCATION TO BE SUFFICIENTLY IMPORTANT TO DEVELOP AN EXISTING SECTOR SHOULD NO ADDITIONAL RESOURCES BE AVAILABLE, DIRECTOR NORTH SAID THAT, AT PRESENT,

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CONTINUING IN EXISTING SO AREAS WAS PROBABLY A HIGHER PRIORITY. THE MISSION WANTS TO CONTINUE ITS FOCUS ON THE ZIHP, MAINTAIN EMPHASIS ON DG, AND CONTINUE WORK IN THE AGRICULTURAL SECTOR AND IN PRIVATIZATION. HOWEVER, A MERGER OF SOS 1 AND 2 IS POSSIBLE.

- (2) WHEN ASKED IF BASIC EDUCATION COULD BE INTEGRATED INTO OTHER SECTORS (E.G., HEALTH), AT LOW COST, DIRECTOR NORTH REPLIED THAT THE MISSION HAD CONSIDERED THIS AND, INDEED, HAD DONE SOME WORK WITH THE MINISTRY OF EDUCATION, REDESIGNING THE CIVICS CURRICULUM AND TEXT FOR MIDDLE-

SCHOOL GRADES. THERE WERE SYNERGIES BETWEEN EDUCATION AND HEALTH AS WELL AS EDUCATION AND DG. CIVIC EDUCATION WAS COSTLY, HOWEVER. APPROVAL WAS GIVEN FOR THE MISSION TO DEVELOP A SECTOR IN BASIC EDUCATION IF IT COULD DO SO WITHIN EXISTING PROGRAM BUDGET AND STAFF LEVELS. THERE WAS CONSENSUS THAT THE MISSION SHOULD PLAN TO DEVELOP A MAJOR PRESENCE IN BASIC EDUCATION OR NOT BECOME INVOLVED AT ALL. IT WAS SUGGESTED THAT THE MISSION WOULD PROBABLY NEED TO DROP AN EXISTING SECTOR SHOULD IT CHOOSE TO ADD BASIC EDUCATION AT THIS TIME.

- (3) SUBSEQUENT TO THE PARAMETERS MEETING, THE MISSION DECIDED TO EXPLORE SERIOUSLY ADDING BASIC EDUCATION TO THE PROGRAM. WITH WORK IN PARASTATAL DIVESTITURE COMING TO AN END, THE MISSION IS PHASING OUT OF THAT PORTION OF SO 1. OTHER PRIVATIZATION ACTIVITIES COULD BECOME PART OF AN EXPANDED SO 2 OR COMBINED SOS 1 AND 2. THE MISSION WILL REQUEST BUREAU CONCURRENCE TO ADVERTISE FOR A PSC IN EDUCATION WHO WOULD BEGIN WORKING AFTER STRATEGY APPROVAL.

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3. FOOD SECURITY AND CRISIS PREVENTION: PARTICIPANTS NOTED THAT ZAMBIA REMAINS FOOD INSECURE. THE COUNTRY IS VULNERABLE TO DROUGHT AND INSTABILITY IN THE REGION, PARTICULARLY NOW ON ITS NORTHERN BORDER WITH CONGO.

MISSION WAS ENCOURAGED TO EXPLORE AND HIGHLIGHT THE CRISIS PREVENTION POTENTIAL (SOMETIMES CALLED THE "CRISIS PREVENTION PRISM") OF ITS PROPOSED STRATEGY. IN ADDITION, IT WAS NOTED THAT WITHIN THE CONTEXT OF THE GREATER HORN OF AFRICA INITIATIVE, SEVERAL EAST AFRICA MISSIONS ARE EXPLORING THE CONCEPT OF A "CRISIS MODIFIER." THE IDEA IS TO ASSUME THAT THERE WILL BE A CRISIS (PERHAPS MAJOR DROUGHT OR A SIGNIFICANT FLOW OF REFUGEES) DURING THE LIFE OF THE STRATEGY, AND DEMONSTRATE HOW THE STRATEGY WOULD BE ADJUSTED TO THESE CIRCUMSTANCES. USAID/W RECOGNIZES THAT THESE ARE NEW CONCEPTS AND THEREFORE WOULD OFFER WASHINGTON ASSISTANCE IN DEVELOPING THE "CRISIS PREVENTION PRISM" AND/OR THE "CRISIS MODIFIER."

4. WORKFORCE AND FUNDING LEVELS: THE MISSION WAS ADVISED TO SUBMIT HIGH, MEDIUM, AND LOW SCENARIOS, WITH THE MEDIUM LEVEL OF APPROXIMATELY \$20 MILLION PER YEAR BEING THE MOST REALISTIC, AND THUS THE BASE, LEVEL. THE FOCUS OF THE STRATEGY, E.G., THE RESULTS FRAMEWORKS AND PLANNED RESULTS, SHOULD BE AT THE \$20 MILLION SCENARIO. THE HIGH SCENARIO SHOULD BE BASED ON A YEARLY FUNDING LEVEL OF BETWEEN \$25 AND \$28 MILLION. THE LOW LEVEL WAS GIVEN AS \$12 MILLION. THE MISSION REQUESTED SOME RELIEF FROM WORKFORCE CEILINGS. THE BUREAU HOPES TO BE ABLE TO INCREASE THE MISSION'S WORKFORCE LEVEL TO 78 IN FY98 (8

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USDH) AND 81 IN FY99 (9 USDH). THE BUREAU HAS ALSO REQUESTED AN RCO FOR MALAWI AND ZAMBIA, TO BE RESIDENT IN MALAWI.

5. THE MISSION WAS ADVISED TO DRAW ON USAID/W STAFF AS VIRTUAL PARTNERS IN CSP DEVELOPMENT. USAID/W WAS ACTIVELY INVOLVED IN THE DG ASSESSMENT CONDUCTED SHORTLY AFTER PROGRAM DAY. THE MISSION IS ALSO WORKING WITH THE AFRICA BUREAU TO RE-ASSESS AND DEFINE THE PROGRAM IN THE AGRICULTURE SECTOR.

6. WHILE NO FIRM DATE WAS SET FOR CSP SUBMISSION/REVIEW, THE MISSION PLANS A LATE NOVEMBER/EARLY DECEMBER SUBMISSION.  
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## I. Zambia's Development Environment

### Keeping The Promise

Promises are not solutions. Getting policies right and saying the right things doesn't make for immediate peace, prosperity and stability. It takes time. And time is precious.

Talk of the promised land is not edible, bankable or credible in the absence of tangible evidence that real people are benefitting from change. Since 1991, Zambia has embraced change but the positively changing times have not yet touched enough Zambians.

It took nearly two decades for Zambia to tumble precipitously from the good prospects it enjoyed at the time of its independence. In 1964 Zambia was relatively prosperous. Today it is poor.

Zambians cannot spend the next two decades sowing the seeds of recovery without beginning to enjoy the sweet harvest of their labors. This strategy envisions a USAID program in Zambia which is a catalyst. A program that can accelerate the benefits of change. A program that helps Zambians realize the better promises for their future. A program that increases incomes; that brings equitable education to girls; that provides quality health care, and that offers greater opportunities for Zambians to participate in the democratic process.

These are the promises this strategy intends to keep.

### The Lost Opportunity

Zambia is a land of immense potential for economic growth.

- **Agriculture** - It has vast reaches of fertile yet uncultivated land. It has a tropical climate tempered by altitude. It normally enjoys good rainfall which provides nearly half the total water resources for southern Africa. Despite the threat of drought, it has the potential to be a leading food supplier in the region.
- **Minerals** - It enjoys significant mineral resources and is among the leading copper and cobalt producers in the world. These minerals can generate earnings for investment in Zambia's future.
- **Trade** - Although landlocked, it is on the crossroads between Southern, Eastern, and Central Africa, bordering eight other countries. Its neighbors, Angola and the new Democratic Republic of the Congo, have large mineral deposits themselves and are natural trading partners. This trading position provides great opportunities for the economy.
- **People** - The Zambian people are an immense asset - peaceful, hardworking and yearning for a better life.

At independence, Zambia was tapping its immense potential. It was among the richest nations in sub-Saharan Africa. Now it is among the poorest. Zambia's shattered dreams resulted from its failure to adapt to changing political and economic realities.

**Zambia fell from being one of the richest countries in Sub-Saharan Africa in the 1960's to one of the poorest in the 1990's.**

Courageous adherence to the principles of the Front Line States embargo of Apartheid and support for the movement against Ian Smith's regime in Southern Rhodesia interrupted routes to the sea and exacerbated the effects of falling copper prices. More importantly, state dominance of the economy's productive sectors caused a decline in capital investment, as budget resources were diverted to maintaining highly subsidized social and economic services. The state decided to emphasize copper production and maize monoculture, regardless of whether this was economically rational or not. This led to inefficient investment and resource decisions. Extensive international borrowing to support consumption and imports to maintain a facade of normalcy left a huge unserviceable debt overhang. Continued emphasis on state ownership and control at all levels destroyed the system of private enterprise that provided goods and services. Per capita incomes dropped. Social services collapsed. Life expectancy dropped. Infant mortality rose. A one-party political system prevented the growth of any legitimate alternative political structures. More than two decades of this abuse brought the country into sustained decline. It hit bottom in the late 80's.

### **The New Promise**

The first opening of the political structure in 1991 saw the ruling party swept from power - replaced by a new government with a platform based on broader participation in the economic and political systems. The policies of the new government reflected a popular mandate. Despite the inherent risks, Zambia's citizens were ready to discard the control-oriented, dirigiste, repressive systems of the 70's and 80's. The system was dismantled and open, broadly participative, nonstatist policies were put in place. The new reforms promised benefits to all Zambians.

**The reforms of the 1990's promise benefits to all Zambians.**

Since 1991, Zambia has moved from total government control of prices, markets, and general economic activity to a market determined economic system. A major privatization campaign began, selling government owned enterprises to the private

sector. Agricultural prices were liberalized with input subsidies and fixed output pricing eliminated. Commodity trade was opened, allowing commercial traders to begin handling the majority of products. The private sector was encouraged to take an increasing role in the economy. For the first time in over two decades, market signals began to determine prices and guide decision making by producers and traders.

Multi-party politics became the accepted norm. Restrictions on civic action groups were removed. A public dialogue on the issues facing the country was permitted. Media were opened to private ownership. For the first time since independence, Zambians could become involved in a participatory, multi-party political process.

Social services were re-oriented toward providing quality services to customers. In the Ministry of Health, decision making and financing began to shift to the local level rather than being an exclusively paternalistic centrist planning process. Decentralization of government service provision and decision making has not been confined to the health sector. Other social services such as education are embarking on a similar path. The government is actively encouraging private sector participation in the provision of services to improve service outreach and moderate the fiscal burden on the public sector. The success of these programs is dependent upon the empowerment of individuals and communities to assume responsibility for their own health, education and welfare. New partnerships and devolution offer promise for arresting and reversing the decline in social indicators.

Despite the effort to redirect Zambia's future, a large gap remains between laying out the right direction and putting the systems in place to reach the objective - delivering benefits to Zambians. The new systems have not yet clicked into place to fully support the policy reforms. Many Zambians are worse off now than before the old systems were dismantled and their lives will not improve until the new systems are in place.

In agriculture, the government has cut back its extension services, dismantled its marketing structure, and freed prices, but the private sector has not yet been able to fill the systemic vacuum, leaving gaps between producers and larger firms. In other productive sectors, production and marketing subsidies have disappeared, protection by the government has evaporated, but companies have not yet adjusted to an open system. In the political field, the numerous political parties have thus far proven unable to foster a sense of the "loyal opposition;" the public dialogue is not always sufficiently responsible; and the new civic action groups are struggling to define a role for themselves. On the social front, the health and education budgets have been constrained and new delivery systems are not yet operational; new planning approaches are being tested in the health programs but have not yet been fully implemented. The old is gone, the new is not yet in place, and Zambians are caught in the gap. For them the promises remain to be fulfilled.

## **II. Prospects and Constraints**

The prospects for Zambia realizing its full potential are excellent - if it stays the course on its reform package and if it builds the systems to overcome constraints and make the reforms effective.

Privatization of the remaining major parastatals will lead to significant new investment, more productive employment, and increased demand for local goods and services. Zambia's open trading regime - domestically, regionally and internationally - presents new opportunities, primarily in agriculture, for traders, consolidators, producers and processors. Large companies and multi-national corporations are ready to take on a major role under the new

reforms. However, new and expanded small and medium enterprises must become more significant partners, taking advantage of these new opportunities as well as filling the gap left by the departure of government from input supply and output marketing. With the agriculture sector as the primary growth area, and continual energizing of the economy by the privatized mining sector, the economy appears poised for a modest takeoff. The reforms have made the policies right; now systems are needed that will permit small and medium sized entrepreneurs to benefit from the reforms.

**New systems are needed to implement the reforms**

There are constraints to realizing full economic potential. Labor productivity is low; the HIV/AIDS pandemic increases absenteeism and kills many senior managers; the outreach system to farmers is weak; rural markets are fragmented and undeveloped; corruption and weak governance erode public confidence; drought constantly lurks as a possibility in any year; internal transport links are poor, which makes the costs of marketing very high; Zambia is landlocked and thus vulnerable to high transport costs; inflation - while down from the 200 percent of the past - remains around 20 percent; public expenditure controls are weak; the banking sector is weak; and domestic savings are low. These constraints are symptomatic of an economy in transition from the statist era to a free-market regime. Overcoming these constraints is the challenge of the future.

Politically, there is potential to take the recently liberalized political system and nurture it into a sustainable participatory system. The new freedom to create political parties, to enter into a public dialogue, to establish civic action groups, and to have open media, are foundations upon which to build a new political order in Zambia. With popular participation and a fuller understanding of what political freedom means and how to exercise it responsibly, the political structure can work for a national consensus. The reforms established the basis for a new political structure, now the systems must be established to realize the promise inherent in these reforms for better governance, administration and accountability.

Achieving the full political potential faces constraints. The biggest single constraint appears to be a lack of experience with and knowledge of a liberalized political system - neither the populace nor the politicians appear fully comfortable with the system and therefore don't trust it. The executive branch dominates political decisions, dampens competing views, and may circumvent the system of checks and balances. The patronage system has institutionalized corruption.

In social sectors, there is potential for arresting the shocking decline in health and educational status. The high death rate for Zambian babies, the lack of educational opportunities for many Zambian girls, the huge social burden imposed when over 25 percent of urban dwellers in some areas are infected with HIV/AIDS - these all mandate the use of radical changes to halt the slide. New decentralized models for the delivery of services, built from the ground up to be responsive to the needs of the customers, are required. Resource

limits from the government budget reinforce the need to re-invent social services. Zambia is ready for a new approach but the transition to the new concepts is a time consuming process.

The key constraints to achieving this potential are: unmotivated government staff bound to an old way of doing business by tradition and custom; limited financing for new directions; reluctance to take increased personal financial responsibility for social services; and a population growth rate of over 3 percent, which places an increasing burden on the social services.

The HIV/AIDS pandemic is a special constraint that cuts across all sectors. Zambia is the most highly urbanized country in sub-Saharan Africa and is among the countries hardest hit, with one of the highest HIV sero-positive rates in the world. An estimated 20 percent of Zambians over the age of 15, and as many as one third of adults in many urban areas are HIV infected. As the epidemic continues to mature, an increasing number of adults are dying from AIDS and projections show that numbers will continue to escalate over the next 5 to 10 years. The worsening impact of the pandemic reduces economic productivity, overburdens family and community social networks, and dramatically increases the number of children left orphaned to an estimated 600,000 AIDS orphans in the year 2000. Expanding prevention and mitigation efforts through a comprehensive multi-sectoral response is an important aspect of this strategy.

### III. The Development Challenge

#### Promises to Keep

USAID/Zambia's development vision is that... "we have promises to keep, and miles to go before we sleep." Many promises of broad benefits were made in the reform process. However, many Zambians

have not yet seen the benefits. There is a long way to go up the road to delivering tangible benefits to all Zambians. This is our joint challenge: to avoid distraction and stay the course on implementing reform, delivering benefits to all Zambians.

The most far-reaching and dramatic reform measures to liberalize Zambia's economic and political systems were taken between 1991 and 1995. However, the systems permitting the majority of the population to benefit from the economic reforms are delayed and preserving new political freedom requires vigilance. This delay period is when the reforms are most at risk - and Zambia is in this difficult period. We believe it is on the cusp of seeing positive results, if the appropriate systems can be put in place to fully implement the reforms. This is the joint Zambian - USAID vision of what is required.

The challenge is to sustain the Zambian Government's and people's commitment through a difficult transition until the implementation of reforms accelerates. Zambia is nearly five years into its transition. The euphoria that greeted the reforms has worn off. We have to show results if we are to be able to move forward to keep the promises.

## Strategic Criteria

USAID is unable to overcome all the constraints or take advantage of all the opportunities for Zambia's development. The strategic process is one of making the correct choices. USAID utilized the following criteria to make its choices regarding which activities are most appropriate to make the development vision a reality:

- Do the proposed interventions **address systemic obstacles** to implementing the policy reforms of the past five years? Incremental improvements in the systems to implement reforms are at the core of the strategy.
- Is there adequate **government commitment** to seeing the reform process through? Since the interventions are reform based, it was deemed important to weigh the level of Government commitment to the reform program.
- What is USAID/Zambia's **experience** in the sector? USAID has been active in Zambia since before independence. Since 1991, the USAID program has been intimately engaged with the reform process. This provides an excellent in-country knowledge base by which to judge proposed interventions. In combination with the world-wide experience base of USAID, reasonable judgements could be made on each proposal.
- What **results** can be expected from the interventions? This was a heavily weighted criterion in the era of management for results. The essential questions were: are the results measurable, significant and sustainable?
- Are the interventions **manageable**? With limited staff resources, each intervention and each Strategic Objective had to pass a filter of manageability to determine if the Mission's resources were sufficient to implement it.

These were the key filters applied to each objective, each intervention, and among the objectives. Each strategy element, individually and collectively, had to meet these criteria in order to be included in the proposed strategy.

## US Foreign Policy Concerns

The overriding US interest in Zambia is political and regional stability. Development is key to achieving and maintaining stability. Zambia should remain a friendly democratic state, firmly on the path to sustainable development. Zambia is a buttress against the potential chaos of the new Democratic Republic of the Congo and Angola. Zambia has played a facilitative regional role in African conflict resolution, including peace-keeping, and it is in the US interest for this to continue. It is in the US interest to maintain stability in the region and the country. The privatization reforms have created opportunities for US trade and investment as well as for more participation in Southern Africa. Implementing the reform process is strongly in the US interest.

#### **IV. Strategic Plan**

##### **The Strategy Development Process**

The strategy presented below evolved from the previous strategy. USAID/Zambia began its analysis more than a year ago with the collaborative design of its integrated health sector intervention. This was followed by a series of assessments in each sector of likely interest to USAID. These assessments examined constraints and potentials for agriculture, private enterprise, urban development, democracy and governance, and basic education. Interviews and group meetings with partners, stakeholders and ultimate customers were a key part of the assessment process. They surfaced the recurrent theme that the benefits promised by reforms in the early 1990's are not reaching enough of the population.

With the assessments as a point of departure, each strategic objective team developed a strategic plan for its objective, emphasizing delivering the promised benefits from reforms to the people of Zambia. The plans were examined through the lens of the criteria discussed above and strategic choices were made in consultation with other sections of the Mission as well as stakeholders and partners. The results of these deliberations were incorporated in strategic objective narratives which are annexed as annexes 4, 5, 6, and 7 and summarized later in this section.

##### **Donor Partners**

Based on the UNDP's latest annual report on "Development Co-ordination - Zambia", the major donors to Zambia are the World Bank, European Union, Japan, United Kingdom, Germany, the Netherlands, Norway and Denmark. The Bank accounted for 40 percent of total development assistance to Zambia in 1995 while the EU had a share of 24 percent. Japan made a contribution to Zambia's development assistance of 7.6 percent in 1995.

In accordance with Zambia's principal development issue of achieving macro-economic stability; major donors target aid to economic management, which includes macro-economic policy and planning, balance of payments support, and employment policy. Ninety percent of the Bank's development assistance to Zambia is allocated to economic management. Germany and the Netherlands are major players in economic management. (Since 1995 many donors have suspended or ended balance of payments support and overall donor support has probably declined by US\$ 100-200 million per year.) Other areas of donor interest include: transport (Norway and Denmark); agriculture, forestry and fisheries (Japan); health (US) and human resources development (Sweden).

Other donors include non-governmental organizations which accounted for one percent of total development assistance to Zambia in 1995. These organizations are most active in agriculture, human resources development, industry and health.

**Table 1: Major Donors (\$000), Zambia, 1995**

<b>DONORS</b>	<b>TOTAL EXPENDITURES</b>
IDA	281,377
European Union	165,967
Japan	53,730
United Kingdom	41,000
Germany	38,307
Netherlands	34,786
Norway	23,251
Denmark	21,181
United States	13,777
Sweden	11,780
Others	67,923
<b>Total</b>	<b>704,160</b>

Source: UNDP/GRZ, Development Co-operation Report:Zambia 1995 (as adjusted by USAID/Zambia)

Note: Amounts do not include Balance of Payments Support for the UK and Sweden.

During 1995, the US ranked as the seventh largest bilateral donor to Zambia and accounted for two percent of total development assistance to Zambia. Since the start-up of its program in Zambia, USAID has delivered more than \$800 million in economic development project and non-project grants, loans and food commodity assistance to the Republic of Zambia in agriculture, health, privatization and democracy and governance.

The formal channel for donor coordination is the annual Consultative Group Meeting (CG) chaired by the World Bank. At the July 1997 CG meeting held in Paris, donors generally commended the Zambian Government's economic reforms but were less sanguine on issues related to democracy and governance, including civil service reform.

Between CG meetings, co-ordination takes place periodically between the Zambian government and donors. The Ministry of Finance and Economic Planning is the focal point for donor activity in Zambia.

## Strategy Components

The USAID strategy is aimed at fulfilling the promise of the major reforms put in place in the first part of this decade. When customers were consulted in the preparation of the strategy, their perceptions of the results of the reform process were as follows:

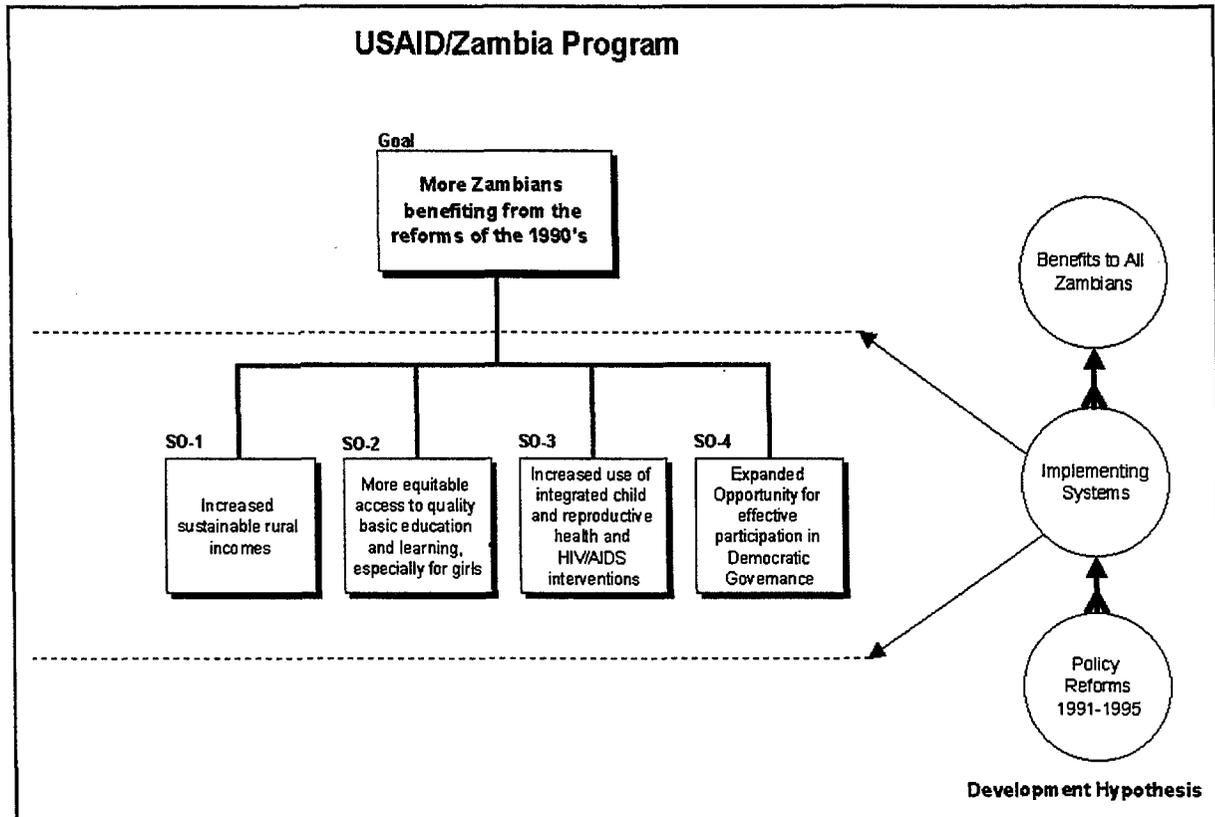
- Everything is more expensive;
- Agricultural inputs are either not available or too expensive;
- With the government gone from marketing, there is no one to sell to;
- Lack of competition permits unfair dealing;
- School costs have risen while schools are more crowded;
- The quality of education has dropped;
- HIV/AIDS remains a major killer;
- Babies and children often die; and
- Health care is more expensive and there are no drugs.

Zambia has taken dramatic steps to reform economic, social, and political policies to make this one of the most liberalized countries in Africa. But clearly, the promise of benefits for all Zambians must be kept if the valuable reforms are to be sustainable. Zambia now needs to methodically and steadily implement activities to fill the gaps and overcome constraints to the broad distribution of the benefits of these reforms to the people of Zambia. USAID believes that it can assist in this process and help fulfill the promise of the reforms.

USAID determined its programmatic choices using the criteria discussed above. The sectors of involvement are as follows:

1. **Economic Growth** - USAID has two decades of experience in Zambia working in the agricultural and private sectors and had exceptional success supporting liberalization reforms and implementing privatization. The challenge now is to nurture the implementing private sector systems for the reforms.
2. **Basic Education** - While this is a new sector for USAID in Zambia, the Agency has extensive global experience, especially with the decentralization of education and bringing decision making to the local community.
3. **Health, Population, and HIV/AIDS** - In addition to extensive experience in Zambia, USAID is a world leader in implementing innovative systems and integrated health services approaches.
4. **Democracy and Governance** - USAID has developed considerable experience and expertise in Zambia over the past four years. Participatory democracy is a new concept in Zambian politics and democracy must always be a work in progress. The US, in its role as a leader of the democratic world, should take a role in supporting the appropriate Zambian model of democracy.

5. Cross-cutting themes are **gender equity, urbanization, decentralization** and **working with PVOs**, which have been woven into our sectoral approaches.



USAID sees its strategy as an integrated whole where all the activities in each of the sectors are crucial steps in furthering the reform agenda. The sectors above are key sectors which are within the Mission's manageable interest. They complement other donor programs in these sectors and others, such as macro-economic reforms, transport, and industry. In combination, they will be sufficient to move Zambia along the road to policy implementation and renewed growth. The figure above presents the broad lines of the USAID strategy. Detailed graphics of results frameworks for each strategic objective are included as annex 1 of this document.

**SO-1 Economic Growth**

**Result: Increased sustainable rural incomes**

This objective will address the need to stimulate growth in the rural sector. It combines elements of the agriculture and private sector objectives of the prior USAID strategy and

redirects the efforts toward achieving broadbased and sustainable increases in rural income.

Assessments of the agricultural and private sectors indicate that the government has largely fulfilled its stated commitment to disengage from its prominent role in national markets. The private sector must now accept the lead for economic growth. Much of the gap left by the withdrawal of government has gone unfilled. Distribution systems for agricultural inputs remain incomplete, agricultural extension services are fragmentary, and marketing systems fail to reach all rural dwellers. Non-farm rural entrepreneurs, who are the logical candidates for the interface between markets and the rural households, are constrained by lack of managerial and market knowledge, lack of experience, lack of access to financing, and lack of business skills. Entrepreneurs in small manufacturing operations producing for rural markets must relearn how to do business in an unprotected environment. The free trade policies initiated by the government have not yet led to fair trade and Zambians find it hard to compete in regional markets or prevent neighboring countries from dumping their subsidized products in Zambia. In sum, the correct policies have been put in place but implementation leaves broad gaps. This exacerbates high transaction costs which keep the promised benefits from reaching the people.

The strategy for this objective is rural focussed. It is based on the premise that three key sets of interventions can effectively fill the gap left when the government gave up its role in rural markets, thereby lowering transaction costs by increasing the efficiency of the system. USAID believes that the following three-pronged approach can take the benefits to the people.

**Production** - increasing sustainable agricultural and natural resources production by bringing new technologies to subsistence and small scale producers organized into groups. This will require introducing new natural resource technologies and products, and introducing new sustainable agriculture and natural resources practices;

**Marketing** - increasing the productivity of rural non-farm enterprises so they can take their proper role, replacing the government as intermediaries in rural markets. This will require increasing rural entrepreneurs' access to finance and regional and local markets, improving their basic business management skills, and improving their support institutions.

**Policy Adjustment** - reducing key constraints to private sector growth will allow entrepreneurs to compete effectively and take on their proper role. Of particular note are trade policy adjustments to assure that Zambian exports and imports are treated fairly in the regional and world markets; adjustments in commercial contract approaches to establish meaningful contracts with effective dispute resolution mechanisms, such as binding arbitration; continuing to reduce the state's role in the economy by continuing privatization; and development of market-friendly transitory food insecurity plans.

We expect to see significant results from the interventions discussed above. Since the new approach was only developed in this strategic exercise, baselines and targets will have to be defined during the coming year. The kinds of results we expect to measure are, *inter alia*:

- Improved farm productivity;
- Improved sustainable output of NRM-based community groups;
- Increased rural non-farm enterprise access to finance and markets;
- Increased rural non-farm enterprise support institutions;
- Increased non-traditional exports;
- Reduced state involvement in the economy.

USAID intends to achieve these results. However, achievement depends on certain other actions occurring. These are the critical assumptions for success. Transportation improvements are essential. The deplorable state of the national road system adds huge overheads to the marketing system. Other donors are making significant investments in this area. Relative freedom from disasters is also assumed. These include periodic droughts, inflows of large numbers of refugees from neighboring countries, or any domestic disorders. Finally, the strategy assumes that the program can achieve results relatively quickly to forestall the temptation for the government to reverse its policy progress due to political pressure arising from high social costs.

#### SO-2 Basic Education

**Result: More equitable access to quality basic education and learning, especially for girls**

This objective is USAID's initial involvement in the education sector in Zambia. It responds to a unique window of opportunity, as the government of Zambia is searching for new solutions to the problem of how to provide high quality, equitable, basic education at a reasonable cost. The Mission believes that USAID has applicable lessons from other countries which can be applied in Zambia.

The USAID assessment of basic education determined that the Zambian education system has seriously deteriorated and the system is barely sustainable as it is now organized and funded. Resources have shrunk and the numbers of Zambian children enrolled has rapidly increased. Physical infrastructure has declined; furnishings are in short supply; there are few textbooks and almost no learning materials; and very high pupil teacher ratios are compounded by multiple shifts. The system is on the brink of collapse. Girls, who have traditionally been disadvantaged in education, are falling even further behind as the system is stressed. The government realizes the system needs a complete overhaul and is preparing to initiate an integrated sector approach in 1998. USAID can be in on the definition and implementation of this new approach to a troubled sector.

We believe that, if the communities can be empowered to manage their own schools, then the schools can be run more efficiently, can recover more of their costs locally, and people can guide their schools to filling local needs. Local planning should emphasize girls' education. Linking health and education interventions can give synergy to each of them. If the Ministry has the capability to collect, analyze, and utilize data to guide the planning process, then it will be able to reinforce the local communities in their search for excellence in education. None of these capabilities exist today, but it appears to be the most realistic option for the future.

The basic education strategy is based on three complementary components:

**Girls access** - Improving health and educational performance of primary school age girls. Reinforcing the importance of quality education for girls is the core of this program. The health components links closely to the USAID health program to be discussed below. It will implement very promising micro-nutrient and de-worming interventions and initiate periodic performance testing of treated groups. USAID will also help extend the existing UNICEF Program to Assist Girls Education to additional provinces.

**Private sector/community based programs** - Improving capacities at decentralized levels to develop plans and strategies to improve girls' education. This will include: developing strategies to increase the number of girls that stay in school; developing and disseminating materials advocating increased girls' education; and engaging NGOs to work with communities on girls' equity issues.

**Policy** - Improving policy, planning, implementation and performance monitoring systems at the central ministry. This will strengthen policy analysis capabilities at the ministry and establish education management information systems able to provide feedback and support to the local planning function.

The Mission has just begun to define this objective and has identified some preliminary indicators to measure, but will not be in a position to identify targets and baselines until at least late 1998 or early 1999. The type of results measurements currently being considered include:

- Increased girls gross enrollment rates in primary school;
- Increased pass rate for girls on the standard primary school leaving exam;
- Increased percentage of girls persisting to grade 7;
- Decline in pupil teacher ratio;
- Decline in number of years for a girl graduate from grade 7; and
- Decline in lost days due to illnesses and domestic chores.

Success in achieving these results is predicated on the government's continued commitment to education reforms. USAID will be one among many donors assisting in this sector and is planning to move carefully, testing the GRZ's continued commitment and need as it progresses. USAID has defined a complementary niche for itself that is not adequately filled by other donors. It assumes that other donors will continue their support to teacher training, facilities rehabilitation, and curriculum development.

### SO-3 Integrated Health

**Result:** Increased use of integrated child and reproductive health and HIV/AIDS interventions

This objective supports a dramatic Government of Zambia initiative to integrate and decentralize the provision of health services. Key elements of the strategy were initiated during 1996 and 1997.

At independence, the government promised free health care for all. The rapid growth in health facilities through the 70's was followed by a collapse of the system as government funds were insufficient to maintain the extensive services. Health status worsened, an increasing number of babies and children died from preventable and treatable diseases. The promise of free health care was replaced with the reality of very little, poor quality health care. Facilities deteriorated, hospitals experienced chronic shortages of drugs, many qualified staff left the country for positions elsewhere, and people's confidence in the health care system eroded. The collapse of the health system coincided with the onset of the HIV/AIDS epidemic. The one million HIV infected individuals strained the already overburdened system beyond the breaking point.

In 1991, the new government made reforming the health care system a key plank in its reform agenda. The Zambian objective for health care is to provide equitable access to cost effective, quality health care as close to the family as possible. Integrated services are an effective approach to the key areas of child health, reproductive health and HIV/AIDS. The old centrally dominated, single disease, pipeline approaches cannot reverse the high mortality rates and low quality of service. The Zambian decentralized and integrated approach can.

The well-articulated Zambian strategy offers an exceptional opportunity for USAID partnership. Decentralization, integration of services, accountability, performance, emphasis on the primary level, community involvement, private sector involvement, and donor coordination are among the key concepts in the dramatic new Zambian approach. The deterioration in health services is one of the most serious problems in Zambian development. USAID has long advocated decentralization and integration of services as the key to the most efficient supply of critical services.

The integrated approach consists of five areas:

**Demand creation** - Reaching the people to increase the demand for health and population services is a central component of the use of health services. People must know the value of integrated child health, reproductive health, and HIV/AIDS interventions. They must understand the causes of diseases affecting them and their children. They need to comprehend the implications of risky health behaviors. They must know what services are available and have enough knowledge to make informed choices. Communications, including group and inter-personal contacts, mass media, traditional media, and community mobilization are the key means of reaching the people.

**Community Partnerships** - Decentralization can work if the community becomes involved in its own health care decision making. The community health center is the front line of health services. Health centers have to understand the community needs and establish partnerships with the communities. Health centers should serve the

needs of their customers. PVOs should be involved in the delivery of services. The Ministry of Health needs solid referral services to permit the community centers to send difficult cases to better equipped facilities. Finally, other sector services such as education and agriculture have synergistic links to health.

**Private Sector Partnerships** - Serving Zambians who are able to pay for private sector services is essential to permit the public sector to serve the rest of the population. Employer-based programs; private clinics, hospitals, etc.; use of commercial facilities like pharmacies for basic health information; and increased production of selected health commodities in Zambia are all promising approaches as the enabling environment improves.

**Performance** - Poor quality service has kept many people from using the health services. It is better to die at home than in a strange hospital that doesn't help you. Improved health worker performance is critical to rebuilding customer confidence, thereby increasing effective demand. Performance and competency will become the watchwords, rather than theoretical knowledge. Supervision systems will be established which reward good performance and quality work. Districts will be empowered to take an increased role in supervision and training.

**Support** - Within the primary policy direction of decentralized, integrated health services, numerous subsidiary policies must be adjusted and fine tuned. The link between the national level and the districts will be a particular focus. Support systems for health delivery, particularly an integrated logistics system, will be strengthened. Cost recovery and local financing schemes will be tested.

The above interventions, with \$12-16 million per year in USAID financing, are expected to accomplish exceptional results. USAID intends to accomplish, *inter alia*:

- Increased demand for PHN interventions among target groups;
- Increased delivery of PHN interventions at the community level;
- Increased delivery of PHN interventions by the private sector;
- Improved health worker performance in the delivery of PHN interventions;
- Improved policies, planning and support systems for the delivery of PHN interventions.

USAID believes it can achieve an impressive magnitude of results if critical assumptions hold true. The foundation of the entire program is the new Zambian vision of health care and its associated reform agenda. The Mission assumes this commitment will be maintained. The decentralization program is assumed to continue incorporating devolution of authority, responsibility and financing. Finally, the private sector is assumed to continue to take on an increasing role in the provision of services and commodities.

#### SO-4 Democracy and Governance

**Result: Expanded opportunity for effective participation in democratic governance**

The multi-party elections in 1991 were a turning point for economic and political reforms in Zambia. The liberalized political environment became the stimulus for economic reforms. A long history of adhering to mistaken dirigiste economic policies, a one party political system, and the resulting steadily declining health and education status, was shattered by the new political liberalization. The dramatic progress must be solidified by continuing to move forward. The promise of a smoothly functioning participatory system must be fulfilled.

The sector assessment process determined that, despite the notable successes in the early part of the decade, Zambia has slowed the pace of progress toward a completely open and participatory democratic system. While far better than the prior regime, the reform agenda and reform movement appear to be faltering. Parliament has become more of a reflexive approval mechanism and less of a forum for public debate. A government-wide decentralization policy remains lacking and sectoral approaches have not yet been fully implemented, while public service reform remains an unsettled issue. Good governance - in the sense of accountability and performance - has not always been effectively pursued. USAID and its donor partners should continue to be prepared to step in and support selected democratic initiatives while emphasizing building effective demand for a more participatory system among Zambians.

USAID's experience shows that a more competitive political process is critical to stimulating demand for popular participation in government. People want to see that they can make a difference in the political arena. Then they will better appreciate the nexus among personal freedoms, personal responsibilities, and government involvement. Finally, they can be empowered to act in ways that benefit themselves as individuals as well as society at large. Zambia is reaching for this ideal and USAID's challenge is to find appropriate interventions to encourage its continued progress.

USAID's strategy for Democracy and Governance is primarily directed toward supporting more opportunities for broad participation. There are three components to the strategy:

**Political process** - This is the core of the program. Parliamentary processes, mostly based on the British system, will be improved to help Parliament be a more effective balance to executive power through enhanced information flows. USAID will help civil society organizations organize collaboratively, become appropriately self reliant, and effectively use good information in their advocacy. Finally, it will strive to link accessing social services to civic education, to make the theory and practice of democratic governance more relevant to Zambians on a day-to-day basis. Affiliated with these efforts, will be work with the media which encourages more accurate news about the political process. This could include establishing opinion polling, training journalists, and exploring the potential for diversification in media.

**Governance** - This is a component which the Mission believes is appropriate for a pilot intervention. USAID will reengage the Cabinet Office to define an improved policy review and decision making process. We will complement this with a pilot activity with one of the ministries engaged in achieving other strategic objectives of

our country strategy, in applying the principles of good governance, accountability, and performance in the field.

**Rule of Law** - In conjunction with the economic growth strategic objective, this component will build on a USIS initiative to improve the legal framework for more effective functioning of markets. The focus will be on the enforceability of contracts and the potential for alternative mechanisms for enforcement, such as binding arbitration. In addition, it will address improved administration of justice by: 1) making legal information more widely available to legal professionals and ordinary citizens through Internet technology; and 2) establishing management systems for court cases with the Supreme and High Courts.

Results in this strategic objective will be measured by tracking the following indicators, *inter alia*:

- Increased number and quality of ways citizens can become involved;
- Changes in citizen awareness and attitudes;
- Increased citizen knowledge of workings of Parliament;
- Increased effectiveness of advocacy;
- Increased satisfaction with operation of judicial system; and
- Degree to which functions are delegated to lower levels of government

The political transition in Zambia remains fragile. Therefore there are critical assumptions to achieve the planned results under this strategic objective. Domestic and regional stability is essential if Zambia is to have a chance to develop the confidence necessary to continue political reforms. The government's commitment to economic reforms as well as to political reforms must remain constant. The multi-party system, and the opportunity to periodically change leaders through a vibrant electoral process, must be maintained to allow for open political competition.

### **Relationship to Agency Strategy**

The USAID/Zambia strategy was developed in the context of USAID's worldwide and regional strategies and is fully consistent with them. The economic growth strategic objective implements the Agency objectives of strengthened markets and expanded access and opportunity for the poor within the Agency goal of achieving broad-based economic growth. The economic growth strategic objective also contains elements directed at the objective of sustainable natural resource management in the Agency goal of environmental management. These efforts are very closely aligned with the RCSA activities in natural resource management and regional economic integration. The basic education strategic objective is directly responsive to the Agency's new objective in building human capacity, with a special focus on basic girls' education. The health objective integrates interventions for all four Agency objectives under the goal of stabilizing the world population and protecting human health. Finally, the democracy and governance objective addresses all four Agency objectives under the goal of building sustainable democracies. This objective complements RCSA supported regional activities.

## V. Resources and Management

Three scenarios are presented below. They represent anticipated changes in the program under different financial resource levels. The medium level is considered the base, "most likely" scenario.

### Resource Scenarios

	High	Medium	Low
<b>Financial Resources</b>	\$25,000,000-28,000,000	\$20,000,000 - 24,000,000	\$12,000,000 - 15,000,000
<b>Objectives</b>	All four objectives with a greater emphasis on policy through additional nonproject or sector assistance in health and new sector assistance in education	Four objectives with small non-project or sector assistance in health only	Only health would continue
<b>Staff Resources</b>	An additional 2 positions for a more active education dialogue	81 positions	Probable reduction of 20 positions including 2 direct hires
<b>Results</b>	Broader national effects through policy interventions of non-project or sector assistance. More project money in the education sector.	Base results as presented in Annex 2.	Consolidate current gains in privatization, ag markets, and democracy/governance. No education results. More modest health sector results.

### Financial Resources

The following table presents the distribution of funding across objectives under each of the three scenarios.

### Financing projections \$000

	1998			1999			2000			2001			2002		
	high	med	low	high	med	low	high	med	low	high	med	low	high	med	low
Econ Gr	6,750	6,750	2,030	7,500	7,400	0	7,500	5,000	0	6,000	4,500	0	6,000	4,200	0
Basic Ed	500	500	0	1,000	1,000	0	2,000	1,000	0	3,000	1,500	0	4,000	2,500	0
Health	17,000	16,000	11,780	16,000	12,000	11,800	16,000	12,000	12,000	16,500	12,000	12,000	16,000	12,000	12,000
D/G	961	961	961	3,500	3,500	0	2,500	2,000	0	2,500	2,000	0	2,000	2,000	0
<b>Total</b>	<b>25,211</b>	<b>24,211</b>	<b>14,771</b>	<b>28,000</b>	<b>23,900</b>	<b>11,800</b>	<b>28,000</b>	<b>20,000</b>	<b>12,000</b>	<b>28,000</b>	<b>20,000</b>	<b>12,000</b>	<b>28,000</b>	<b>med</b>	<b>12,000</b>
Mark	25,000	24,000	15,000	28,000	24,000	12,000	28,000	20,000	12,000	28,000	20,000	12,000	28,000	20,000	12,000

The pipeline at the end of FY 1997 was a modest \$27 million (less than the Agency's recommended 18 months of program). The Mission will reallocate these unexpended funds to the new activities in each objective as appropriate.

### Staff Resources

USAID staff resources are close to correct for implementing the new strategy. The Mission adjusted its staffing over the past several years to accommodate Washington mandated cuts in total numbers of employees. Major efforts were devoted to "outsourcing" key services and removing staff from the permanent rolls, particularly administrative and logistical support

functions. The result is a very lean staff at present. The following table presents a perspective on current staff and proposed changes over the strategy period.

### Staffing projections

Base level

# of positions

	1997			1998			1999			2000			2001			2002		
	USDH	Expat	local	USDH	Expat	local	USDH	Expat	local	USDH	Expat	local	USDH	Expat	local	USDH	Expat	local
Director	2	0	1	1	0	1	2	0	1	2	0	1	2	0	1	2	0	1
Program	1	0	6	2	0	5	2	0	5	2	0	5	2	0	5	2	0	5
Econ Grow	1	0	3	1	0	4	1	0	5	1	0	5	1	0	5	1	0	5
Basic Ed	0	0	0	0	1	0	0	1	1	0	1	1	0	1	1	0	1	1
Health	2	1*	3	2	1*	3	3**	1*	3	3**	1*	3	2	1*	3	2	1*	3
Dem/Gov	0	1	0	0	1	1	0	1	1	0	1	1	0	1	1	0	1	1
Controller	1	0	11	1	0	11	1	0	11	1	0	11	1	0	11	1	0	11
Exec. Off.	1	0	42	1	0	43	1	0	43	1	0	43	1	0	43	1	0	43
Total	8	1	66	8	2	68	9	2	70	9	2	70	9	2	70	9	2	70

\* TAACS FELLOW (Non-Add)

\*\* INCL. 1 IDI (Non-Add)

Places where increases occur are indicated by a shaded cell. One expat position is a fellow's position which does not count against ceilings. A new USDH position in 1999, to a new level of 9, will be allocated after the results of the strategy review. For now that position is shown in the Director's office.

The total staffing increases slightly from 78 positions at the end of fiscal 1997 (down from 87 in 1996) to 81 in 1999 to 2002. Within existing ceilings, the Mission is requesting a new USPSC position in 1998 for initiating the education sector program. In 1998, the economic growth and democracy and governance teams will be strengthened. The controller's office maintains its level of 11 positions with the caveat that, if the Mission takes responsibility for its own accounting under the new management system, then an increase of five to six positions will be requested. The executive office has stabilized at its current level and is requesting no changes during the strategy period.

### Management

The Mission intends to emphasize achieving results under this strategy. Mission staff and contractors will increasingly be held responsible for achieving promised results. Within the Mission, it is organizing itself into results package teams, with representatives from all concerned offices and virtual members from Washington and regional offices. These teams will be responsible for achieving sets of results as defined in this strategy. For each of the objectives, except for economic growth, there will be one results package team responsible for achieving the results promised under that strategic objective. Due to the diversity of interventions in the economic growth objective there will be two results package teams:

**Results Package Team 1-A** will be responsible for achieving results in the portions of the objective which address the nexus between farmers and the market with the farmers as their

ultimate customers. This team will approach the strategic objective from the farmers' point of view.

**Results Package Team 1-B** will be responsible for the results in portions of the objective which take the rural non-farm businesses as ultimate customers. This team will approach the strategic objective from the business point of view.

While the two results package teams are highly complementary and will work collaboratively toward achieving the same high level results. The Mission believes that separation is warranted to ensure adequate emphasis on all aspects of this crucial intervention.

### **Crisis Modifier**

The Mission examined its program to determine the likely effects of a significant disaster or political instability. Drought is a constant and recurrent threat - almost certain to occur during the period of the strategy. Some neighboring countries are unstable and the specter of regional disturbances and refugees looms large. Africa has developed a pattern of civil disturbances as reforms take hold, which could be possible in Zambia. Zambia's political transition has been fraught with challenges and the threat of domestic instability must be considered. The strategy has to be examined in the context of both short duration and longer duration crises.

The Mission examined the strategy to determine how each objective could be adjusted in the event of various types of crisis:

1. to help forestall the potential crisis, and
2. how the Mission would respond to the crisis in terms of activities, implications for results and staff implications

Current thinking on these critical problems is shown in the table in annex 3. Examination of the events in the matrix will form a part of the ongoing monitoring system in the Mission.

### **Monitoring and Evaluation**

USAID/Zambia is adopting a management information system approach to monitoring progress toward achieving the promised results. Each activity will be required to develop a detailed set of data relating to their accomplishments. This data will be aggregated and most items will be reported to the results package team at USAID. The results package team will combine this data with results of independent customer surveys conducted by USAID and maintain a performance monitoring database. Selected performance data from this base will be combined with financial data on the activities and serve as the basis for Mission reviews of progress. Selected data from Mission reviews will then constitute the reports on results and requests for resources to USAID/Washington. The fundamental concept of this approach is that not all data is necessary at all levels. Each successive level gets a small portion of the overall data available.

In the strategy process, the Mission has developed suggested indicators. They have arranged for external assistance over the next several months to both refine the indicators and fully define the management information system which will generate the data to monitor the indicators. Some data will be available during 1998 to report on accomplishments while much of the baseline data is being collected. By 1999, the Mission will be prepared to report on the full set of indicators.

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# **Annex 1**

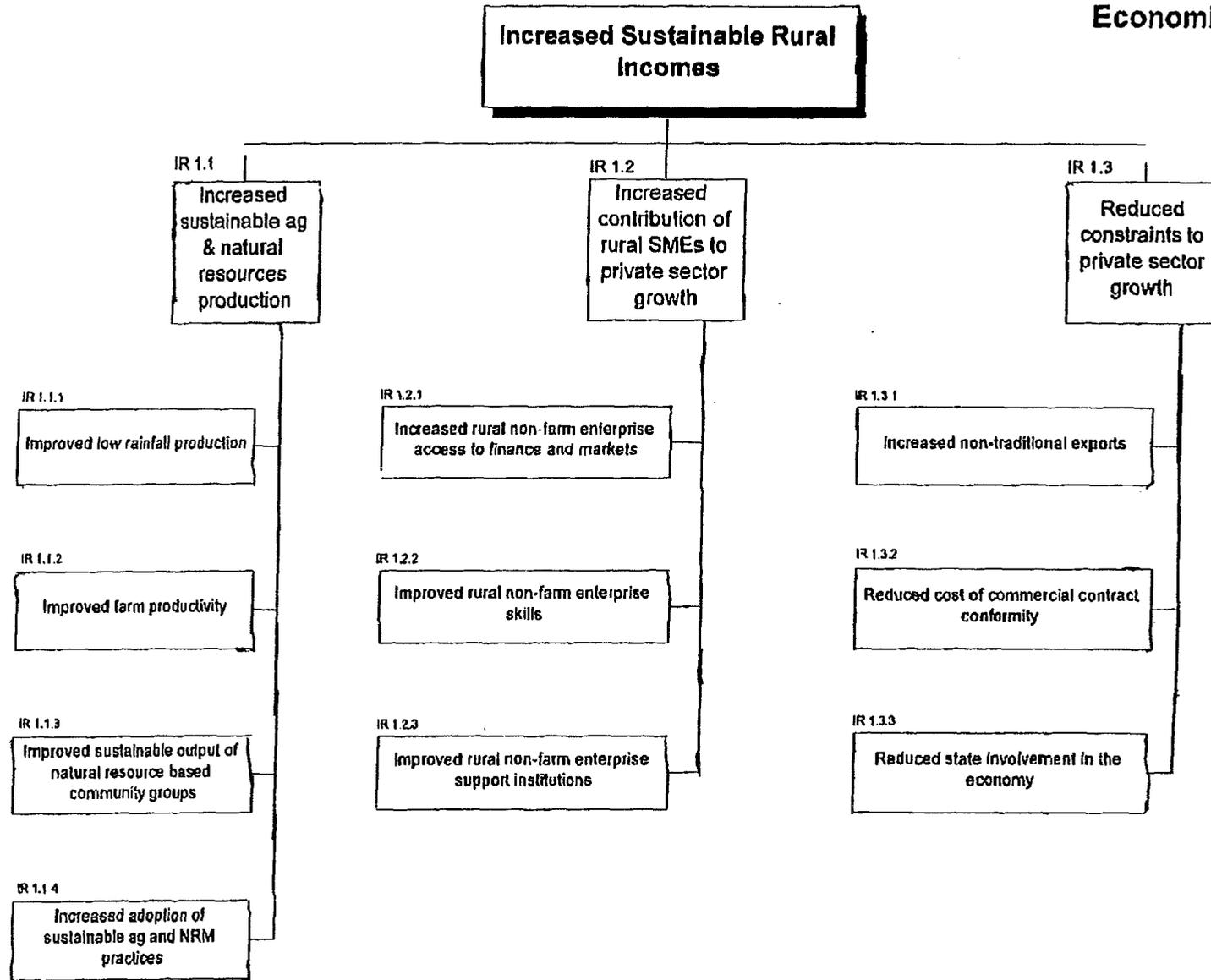
## **Results Frameworks**

Strategic Objective 1 .....	Economic Growth
Strategic Objective 2 .....	Basic Education
Strategic Objective 3 .....	Health, Population, Nutrition, HIV/AIDS
Strategic Objective 4 .....	Democracy and Governance

Results Framework

Result 1.0

SO-1  
Economic Growth

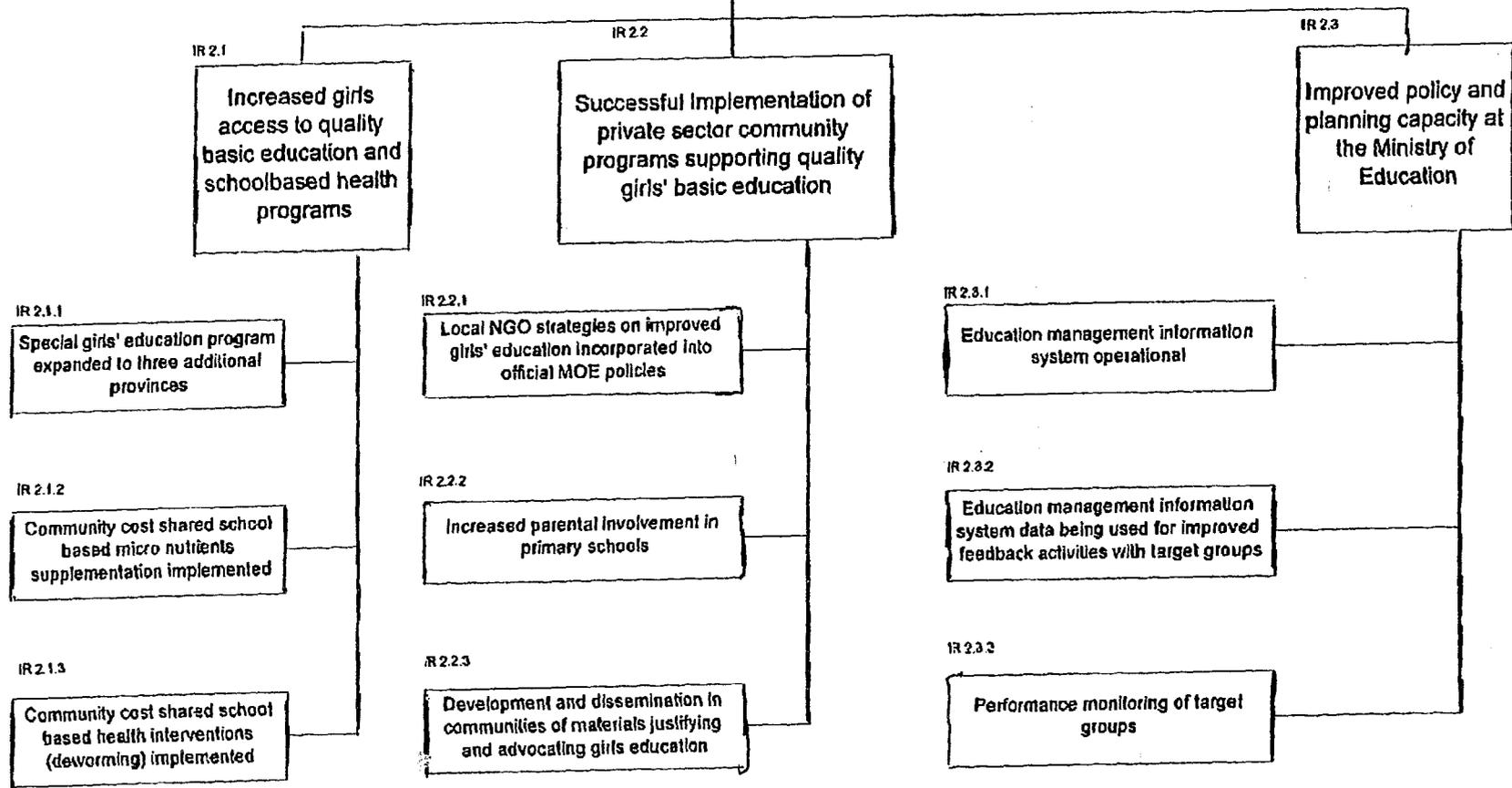


Results Framework

SO-2  
Basic Education

Result 2.0

**More equitable access to quality basic education, especially for girls**



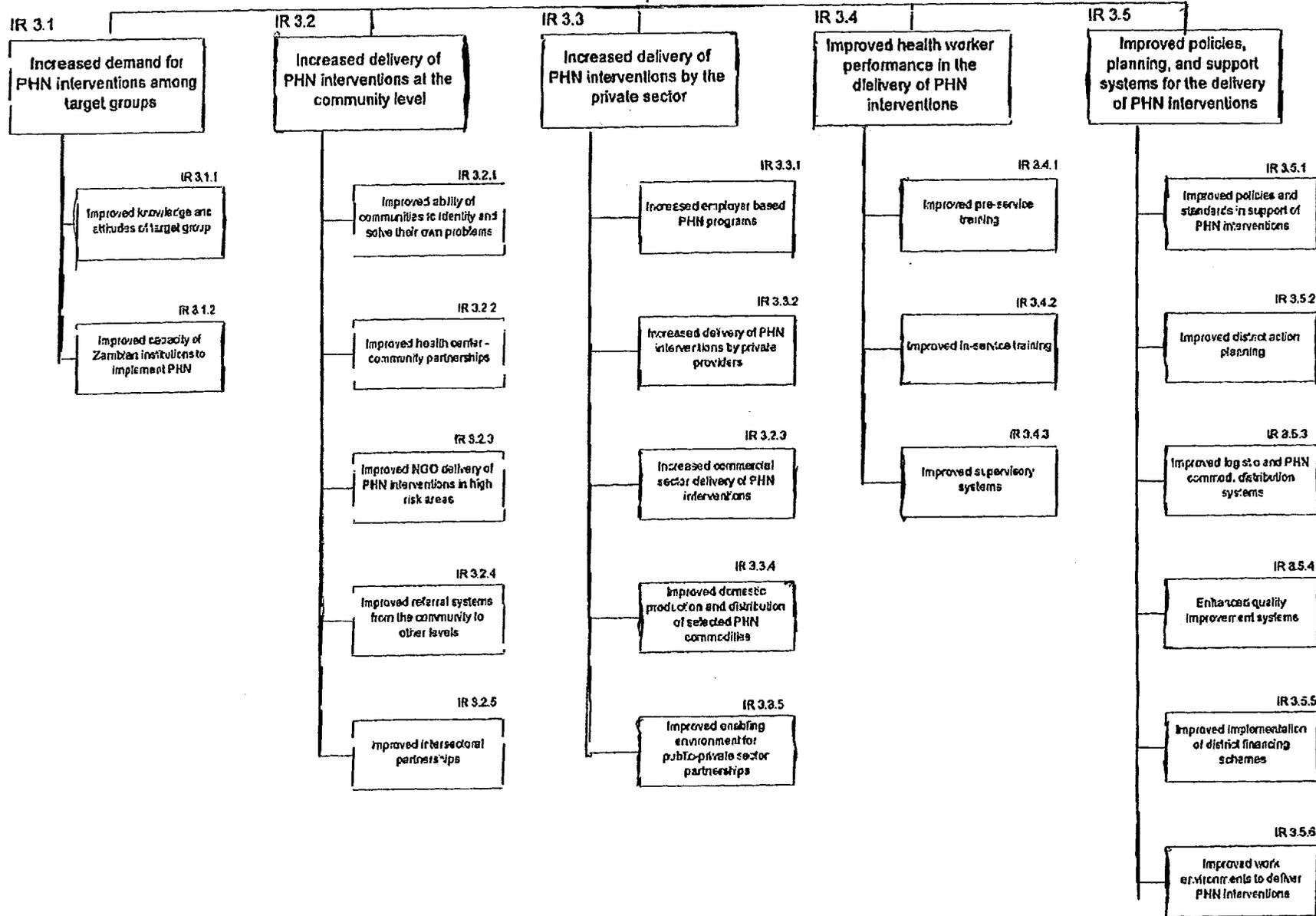
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Results Framework

Result 3.0

**Increased use of integrated child and reproductive health and HIV/AIDS interventions**

**SO3  
Zambia Integrated Health Package**



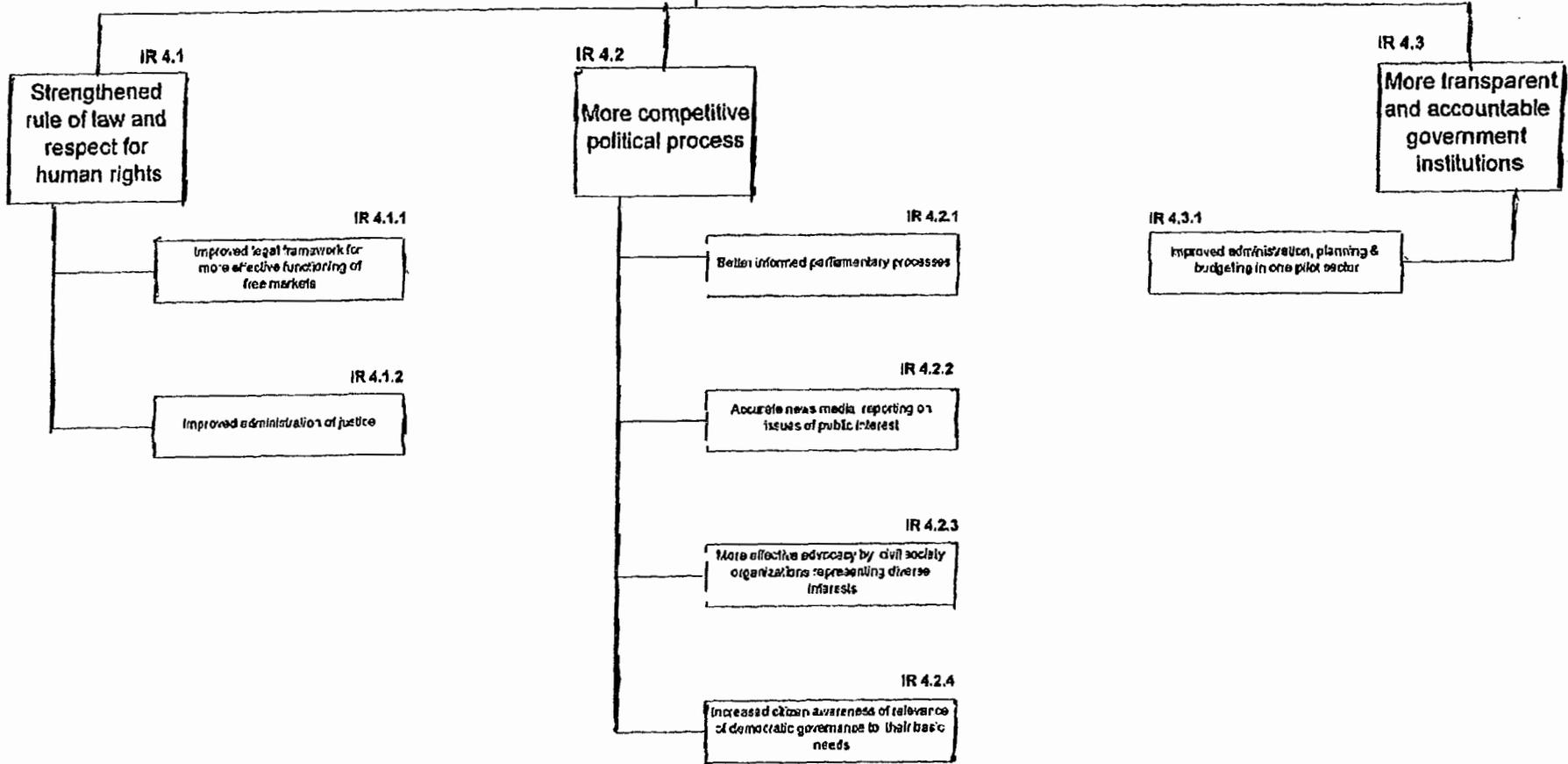
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Results Framework

SO4 - Democracy & Governance

RESULT 4

Expanded Opportunity for Effective Participation in Democratic Governance



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# Annex 2

## Results Indicators

Strategic Objective 1	.....	Economic Growth
Strategic Objective 2	.....	Basic Education
Strategic Objective 3	.....	Health, Population, Nutrition, HIV/AIDS
Strategic Objective 4	.....	Democracy and Governance

## SO-1 Economic Growth Performance Indicators

Result	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data		Performance Targets and Actual Results															
					1998		1999		2000		2001		2002							
			Yr	Val	act	pln	act	pln	act	pln	act	pln	act	pln						
<b>Strategic Objective 1 - Increased Sustainable Rural Incomes</b>																				
SO 1	Aggregated increases in rural family net income. (\$ million)	Annual household income surveys in targeted geographic areas.	98																	
IR 1.1 Increased sustainable agricultural and NR based production	Number of farmers using improved technologies (thousands)	project reports	97	22.5		19		46		79		112		145						
1.1.1 Improved low rainfall farm production	Number of farmers planting low rainfall crops and technologies (thousands)	project reports	97	12		15		30		60		90		120						
1.1.2 Improved farm productivity	Number of farmers who increase their net incomes by participating in post-production economic activities (thousands)	project reports	97	2.5		3		4		5		6		7						
1.1.3 Improved sustainable output of NR based community groups	Number rural non-farm enterprises marketing natural resource products (number)	project report	97	0		2		8		12		16		20						
1.1.4 Increased adoption of sustainable agr. and NRM practices	Number of local-level (project area) farmers using sustainable agriculture or NRM practices (thousands)	project report	97	8		10		12		14		16		18						
IR 1.2 Increased contribution of rural SMEs to PS growth	Supported and impacted SME's annual increase in profits** \$ value	Annual survey of assisted firms & adopting entities.	98		TBD															
	Supported and impacted SME's annual increase in number of employees. #		96	310		330		363		400		450		500						
1.2.1 Increased rural non-farm enterprise access to finance & markets	Increase in the annual value of total of loan disbursement to rural non-farm enterprises by or through supported entities. \$ thousands	Annual report by ATAC. Annual report by microfinance program.	97	0		-		-		-		-		-						
			98																	

Result	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data		Performance Targets and Actual Results									
					1998		1999		2000		2001		2002	
					act	pln	act	pln	act	pln	act	pln	act	pln
1.2.2 Improved rural SME skills	# of graduates from training courses #	Project reports	96			-		-		-		-		-
1.2.3 Improved SME support institutions	Increase in number of members in SME associations, #	Annual member survey of assisted assns.	97	1100		1250		1375		1500		1650		1800
	Increase in percentage of self-funding of SME associations %		98	TBD										
IR 1.3 Reduced constraints to PS growth	Cumulative number of new fair and effective trade agreements signed; #	Min. of MCTI & GRZ.	98	TBD										
1.3.1 Increased non-traditional exports	Value of nontraditional exports. (\$ Millions)	Export statistics.	96	271										
1.3.4 Reduced cost of commercial	Number of companies having resolved contract disputes via binding arbitration. #	Annual report from arbitration	98	0										
1.3.4 Reduced State involvement in the economy	Number of parastatal companies sold or liquidated. #	Zambia Privatization Agency	95	45		10		0*						
	Percent of privatized assets Bought or controlled by Zambians %	Zambia Privatization Agency	95	40		40		0*	-					

\*\* To the present, measured in average percentage increase in profits by assisted firms (1996 was 25% increase)

• Program PACD 12/30/98

## SO-2 Basic Education Performance Indicators

Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data												
					1998		1999		2000		2001		2002		
			Yr	Val	act	pln									
<b>Strategic Objective 2 - Improved Girls Primary school performance</b>															
R2.0	Increased Girls enrollment rate in primary school	%	MOE data	95	93.0		93.5		94.0		94.5		95.0		95.5
	Increased pass rate of girls (primary school leavers exam; progression to grade 8)	%	MOE data	95	33.3		34.0		34.5		35.0		35.5		36.0
	Increased Teacher/pupil ratio	ratio	MOE data	95	1:39		1:38		1:37		1:36		1:35		1:34
	Decreased number of years to produce girl grade 7 school leaver #		MOE data	95	8.7		8.5		8.3		8.1		7.9		7.7
IR2.1 Increased Girls' access to quality basic education and school health programs															
IR2.1.1 Program for the Advancement of Girls' Education expanded to 3 additional provinces															
	Number of provinces with 10 schools participating	#	MOE data	97	0		1		2		3		3		3
IR2.1.2 Community cost-shared, school based micro-nutrient supplement programs implemented															
	Number of micro-nutrient programs operational	#	MOE data	97	0		10		20		30		30		30
IR2.1.3 Community cost-shared, school based health (deworming) interventions implemented.															
	Number of de-worming programs operational	#	MOE data	97	0		10		20		30		30		30
IR 2.2 Successful Implementation of private sector programs supporting quality girls basic education															
IR 2.2.1 FAWEZA strategies on Improved Girls Education incorporated into official MOE policies															
	Sex education adopted as policy, grades 4 - 7 Yes/No		MOE	97	No										
	Gender-sensitive materials in curriculum Yes/No		MOE/CDC	97	No										
	Single-sex classes provided as an option % of schools		MOE	97											
	Sexual abuse and harassment sensitization % of communities		MOE	97											
	More qualified female teachers deployed % of total		MOE data	97	44.5		45		45.5		46		46.5		47
2.2.2 Increased parental involvement in primary schools															
	Parents' attendance at PTA meetings % by district		FAWEZA	97											

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Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data						
				1998	1999	2000	2001	2002	
	Parents' active participation in PTA activities %a by district	FAWEZA	97						
2.2.3 Development and Dissemination in Communities Justifying and Advocation Girls' Education									
	Reduction in Teenage Pregnancies in grades 4-7 %a by district	FAWEZA	97						
	Reduction in girls household chores %a by district	FAWEZA	98						
	Reduction in initiation ceremonies %a by district	FAWEZA	97						
	Reduction in reported sexual abuse and harassment incidents %a by district	FAWEZA	98						
IR 2.3 Improved Planning and Policy Capacity at the MOE									
IR 2.3.1 EMIS Established and Operational (Gender-disaggregated) and reporting regularly on:									
	Enrollment rates, by school	MOE	98						
	Attendance rates, by school	MOE	98						
	Retention rates, by school	MOE	98						
	Repetition rates, by school	MOE	98						
	Learning capacity testing rates, by school	MOE	00						
2.3.2 EMIS Data Being Used for Improved Feedback Activities with Target Groups									
	Indicators being developed								
2.3.3 Performance Monitoring of Target Groups									
	Learning Capacity Testing Materials Developed by 1999	MOE	99						
	Learning Capacity Testing Performed Annually by 2000	MOE	00						



Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data											
			Yr	Val	1998		1999		2000		2001		2002	
					act	pln	act	pln	act	pln	act	pln	act	pln
Malaria Careseeking	Proportion of children under 5 years of age with fever in the past 2 weeks that received antimalarial agents in target districts	Survey	97	30		45		45		50		55		60
IR 3.1.2 Improved capacity of Zambian institutions to implement PHN														
New family planning acceptors	Number of new family planning acceptors in USAID-targeted districts # (000's)	Project data	96	42		80		80		100		100		100
	Number of new family planning acceptors nationally # (000's)	HMIS	95	73		100		110		120		130		140
IR 3.2 Increased delivery of PHN interventions at the community level														
IR 3.2.1 Improved ability of communities to identify and solve their own problems														
Use of community based services	Percent of population covered by Community Health Workers in target districts	Project data	98											
Community-based outlets for commercial sales	Percent of bars/clubs/restaurants that are outlets for socially marketed condoms	Survey	96	35		44				52				60
IR 3.2.2 Improved health center community partnerships														
Communities with active Neighborhood Health Committees	Percent of health centers with active community partnerships in demonstration districts	Project data	97	5		30		45		55		65		75
IR 3.2.3 Improved NGO delivery of PHN interventions in high risk areas														

Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Yr	Val	1998		1999		2000		2001		2002	
					act	pln	act	pln	act	pln	act	pln	act	pln
NGO participation	Number of NGOs working with communities in high risk areas per year in target districts	Project data	97	12		16								
IR 3.2.4 Improved referral systems from the community to other levels														
Referral system strengthened	Proportion of districts with improved referral systems in target areas	Project data	98											
IR 3.2.5 Improved intersectoral partnerships														
Intersectoral support	Number of districts providing intersectoral HIV/AIDS interventions in target districts	Project data	97	5	25	45	65	70						72
IR 3 Increased delivery of PHN interventions by the private sector														
IR 3.1 Increased employer-based PHN services														
Workplace based PHN interventions	Percent of employers with > 100 employees providing PHN interventions at the workplace	Survey	96	10	55	65	70	80						80
IR 3.2 Increased delivery of PHN interventions by private providers														
Socially marketed commodities	Annual number of products sold: 1. Maximum condoms (in millions) 2. Safe Plan (in 000s) 3. Insecticide Treated Mosquito Nets (ITMNs) (000s)	Survey	96	6.6	7.6	8.2	8.8	9.4						10
			97	-	20	25	30	35						40
			98	-	25	50	50	50						50
IR 3.3 Increased commercial sector delivery of PHN interventions														

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Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Yr	Val	1998		1999		2000		2001		2002	
					act	pln	act	pln	act	pln	act	pln	act	pln
Commercial sector delivery	Number of PHN commodities distributed 1. Vit A, fortified sugar 2. Potable water vessels 3. Insecticide Treated Mosquito Nets	Survey and Project data	98											
IR 3.3.4 Improved domestic production and distribution of selected PHN commodities														
Production and distribution	Number of metric tons (000) domestically consumed sugar fortified with Vit. A	Zambia Sugar Company PLC	98	80										
IR 3.3.5 Improved enabling environment for public-private partnerships														
Public-private partnerships	Number of franchising clinics providing PHN services		98											
IR 3.4 Improved health worker performance in delivery of PHN interventions														
IR 3.4.1 Improved pre-service training														
Pre-service training	Number of education and training institutions integrating PHN competencies in basic curricula	General Nursing Council and Medical Council of Zambia	99											
IR 3.4.2 Improved in-service training														
Training coverage	Proportion of districts where staff have been trained in integrated technical guidelines (1st, 2nd and 3rd editions) Note: Total 72 districts in Zambia	Survey	96	0										

Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data											
			Yr	Val	1998		1999		2000		2001		2002	
					act	pln	act	pln	act	pln	act	pln	act	pln
Diagnosis of IMCI	Percent of trained health workers that correctly diagnose fever 2 - 4 months after IMCI training (n = number of new workers trained/year) in target districts	Survey	96 N=	80% 100		80% 200		80% 300		80% 300		80% 300		80% 300
Sexually Transmitted Infections (STI) case management (diagnosis and treatment)	Percent of people presenting with STIs in health facilities assessed and treated in appropriate way (i.e according to national standards) by number of people presenting with STIs or for STI care in health facilities	Survey	98											
<b>IR 3.4.3 Improved supervisory systems</b>														
Supervisory systems	Number of districts appropriately using integrated supervisory tool	Survey	98											
<b>IR 3.5 Improved policies, planning and support systems for the delivery of PHN interventions</b>														
<b>IR 3.5.1 Improved policies and standards in support of PHN interventions</b>														
Policies and standards	Number of critical PHN policies developed per year 1. Health Care Financing 2. Health Education/IEC 3. Orphans 4. Adolescent Health	MOH/CBOH	97	1		1		2		1				

Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data											
			Yr	Val	1998		1999		2000		2001		2002	
					act	pln	act	pln	act	pln	act	pln	act	pln
IR 3.5.2 Improved district action planning														
District Health Action Plans	Percent of districts submitting acceptable annual action plans according to national technical guidelines	CBOH Review	97			20		40		60		80		80
IR 3.5.3 Improved logistics and PHN commodity distribution systems														
District Integrated Logistics Self-Assessment Tool (DILSAT)	Proportion of selected districts that conduct a self-assessment of their integrated logistics systems (drugs, vaccines, contraceptives, laboratory supplies and IEC materials)	Survey	96	0		10		20		30		40		50
Stockouts	Proportion of SDPs with no stockout of any drug on the essential list during the previous per year %	HMIS	98											
IR 3.5.4 Enhanced quality improvement systems														
Quality assurance	Number of districts integrating QA in service delivery	Survey	98											
IR 3.5.5 Improved implementation of district financing schemes														
Health care financing	Percent of districts implementing health care financing according to CBOH guidelines	CBOH data	98											
IR 3.5.6 Improved work environments to delivery PHN interventions														

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Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data															
			Yr	Val	1998		1999		2000		2001		2002					
					act	pln												
Support systems	Number of hospitals/health centers supplied with equipment to implement PHN services in targeted districts	Project data	98															

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### SO-4 Democratic Governance Performance Indicators

Performance Indicator	Definition of Indicator and Unit of Measurement	Source and Method	Baseline Data		Performance Targets and Actual Results											
			Yr	Val	1997		1998		1999		2000		2001		2002	
					act	pln	act	pln	act	pln	act	pln	act	pln	act	pln
<b>Strategic Objective 4 Expanded Opportunity for Effective Participation in Democratic Governance</b>																
Result	Increase in number and quality of avenues for citizen involvement	Assessment: Focus Groups in Parliament, Executive, NGO's and CDO's	98	tbd					x			x		x		x
Intermediate Result 4.1 Strengthened rule of law and respect for human rights	Satisfaction with working of Judicial System	Stratified Survey of Lawyers, Judges and Parties to Disputes	98	tbd					x			x		x		x
4.1.1 Improved legal framework for more effective functioning of free markets	Disputes resolved as percent of disputes channeled to arbitration	MOLA/ZLA	98	tbd					x			x		x		x
4.1.2 Improved administration of justice	a. Percentage growth in inquires to case law web site. b. Availability of information on case loads, status, and disposition	UNZA Law School, MOLA	97	tbd			x		x			x		x		x
Intermediate Result 4.2 More competitive political process	Citizen awareness and attitudes about inclusion in political process	Opinion Survey	98	tbd								x				x
4.2.1 Better informed parliamentary process	Citizen contact with Members of Parliament	Parliament	98	tbd								x		x		x

4.2.2 Accurate news media reporting on issues of public interest	a. Changes in reporting as measured by content analysis b. Degree of market segmentation and penetration	ZIMA	97	tbd					x		x		x		x	
4.2.3 Effective advocacy by civil society organizations representing diverse interests	Advocacy presence in Parliament and Executive branches of government	Focus Group	98	tbd					x		x		x		x	
4.2.4 Citizen awareness of relevance of democratic governance to their basic needs	a. Measures of citizen expectations in key social and economic areas b. Measures of personal responsibility accepted in key behavioral areas	Survey	99	tbd							x		x		x	
Intermediate Result 4.3 More transparent and accountable government institutions	Measure of subsidiarity: degree to which functions are delegated to lowest possible level in the pilot delivery organization	Organization Assessment	99	tbd							x		x		x	
4.3.1 Improved administration, planning & budgeting in one pilot sector	Adoption of planning, budgeting and management tools in pilot sector	Organization Assessment	99	tbd							x		x		x	

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# **Annex 3**

## **Crisis Modifier Matrix**

### Annex 3 Crisis Modifier Matrix

Event	Econ Growth	Basic Ed	Health	D/G
<b>Drought</b>				
Prevention/ Preparation	Drought prone areas production, identification of vulnerable groups, consensus on delivery plan, early warning system (FEWS)	No specific role but target drought prone areas like Southern Region for program/and recovery	No specific role but target drought prone areas like Southern Region for specific interventions (water, sanitation, preventive health measures)	No specific role
<b>Modifiers</b>				
Activity	Implementing NGOs take on drought relief and recovery role (water, seed). Private sector role in PL-480 food delivery	No specific adjustments, but possible NGO interventions to keep kids in school	Emphasis in drought affected, vulnerable areas; nutrition programs in conjunction with PL-480 feeding, Nutrition surveillance	No specific adjustments
Results	Production results decline Business could be stimulated	No specific adjustments	Minor adjustment should not affect results unless multi-year	No specific adjustments
Staff	SO team 25% on drought issues; request drought relief team to manage	No specific adjustments	No specific adjustments	No specific adjustments
<b>Regional Political Instability - Refugees</b>				
Prevention/ Preparation	No bilateral measures possible	No bilateral measures possible	No bilateral measures possible	No bilateral measures possible; regional conflict resolution efforts
<b>Modifiers</b>				
Activity	Institute feeding programs of minimal disruption to Zambian markets	No specific adjustments	Health services to refugee areas, possible non-food refugee supplies	Surveys of refugees, coordination of response monitor reg. situations
Results	Minimal effects since most USAID programs not in border areas	No specific adjustments	Should not disrupt overall results	Could disrupt progress on domestic political front if there is fear of instability spreading
Staff	Refugee relief team request to manage	No specific adjustments	No specific adjustments	Up to 25% of staff time depending on size of refugee influx
<b>Domestic Political Instability - Civil Unrest*</b>				
Prevention/ Preparation	Economic growth to bring satisfaction and stability	Civics incorporated into curriculum		Civil society organizations, encouraging the public dialogue, improving the administration of justice
<b>Modifiers - if short term &lt; one month</b>				
Activity	Some disruption of day to day work in activities; possible temporary recall of field staff	Some disruption of day to day work in activities,	Some disruption of day to day work in activities, possible temporary recall of field staff	Potential serious disruption of activities

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Event	Econ Growth	Basic Ed	Health	D/G
Results	Overall results should not be affected if confidence level does not falter	Overall results should not be affected	Overall results should not be affected	Results might need reconsidering
Staff	Decreased productivity due to interruptions	Decreased productivity due to interruptions	Decreased productivity due to interruptions	Staff devoted to analyzing causes of disruption
Modifiers - if long term				
Activity	Field work probably terminate; increasing efforts in Lusaka proper; reform process could be reversed. Potential for humanitarian support for displaced or destitute.	Field work probably terminates; reform process could be reversed.	Field work probably terminates; reform process could be reversed.	Democratic reforms would probably be stopped, shift gears to seeking solutions to the conflicts.
Results	Completely reconsidered	Completely reconsidered	Completely reconsidered	Completely reconsidered
Staff	Staff resources probably redirected to emergency work	Staff probably departs	Most staff probably departs	Staff role becomes analytical and focussed on conflict resolution
<b>Earthquake, Floods, Chemical Emergencies and Other Short-term Crises</b>				
Prevention/Preparation	N/A	N/A	N/A	N/A
Modifiers				
Activity				
Results				
Staff				

\*See narrative section on different kinds of civil unrest scenarios

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# **Annex 4**

## **Strategic Objective 1 Economic Growth**

## **Strategic Objective 1: Sustainable Increases in Rural Incomes**

### **1. Statement of Objectives**

Zambia's rural productive and commercial sector has experienced significant difficulties in adjusting to the new free-market environment which has arisen in the aftermath of sweeping economic reform and liberalization. While markets have been rationalized and the government's role in the economy has been dramatically curtailed, much of the rural sector - including both farm and non-farm enterprises - has yet to adjust to and/or exploit the opportunities created by the changes. The result is wasted productive potential, unexploited income and employment opportunities, underutilized human resources and their attendant impacts upon rural sector growth, productivity and income.

The next step in the economic reform process will therefore be to better equip rural producers and entrepreneurs to reap the benefits of liberalization, and thereby catalyze broad-based production, income and employment growth in the sector, with significant positive multiplier effects for the national economy as a whole.

### **2. The Rural Private Sector in the Zambian Context**

While Zambia is the most highly urbanized country in sub-Saharan Africa, the bulk of the population (nearly 60%) still lives in rural areas, with the majority engaged in agriculture. Fifty percent of small enterprises are based in rural areas. The rural economy, including both farm and non-farm enterprises, accounts for approximately 50% of GDP. Despite the importance of the rural sector, it lags significantly behind the urban sector in virtually all social and economic development indicators. Closing this gap is essential to any effort to bring about sustainable development in Zambia.

As part of an effort to overcome over two decades of economic stagnation and decline, the Government of the Republic of Zambia (GRZ) has over the past five years implemented a sweeping economic liberalization program which has affected all sectors of the national economy, but none more so than agriculture. Liberalization has greatly reduced the GRZ's subsidy burden, rationalized agricultural markets, and created numerous new income opportunities for Zambian farmers and rural entrepreneurs. The government has largely withdrawn from its former roles as supplier of agricultural inputs and credit, and of buyer and marketer of the nation's agricultural production. In natural resources management, the GRZ has taken steps to empower local communities to manage the natural resources in their areas. The private sector - including farmers, non-farm rural enterprises, and rural communities - must now take the lead in spurring economic growth and development in the rural sector.

However, the large gap left by the withdrawal of government has remained largely unfilled. In agriculture, distribution systems for production inputs remain incomplete, extension services are fragmentary, and marketing systems fail to reach all rural families. Low per-unit crop yields add to agriculture's high cost structure and limit prospects for Rural Non-Farm Enterprise (RNFE) growth. In turn, small and medium-scale entrepreneurs, who would be expected to act as the interface between markets and rural households, are severely constrained by lack of market and product knowledge, business skills and access to financing. All of these problems are compounded by the remoteness and inadequate transportation infrastructure that characterize much of rural Zambia and which isolate rural producers from their markets and greatly increase transaction costs. In the area of natural resources management the lack of sufficient training, unclear tenure rights, and inadequate oversight have resulted in inappropriate and unsustainable management practices which threaten the long-term economic viability and supply of these resources.

In the rural non-farm economy, entrepreneurs in small manufacturing operations producing for rural markets must relearn how to do business in a newly unprotected environment. Adding to the difficulty is the fact that the free-trade policies initiated by the government have not been reciprocated by fair trade practices on the part of Zambia's neighbors, and Zambians are finding it hard to compete in regional markets or prevent neighboring countries from dumping their subsidized products in Zambia. This situation is aggravated by an overvalued Kwacha. While liberalization was an essential step in reviving Zambia's moribund economy, the legacy of over thirty years of severe market distortions and other unsustainable economic policies makes further action necessary if the private sector is to fulfill its essential role in leading the economic revival of rural Zambia.

### **3. Rural Private Sector Development - A Priority for Zambia and for USAID**

Both the Zambian Government and USAID recognize that if sustainable development is to take hold in Zambia, economic reform and liberalization must be followed through to its conclusion. USAID/Zambia has been a key partner of Zambia in its effort to revive its economy by abandoning discredited and failed statist policies and adopting a free-market system. USAID's interventions include well-targeted and highly successful assistance to the privatization of state-owned enterprises, the liberalization of agricultural markets including emergency food relief interventions, and support to the development of Small and Medium Enterprises (SMEs) and Rural Non-Farm Enterprises (RNFEs). However, while necessary, the reforms are not in and of themselves sufficient to bring about long-term sustainable growth and development, particularly in the rural sector; the new systems are not yet fully in place and functioning. The other part of the sustainable development equation is the capacity of the rural sector to take over the GRZ's former roles, though more efficiently and effectively. Addressing this issue is a top priority for both Zambia and USAID.

USAID/Zambia's approach is to work in a supportive rather than a directive role in assisting Zambia. While the Mission has brought its considerable expertise and experience to bear in providing assistance, the development partnership with the government is one where Zambians lead and Zambian priorities set the pace and course of reform. Zambia's reforms to date were conceived and carried out by Zambians. Zambian ownership of the next step of Zambia's economic transformation is critical to its success.

#### **4. USAID/Zambia's Comparative Advantage**

USAID/Zambia's focus under SO-1 is increasing the efficiency and productive capacity of the rural private sector, through technical assistance, training, institutional capacity building and policy reform. USAID has been working closely with both the Zambian private and agricultural sectors since 1977, and possesses in-depth experience and universally-recognized expertise in both areas. USAID was a major partner in the Zambian government's Private Sector Reform Program through the Zambia Privatization Project, (220 companies privatized to date - a program held up as a model for sub-Saharan Africa), and the implementation of the Agricultural Sector Reform Program (ASLP), a USAID project that resulted in the removal of the most egregious distortions in the agricultural markets caused by the statist policies of the previous Zambian government. The Mission's approach will be to make use of this comparative advantage to design and implement carefully targeted activities for maximum return and demonstration effect. Activities will build upon and develop further the activities carried out under the previous five-year Country Strategic Plan.

#### **5. USAID/Zambia's Customers, Stakeholders and Partners**

SO -1 partners and stakeholders include government, non-government and private sector agencies. About 16 bilateral and multilateral donors provide assistance in the area of private sector growth. Accurately estimating donor funding is difficult due to their scope, and a general lack of consolidated information. A very rough estimate of total donor disbursement is between \$40 - \$45 million per annum. Major donors in these areas are the World Bank, UNDP, FAO, Netherlands, SIDA, FINNIDA, NORAD, European Union, Japan, African Development Bank, UK/ODA.

The World Bank has promoted an Agricultural Sector Investment Program (ASIP) to eliminate project redundancies, stimulate Zambian ownership of donor support, and encourage agricultural development. The Ministry of Commerce, Trade and Industry, through the Zambia Privatization Agency, continues with major privatizations; the latest in a line of major successes being privatization of the Zambia Consolidated Copper Mines which earn 80% of Zambia's foreign currency. The Ministries involved in private sector growth

are focussing more attention on export and regional trade issues and building effective partnerships with SADC and COMESA counterparts.

The World Bank is the single largest funder of private sector activities, from legal reform through privatization to direct business financing. UNDP focuses on employment creation through small enterprises, women entrepreneurs and policy support. The UK has a major microfinance project in place and are co-funding the Venture Capital Fund. Ireland works with the Investment Center. Japan works on vocational training. Germany finances macro-economic enhancement and provides advisory services to the Ministry of Commerce, Trade and Industry. The EU works with the Export Board. Under the EU's trade and enterprise support facility, firms can access forex loan funds for feasibility studies and later for investment.

In agriculture, most donors focus on participatory approaches to rural poverty alleviation and food security. The European Union has done a great job in supporting high value crop exportation (floriculture, tobacco, horticulture). USAID is the only donor, perhaps with the exception of SIDA, that specifically focuses on the private sector's role in rural economic growth and developing agribusinesses with linkages to small holders.

The World Bank has initiated an environmental sector investment program aimed at coordinating donor and Ministry of Environment activities. The National Environmental Action Plan and the National Forestry Action plan are blueprints for the implementation of these activities. The European Union recently initiated a major restructuring activity with the Ministry of Tourism and the National Parks and Wildlife Service including finalizing new wildlife legislation. The Japanese are financing infrastructure and service improvements in the Kafue National Park.

There are many local and international NGOs active in supporting agriculture, natural resources, and private sector initiatives. The Zambian Association of Manufacturers (ZAM) and Zambian Association of Chambers of Commerce and Industry (ZACCI) are apex type institutions while provincial level business associations have grown rapidly in number over the last year. The USAID funded Human Resources Development Activity provides business training in rural areas, and IESC provides technical assistance to both rural and non rural SMEs. Various other donors, including the Germans are involved in small business training. The Economics Association of Zambia contributes to policy debates. The Zambian National Farmers Union (ZNFU) provides farmer assistance, policy and information and is part owner of an Agricultural Commodity Exchange. The Program Against Malnutrition (PAM), created in 1992 to distribute food aid during the drought of the century, has expanded to undertake a number of food security, poverty and agribusiness related activities. CARE, Africare, CLUSA, World Vision, Development Assistance People to People are active in food security, water and rural finance and RNFE development. The Environment and Conservation Association of Zambia (ECAZ) promotes agroforestry. The Wildlife

Conservation Society promotes wildlife conservation, including flora and fauna. The World Wide Fund for Nature and the International Union for the Conservation of Nature complement these activities.

SO -1 business partners mostly include parastatals previously privatized under Zambia's successful privatization program. These range from the manufacturing and tourism industry through cotton ginneries, cereals and horticulture processors, oilseed crushers, textile mills, opaque and clear beer breweries; they all demand throughput from Zambia's 650,000 small scale producers. SO -1 will assist these businesses in developing greater business capacity in order to create more "demand pull" for the products of our ultimate customers' rural families.

SO -1's primary customers are rural families. SO -1's achievement will ensure that rural families have more income to meet their food, shelter and clothing needs and the skills to continue improving their livelihoods. Service delivery cooperating agencies will be selected if they tailor services to rural family needs and aspirations. Through participatory processes, cooperating agencies will deliver technology and business skills so that rural families, and rural non-farm enterprises managed by rural families, can efficiently respond to market signals and, in some areas, increasingly drier agroclimates.

## 6. The Development Hypothesis

The development hypothesis underpinning USAID/Zambia's SO-1 Results Framework is that three key sets of interventions can effectively fill the gap left when the government redefined its role in rural markets; these are; reducing constraints to private sector growth; increasing production; and improving productivity. They will seek to lower transaction costs, thereby increasing the efficiency of the system. The following approach can take Zambia's economic reforms to the next step - moving beyond liberalization and deregulation to fulfilling the promises of direct and tangible benefits to the rural population.

**Production** - increasing sustainable agricultural, natural resources and non-ag production by bringing new technologies to subsistence and small-scale producers organized into groups, introducing new natural resource-based products, and introducing new sustainable agriculture, natural resources and business practices;

**Marketing** - increasing the productivity of RNFES so they can take their proper role, replacing the government as intermediaries in the rural market. This will require increasing rural entrepreneurs' access to finance and markets, improving their basic business management skills, and improving their support institutions.

**Policy Adjustment** - reducing key constraints to private sector growth will allow Zambian farm and non-farm enterprises to compete effectively and take on their proper role. Of particular note are trade policy adjustment to assure that Zambian exports and imports are treated fairly in the regional and world markets; adjustments in commercial contract approaches to establish meaningful contracts with dispute resolution mechanisms such as binding arbitration; continuing to reduce the state's role in the economy by continuing privatization and by supporting the Ministry of Agriculture as it reinvents its mission; and development of market-friendly transitory food security plans.

Since the new approach of combining two formerly separate SOs and refocusing activities, was only developed as part of this strategic plan exercise, baselines and targets will have to be defined during the coming year. The kinds of results we expect to measure are, *inter alia*:

- Improved farm productivity;
- Improved sustainable output of NRM-based community groups;
- Increased rural non-farm enterprise access to finance and markets;
- Increased rural non-farm enterprise support institutions;
- Increased non-traditional exports;
- Reduced state involvement in the economy.

## **7. Critical Assumptions Governing Strategic Objective Achievement**

While USAID/Zambia will take all the necessary and possible steps required to achieve these results, certain other actions and conditions must also occur. These are the critical assumptions for achievement of the Strategic Objective. Transportation improvements are essential. The deplorable state of the national road system adds huge overheads to the marketing system. Other donors are making significant investments in this area. A relative limited number of natural disasters and other crises is also assumed. These include multi-year droughts, inflows of large numbers of refugees from neighboring countries, or any domestic civil and/or political disorder. Finally, the SO 1 strategy assumes that positive results from the program can be realized quickly enough to demonstrate to both the Zambian government and public that economic reform is not all pain and no gain, and thereby encourage both to "stay the course".

## 8. The SO-1 Results Framework

USAID/Zambia has designed a cross-sectoral approach that links consolidation of the agricultural market reforms to date with private enterprise development in order to bring about sustainable increases in rural incomes, the Strategic Objective. The Mission will seek over the life of its next five-year (1998-2002) Country Strategic Plan (CSP) to build upon the positive effects of the GRZ's economic reforms and of the Mission's programmatic interventions to address the closely-related issues of rural agricultural producer isolation and barriers to SME development. Though the challenge is formidable, it also contains within it an opportunity: the opportunity to create positive, mutually reinforcing multiplier effects from an integrated program of assistance to agriculture and private enterprise. The SO Results Framework illustrated graphically in the above figure demonstrates the linkages between the different components of Strategic Objective 1, including the sequence of results that contribute to the achievement of the SO.

USAID/Zambia's economic growth Strategic Objective is to create sustainable increases in rural incomes. This SO is to be attained via the achievement of three major intermediate results (IRs): **1.1) Sustained Increases in Agricultural and Natural Resources Production; 1.2) Increased Productivity of Rural Non-Farm Enterprises; and 1.3) Reduced Constraints to Private Sector Growth.**

These IRs are intended to be complementary and mutually reinforcing. GRZ economic liberalization underpins USAID's ability to foster RNFE sales, earnings and demand for farm production and employment. USAID itself cannot direct RNFE and farm investments productively. This can only be done by free market signals such as prices, that send scarcity, abundance and consumer preference messages. When firms and farmers seek to respond to market signals, USAID training, finance and market information interventions can assist in making their responses less costly and more competitive.

The Strategic Objective, **Increased Sustainable Rural Incomes**, requires that production, productivity and the economic environment be addressed simultaneously, for both farm and rural non-farm enterprises. The three principal IRs are to be achieved through the achievement of a series of sub-IRs.

### ***IR 1.1 Sustained Increases in Agricultural and Natural Resources Production:***

IR 1.1.1, **Improved Low-Rainfall Production**, reflects technical assistance activities aimed at creating surplus production of low-rainfall crops by subsistence farmers in drought-prone areas. Through community-based seed multiplication and distribution, institutional capacity-building and farmer-to-farmer extension USAID promotes the use of improved low-rainfall crop varieties, low input production systems (targeted at women), conservation and minimum-tillage farming and soil moisture management.

IR 1.1.2, **Improved Farm Productivity**, seeks to increase labor productivity and farm profitability by lowering input costs, raising farm revenues through group marketing, diversifying the enterprise mix and making Zambian farmers more competitive regionally.

IR 1.1.3, **Improved Sustainable Output of Natural Resource-Based Community Groups**, seeks to improve rural community groups' ability to derive economic benefits from economic exploitation of natural resources in their areas in a sustainable fashion.

IR 1.1.4, **Increased Adoption of Sustainable Agricultural and NRM Practices**, with technical assistance that promotes better water resource management (dams, irrigation, watershed management, sanitation), agroforestry, integrated animal and crop production systems, crop rotation, and forest product harvesting.

### ***IR 1.2 Increased Productivity of Rural Non-Farm Enterprises (RNFEs)***

IR 1.2.1, **Increased RNFE/SME Access to Finance and Markets**, is to be achieved through activities which facilitate access of small and medium rural entrepreneurs (including farmers operating RNFEs) to rural savings and credit schemes, training that assists RNFEs in better investing retained earnings (as high-cost commercial credit is not always appropriate) and understanding free-market opportunities and constraints.

IR 1.2.2, **Improved RNFE Enterprise Skills**, is a crucial result as a major handicap of Zambian RNFEs, particularly those of small and medium scale, is a lack of knowledge in product and market identification, business planning, contract negotiations, decision making and funds management.

IR 1.2.3, **Improved RNFE Support Institutions**, is to be achieved through formation, development and skills training for business associations and rural group businesses, giving RNFEs more collective clout in their markets by cooperation with other RNFEs.

### ***1.3) Reduced Constraints to Private Sector Growth***

IR 1.3.1, **Increased Non-Traditional Exports**, is a result encompassing activities aimed at exploiting Zambia's production potential, to diversify its mix of exports as well as the type of economic opportunities in rural areas. Zambia's exports have traditionally been dominated by minerals and, to a lesser extent, maize. These activities will promote policies to improve cross-border trade, provide training for policy makers, implementors and negotiators, assist Zambia in developing and implementing trade legislation, and explore alternative export production opportunities. Assistance in lowering the cost of agricultural and non agricultural production will increase Zambian competitiveness in regional markets.



viewed as too high by parents. Increasing rural incomes in a sustained fashion serves to weaken the economic rationale for keeping girls out of school or limiting their education, which eases somewhat the difficulty of the task of improving their educational status. Likewise, expansion of the number and size of RNFEs creates a need for literate and numerate individuals, including women and girls, to assist in running these enterprises.

SO-1 supports SO-3, **Increased Use of Integrated Child and Reproductive Health and HIV/AIDS Interventions**. USAID/Zambia's health sector interventions are aimed at supporting the GRZ's program of health service decentralization and devolution of authority for its management to local communities. SO-1 supports this effort by increasing the disposable income of the rural population, making health services more affordable to rural residents and thereby increasing their use. Increased sustainable rural income also makes fee-for-service health care more feasible, increasing rural populations' health care options and promoting the private sector participation in service provision.

Finally, SO-1 is also linked to SO-4, **Expanded Opportunity for Effective Participation in Democratic Governance**. Efforts under SO-1 to reduce constraints to private sector growth are inherently governance activities, as they concern the institutional environment in which the rural economy operates. Alternative contract dispute resolution mechanisms that bring the legal system closer to the people, as with binding arbitration, are emblematic of democratic governance.

## 11. Performance Indicators

The following are the principal performance indicators by which progress toward, and eventual achievement of, SO-1's Objective and Intermediate Results will be measured:

### *SO - Level Performance Indicator:*

#### ***Increased Sustainable Rural Incomes***

- Aggregated increases in rural family net income valued in dollars

### *IR-Level Performance Indicators:*

#### **IR 1.1 Increased Sustainable Agriculture and Natural Resources Production**

- Number of farmers using improved technologies

#### **IR 1.2 Increased Productivity of rural Non-Farm Enterprises (RNFES)**

- Increased net income per RNFE member

**IR 1.3 Reduced Constraints to Private Sector Growth**

- Cumulative number of new, fair and effective trade protocols signed

**12. Sustainability of USAID-Supported Interventions**

As USAID's Agency Mission is Sustainable Development, sustainability is a cornerstone of USAID/Zambia's entire development assistance program. In order for Zambia's enormous agricultural and natural resource potential to be effectively utilized in the service of increased sustainable rural incomes, the potential for over-exploitation and misuse of those resources must be avoided. Likewise, Zambian ownership of the process of bringing about increased sustained rural incomes must be assured if it to survive and continue beyond the period of donor involvement. This is particularly important in an era of declining donor resources and competing claims upon donor government funding.

The USAID/Zambia SO #1 Team has designed its interventions to have the most direct people-level impact, working closely with rural populations to enable them to take the lead in rebuilding their economy and providing opportunities in the form of increased demand and opportunities. In this way, the "implementors" of rural economic development - the rural population - are engaged directly in the process, rather than through third parties. The population's own aspirations and priorities drive the process, which creates a sense of ownership. In this way, sustainability is developed.

USAID resource levels will limit the geographic extent of the proposed and on-going activities. However, the Mission has selected its sites of its activities in areas of Zambia characterized by relatively high population density, soils suitable for sustainable agriculture, relatively good market access, public- and private-sector technology development, and an active and critical mass of collaborators including government, private non-profit, donor, agribusiness and farmer association agencies. By selecting the sites this way and networking this group of participants, the exchange of information and experience, speed of constraint identification and resolution, "lessons-learned" dissemination, and consensus-building on best practices will be accelerated and facilitated. This in turn will serve to increase the regional competitiveness of Zambia's rural sector.

### 13. Funding and Staffing Scenarios

#### a. "High" Scenario

	FY <u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Program (000)	6,750	7,500	7,500	6,000	6,000
USDH	1	1	1	1	1
TCN/PSC	1	1	1	1	1
FSN/PSC	2	4	3	3	3
FSN/OE	1	1	1	1	1

#### b. "Medium" Scenario

Program (000)	6,750	7,400	5,000	4,500	4,200
USDH	1	1	1	1	1
TCN/PSC	1	1	1	1	1
FSN/PSC	2	4	3	3	3
FSN/OE	1	1	1	1	1

#### c. "Low" Scenario

Program (000)	2,030	0	0	0	0
USDH	1	1	1	1	1
TCN/PSC	1	1	1	1	1
FSN/PSC	1	1	1	1	1
FSN/OE	1	1	1	1	1

Notes: FSN/PSC positions reflect the addition of two positions during FY 98 but only for one half year.

Under low, the USDH position would be eliminated and the FSN and TCN positions retained to complete implementation of residual activities.

#### 14. Crisis Modifier

The single crisis event with the likely largest impact upon this Strategic Objective is severe and prolonged drought. This will impact on both on RNFEs and rural community groups and group businesses, and on agricultural markets through emergency relief supplies of food. The viability of the RNFEs and group businesses will be negatively impacted due to a drop in income to farmers. Agricultural markets risk distortion in the event of large-scale inflows of emergency food aid. A sudden influx of large numbers of refugees from neighboring countries could have a similar effect, due also to food aid flows.

The viability of natural resource management activities may likewise be threatened by severe and prolonged drought, either through direct loss of resources to the drought itself or to the pressure created to over-exploit shared natural resources to make up for farm income lost to drought.

Civil unrest would most likely be concentrated in urban areas; however, this could seriously disrupt the flow of products to market.

The Mission could constructively respond to drought and refugee flows through the establishment of feeding programs and other emergency aid, carefully tailored to minimize disruption of markets. However, in the event of civil unrest, the Mission would be severely constrained in its choice and scale of response.

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# **Annex 5**

## **Strategic Objective 2 Basic Education**

**Strategic Objective 2:  
More Equitable Access to Quality Basic Education,  
Especially for Girls**

**1. Statement of the Objective**

The Mission proposes to develop a Strategic Objective (SO) in the Basic Education sector. Though USAID has been working in Zambia since before independence, this will be a new intervention for USAID, as to date the Agency has not been involved in assistance to the education sector. USAID/Zambia's activities will be aimed at improving primary school performance, especially of girls, through a series of targeted programs in education and child health, focusing on girls and delivered through Zambia's schools. A complementary series of activities will build capacity in the Ministry of Education to monitor pupil performance and apply the information to improve education, as well as to develop private-sector capacity to improve education and promote community involvement and support to schools.

**2. Basic Education in the Zambian Context**

The education sector in Zambia is in crisis; a crisis in all the areas that define an education system, including quality, access, efficiency and relevance. The fundamental problem is fairly simple: the number of children to be educated has been rising fast, while the resources available to educate them has not kept pace and, until recently, was falling faster. Within the education sector, primary education in particular has suffered. The convergence of shrinking resource levels with increasing numbers of Zambian children enrolled in the system has led to severe infrastructure deterioration with little or no maintenance and heavy use, little or no furniture, multiple shifts and low instructional hours, few textbooks and almost no learning materials, high pupil/teacher ratios, increased teacher work-loads with low salaries and low teacher morale, an increased number of untrained teachers, and nearly one third of all school-aged children - largely girls - not in school for lack of places.

Although the current state of the Zambian basic education system is bleak, and donors should proceed with caution when considering investing in this sector, a strong case exists for USAID's assistance to the sector. The Government of the Republic of Zambia (GRZ) has articulated a vision of where it is heading in improving the quantity and quality of basic education. They began by acknowledging the severity of the crisis in the schools and have now started to do something about it.

Between 1986 and 1996, real public expenditure on education as a whole (as measured by the World Bank's "World Development Indicators") declined at an average annual rate of almost five percent, while that of primary education declined by four percent. However, during that same period, primary education's share of total domestic education expenditure increased from thirty-nine percent in 1986 to forty-five percent in 1996.

The GRZ budget for 1997 provides a further increase to fifty-two percent, well above the 1996 average of other sub-Saharan African countries (43 percent) and OECD countries (31 percent). The problem is that actual expenditures are consistently far below budgeted allocations. Regardless of these fiscal difficulties, the results of comparative international studies consistently indicate that the increased emphasis on primary education is warranted, in view of the generally higher rate of return to primary education. (In economies with less than universal primary education, rates of return are generally greatest for primary education, followed by secondary education -- Psacharopoulos, 1994.)

Although gross primary enrollment rates in Zambia are quite high as compared with the rest of sub-Saharan Africa, the government's objective of gender equality is not borne out by the data: females have a much lower enrollment rate than males. But the high gross enrollment rate is not necessarily an indicator of a good education system, since it does not account for student drop-out, grade repetition, and low progression rates from one grade to the next. These progression rates in Zambia fall at higher grades, are lower for females, and have declined over time.

One of the more formidable economic and social problems Zambia faces is creating employment opportunities for its large and increasing labor force (estimated to be about 3.5 million). Zambia appears to be on the cusp of an economic turn-around, but that turn-around and the resulting sustainable growth path into the future will be constrained by a poorly developed endowment in human capital. This constraint is an outgrowth of the weaknesses in the public education system, and must be addressed within that sector. Good results can be achieved in the basic education sector in Zambia for relatively modest investment, provided there is continued policy and financing improvement from the GRZ. Moreover, the timing appears to be right; the GRZ is moving toward an integrated sector investment approach, commencing in 1998. USAID has time to observe the process, gauge the GRZ's commitment to policy and financing, and develop interventions and agreements for the FY 1998-2002 Mission strategic planning cycle.

### **3. Education: A Priority for Zambia and for USAID**

In May, 1996, the GRZ introduced its new national policy on education entitled "Educating Our Future," based on a new set of principles: (1) shifting the power relationship from a highly centralized system to one in which private organizations and local communities control their own schools; (2) devolving management and control of schools to the local level; (3) promoting equality of access, participation and achievement, especially for at-risk children impeded by gender and other socioeconomic factors; (4) ensuring the highest standards of learning through quality of curriculum, teaching and assessment; (5) fostering an enabling environment which creates a government partnership with NGOs and communities in educational development; and (6) promoting accountability to ensure that the limited funds available are properly utilized by effective systems at all levels. At the opening of

Parliament in January 1997, President Chiluba's speech outlining the government's priorities included continuing the rehabilitation and decentralization of education and demonstrating government's continued commitment to the sector by increased budgetary allocations to education.

The Agency's strategy for development assistance to the education sector consists of: (1) linking educational development to sustainable government finance within the framework of macro-economic constraints; (2) supporting policy interventions required for attaining reform; (3) developing institutions as the foundation for sustainable capacity to implement policies and programs; (4) treating the education system as a whole and supporting system reforms; and (5) coordinating the financing of national policy reform programs with other donors.

In Zambia's case, one of the key lessons learned in educational reform is that central ministry policies and resources may provide necessary but not sufficient conditions for improving school effectiveness and pupil learning. USAID/Zambia proposes to help guide "the visioning process" in the Ministry of Education and in the sector as a whole through:

- support to policy dialogue that places school-based reform at the center of the policy agenda;
- development of a small number of targeted school-based interventions that improve student learning, particularly for girls; and
- support to development of a continuous student assessment system; diagnose problems and offer remedies.

A well-educated and informed citizenry is a basic requirement for Zambia's continued economic growth, improved health status, and increased participation in democratic institutions. An educational system that consistently and reliably provides quality basic education to the entire school-age population, and is adapted to the requirements of the country, including its financial capacity, is a cornerstone of sustainable national development.

#### **4. USAID/Zambia's Comparative Advantage**

USAID/Zambia currently has no in-house expertise or in-depth experience in basic education. However, since the late 1980s, when Congress established the Development Fund for Africa (DFA), USAID's Africa Bureau has developed a wealth of experience in the type of education sector support approach currently being developed in Zambia.

The formulation and implementation of any reform process is not linear, and it is common to see a mixture of positive and discouraging signs at the same time. In Zambia, we see a

mixed picture where (1) the education reform process has used a participatory approach through public dialogue and technical analysis to develop consensus and a degree of "ownership" of the reform process; (2) a relatively well-defined policy framework has been developed; (3) the GRZ's reform agenda still needs a realistic implementation plan and expenditure program in order to become an effective strategy; and (4) the MOE still lacks the institutional capacity, information systems and financial resources to properly carry out the reform process. Under these circumstances it is clear that the design of an education sector support program will require a longer time frame to develop. It also suggests that USAID, in collaboration with other donors, should support windows of opportunity and decentralization processes within the reform program.

This is the first time since its establishment in Zambia in 1977 that the USAID Mission will be providing development assistance in the Basic Education sector. USAID/Zambia has five years of experience in successfully supporting equally non-linear reform processes in economic liberalization, privatization of state-owned companies, the transition to a market-based agricultural sector policy, political liberalization with popular participation, and health sector decentralization. Practical experience and a successful track record in these reforms provide USAID/Zambia with a distinct comparative advantage in assisting basic education reform.

#### **5. USAID/Zambia's Customers, Stakeholders, Partners**

Approximately, 20 bilateral and multilateral donors provide assistance to education and training in Zambia. At this point, USAID is the only major donor which does not have a significant program in the education sector in Zambia. The total estimated donor disbursement to the sector ranges between \$30 - \$35 million a year.

It is impossible to develop an accurate estimate of donor funds directed specifically at primary education, given that many projects have multiple objectives. Overall, donor financing accounts for about 20 percent of total MOE expenditures. About 60 percent of donor resources to the MOE are invested in primary education, with about half of those funds directed towards classroom construction and rehabilitation.

The MOE experiences considerable difficulty in mobilizing counterpart funding needed for participation in donor programs, and as a result tends to abstain from any productive critique of a donor-funded activity simply to ensure that the benefits of the program are not threatened. This tendency, coupled with a generally weak capacity to provide policy and implementation guidance to donors, has thus far made the MOE a relatively passive development partner. The demands on the education system to plan and implement are such that the MOE is overwhelmed and cannot adequately cope.

A proposed World Bank Basic Education Sector Investment Program (BESIP) will focus on capacity-building within the MOE, in districts and schools, teacher development and deployment, classroom rehabilitation and construction, education for out-of-school children and youth, instructional materials, and school health and nutrition. Of critical importance is the GRZ's intention to restructure basic education by decentralizing MOE functions to districts, schools and communities.

Major donors in primary education are: UNICEF, UNESCO, IDA, UK/ODA, The Netherlands, Italy, Canada, Commonwealth, Finland, European Union, Sweden and Denmark. Five donors, led by the UK, are involved in teacher education and training. The education curriculum and learning materials development subsector is also crowded with donors. There are at least six donors involved, and they have made good progress in recent years providing text books to primary school pupils, at least in the core subject areas. Classroom construction and rehabilitation - critical because of the lack of sufficient access rooted in a wholly inadequate education infrastructure - is being addressed by the World Bank and The Netherlands. However, the areas of community schools, out-of-school children, and youth have thus far not attracted significant donor funding, due largely to the fact that the GRZ's ESIP (Education Sector Improvement Program) design studies in these areas are poorly conceived.

As for NGOs, it is not clear exactly how many domestic and foreign organizations are involved in the education sector. NGOs have consistently failed to report and provide details on their assistance activities to assistance coordination bodies. Consequently, the true scope and magnitude of NGO assistance to basic education is unknown at present. The (Zambian) Alliance for Community Action on Female Education, a Zambian national education NGO, operates under the umbrella of the Forum for African Women Educationalists, Zambia National Chapter, FAWEZA. There are currently seven Zambian NGOs known to be engaged in Basic Education: the Adult Education Association, the Catholic Secretariat, the Community Schools Secretariat, Makeni Ecumenical Center, Makeni Islamic Center, and Zambia Open Community Schools. In addition, three known international NGOs work in Basic Education: Bahai Faith, Development Aid from People to People, and World Vision International.

## **6. The Development Hypothesis**

**Strategic Objective: More Equitable Access to Quality Basic Education, Especially for Girls.**

The development hypothesis is stated as follows:

If local capacities are strengthened to develop plans and implement strategies to improve girls' education; and

If improved health (and increased attendance) of targeted pupil groups leads to improved learning capacities; and

If MOE capacities are improved to evaluate and feedback data to local levels in support and further reinforcement of improved performance of target groups pupils, then

This will result in more equitable access to quality basic education and learning, especially for girls.

## **7. Critical Assumptions Governing Strategic Objective Achievement**

The success of USAID/Zambia's Basic Education Strategy depends in part on certain critical assumptions being met. They are:

- a ) Zambia's macro-economic climate and performance should remain favorable, and the GRZ becomes more fully committed to human resource development and basic education as a fundamental part of its growth and poverty reduction strategy;
- b ) the existing education sector reform program will increase its momentum and will be made financially sustainable, and educational policy will remain stable, providing continuity;
- c ) the political environment supports and increases civic participation in education policy formulation and program implementation;
- d ) a public policy review and analysis process will be put into place and become operational during the strategy period;
- e ) no severe political and/or economic shocks will occur to adversely affect the planned education sector reform program;
- f ) the MOE will have a critical mass of people available to provide vision and leadership to the educational reform program;
- g ) USAID/Zambia can continue to count on other international donors to contribute in other ways to the development of the basic education system; and
- h ) the GRZ will make a "good faith" effort to increase the amount of resources available to the primary education sub-sector.

## 8. The SO-2 Results Framework

USAID/Zambia's basic Education Strategic Objective, **More Equitable Access to Quality Basic Education, Especially for Girls**, is supported by three Intermediate Results (IRs). Those three IRs are: **2.1 Increased Girl's Access to Quality Basic Education and School-Based Health Programs**; **2.2 Successful Implementation of Private-Sector/Community Programs Supporting Quality Girls' Basic Education**; and **2.3 Improved Policy and Planning Capacity at the Ministry of Education**. These three IRs are in turn collectively supported by a series of sub-Intermediate Results (Sub-IRs).

**IR 2.1, Increased Girl's Access to Quality Basic Education and School-Based Health Programs**, is supported by the following three sub-IRs:

**IR 2.1.1, Program for the Advancement of Girls' Education (PAGE) Expanded to Three Additional Provinces**, supports IR 2.1 by tracking the expansion of and increased access to an existing targeted education program;

**IR 2.1.2, Community Cost-Shared, School-Based Micronutrient Supplement Programs Implemented**, supports IR 2.1 by tracking the establishment of nutrition programs important to children's school performance; and

**IR 2.1.3, Community Cost-Shared, School-Based Health Interventions Implemented**, supports IR 2.2 by tracking the establishment of health (specifically, de-worming) programs important to children's school performance.

**IR 2.2, Successful Implementation of Private-Sector/Community Programs Supporting Quality Girls' Basic Education**. The three sub-IRs are as follows:

**IR 2.2.1, FAWEZA Strategies on Improved Girl's Education Incorporated into Official Ministry of Education Policies**, supports IR 2.2 by monitoring the progress of a Zambian NGO grass-roots education reform initiative through the MOE's policy development system up to the stage of its adoption as official Zambian government policy;

**IR 2.2.2, Increased Parental Involvement in Primary Schools**, supports IR 2.2 by tracking the capacity of local schools to reach out for, and successfully obtain, parental involvement in the running of the community school; and

**IR 2.2.3, Development and Dissemination of Materials Justifying and Advocating Girls' Education**, supports IR 2.2 by tracking the development of materials that can catalyze the process of developing and implementing local education initiatives and programs tailored to local needs.

*IR 2.3, Improved Policy and Planning Capacity at the Ministry of Education*, is supported by the following three sub-IRs:

**IR 2.3.1, EMIS (Education Management Information System) Established and Operational**, supports IR 2.3 by tracking the progress of implementation the MOE's new database of information on, among other things, school and pupil performance; and

**IR 2.3.2, EMIS Data Being Used for Improved Feedback Activities with Target Groups**, supports IR 2.3 by tracking whether the information gathered by the EMIS is actually being used to improve education.

**IR 2.3.3, Performance Monitoring of Target Groups**, supports IR 2.2 by tracking the establishment of accurate and consistent systems for measuring pupil's school performance.

### **9. Link to Agency Objectives and Goals**

In 1997, Agency for International Development Administrator J. Brian Atwood announced that education would be elevated to the status of an Agency goal, along with democracy, economic growth and agricultural development, population and health, environment and humanitarian response. The new goal, **Building Human Capacity through Education and Training**, will have a special focus on basic education, especially girls' and women's education. USAID/Zambia's Basic Education SO directly supports this Agency goal.

### **10. Synergy with Other USAID/Zambia Program Elements and/or Cross-Cutting Themes**

The strategy of assistance to the basic education sub-sector under USAID/Zambia's new (1998-2002) Country Strategic Plan embodies numerous synergies with other Mission Program Strategic Objectives, such as private sector and agricultural development, public health, and democratic governance.

Education is the sine qua non of socio-economic development; it catalyzes and sustains economic growth and reduces poverty. Increases in education improve individual productivity and aggregate economic growth. The relationship between education and productivity is especially well established in agriculture, where many studies in Africa and elsewhere have shown a positive correlation between years of education and farm productivity. There are also well-established relationships between education and health and between education and fertility. Educated mothers are more likely to immunize their children and educated households are more likely to adopt effective health and sanitation practices. Educated mothers also have fewer children than those with less education.

Education is also essential for the exercise of participatory citizenship and to the establishment and maintenance of democratic institutions. Citizens who lack literacy and

other basic skills are ill-equipped to advance their own interests in the democratic process. In the urban economy the relationship is more difficult to establish empirically, but the importance of literacy and numeracy to the effective performance of most urban jobs is evident. Educated people are better able to acquire and make use of information and respond to new private sector opportunities.

The gender focus of our proposed interventions is on female students. In achieving results we will work with private voluntary organizations, women's groups, and community-based organizations. Activities will be carried out in both urban and rural areas, but the emphasis will be in rural areas where equity problems are more wide spread and pronounced.

## 11. Performance Indicators

### *SO-Level Performance Indicators:*

The SO, **More Equitable Access to Quality Basic Education, Especially for Girls**, has a series of performance indicators to measure overall progress its achievement. They are:

- i ) Girls' gross enrollment rate in primary school increases from 92.3 percent in 1990 to 95 percent in 2002.
- ii ) Pass rate of girls, using the standard primary school leaving exam, increases from 26 percent in 1990 to 41 percent in 2002.
- iii ) Number of girls remaining in school beyond grade 7, as a share of their enrolling cohort, increases from 26 percent in 1990 to 36 percent in 2002.
- iv ) Teacher pupil ratio increases from 1:50 in 1990 to 1:40 in 2002.
- v ) Years to produce a grade 7 school leaver declines from 9 years in 1990 to 7 years in 2002 for girls.

### *IR - Level Performance Indicators:*

**IR 2.1, Increased Girls' Access to Quality Basic Education and School-Based Health Programs**, is supported by the following three program elements:

Program for the Advancement of Girls' Education Expanded to Three Additional Provinces

- 10 Schools in Province "X" participating by 1998
- 10 Schools in Province "Y" participating by 1999

- 10 Schools in Province "Z" participating by 2000

**Community Cost-Shared, School-Based Micronutrient Supplement Programs Implemented**

- Programs Operational in 10 Schools in 5 Districts in Province "X" in 1998
- Programs Operational in 10 Schools in 5 Districts in Province "Y" in 1999
- Programs Operational in 10 Schools in 5 Districts in Province "Z" in 2000

**Community Cost-Shared, School-Based Health (de-worming) Interventions Implemented**

- Programs Operational in 10 Schools in 5 Districts in Province "X" in 1998
- Programs Operational in 10 Schools in 5 Districts in Province "Y" in 1999
- Programs Operational in 10 Schools in 5 Districts in Province "Z" in 2000

**IR 2.2, Successful Implementation of Private-Sector/Community Programs Supporting Quality Girls' Basic Education, is supported by the following program elements:**

**Local NGO Strategies on Improved Girls' Education Incorporated into Official Ministry of Education Policies**

- Sex Education Adopted as Policy for Grades 4 -7
- Gender-Sensitive Materials Incorporated into Curriculum
- Single-Sex Classes Provided as Option at the Primary Level
- Sexual Abuse and Harassment Sensitization and Education Adopted
- More Qualified Female Teachers Hired at the Primary Level

**Increased Parental Involvement in Primary Schools**

- Parent Attendance at PTA Meetings and Functions
- Parents' Active Participation in PTA Activities

**Development and Dissemination in Communities of Materials Justifying and Advocating Girls' Education**

- Reduction in Pregnancies
- Reduction in Amount of Household Chores Taking Time from Schoolwork
- Reduction in Initiation Ceremonies' Time and Intensity
- Reduction in Sexual Abuse and Harassment

**IR 2.3, Improved Policy and Planning Capacity at the Ministry of Education, is supported by the following two program elements:**

**An Education Management Information System Established and Operational**

- System reporting regularly by 1999 (with data disaggregated by gender) on:
  - Enrollment Rates by School;
  - Attendance Rates by School;
  - Retention Rates by School;
  - Repetition Rates by School; and
  - Learning Capacity Testing Rates by School.

**System Data Being Used for Improved Feedback Activities with Target Groups**

- *Indicators under development*

**Performance Monitoring of Target Groups**

- Learning Capacity Testing Materials Developed by 1999

## - Learning Capacity Testing Performed Annually by 2000

**12. Sustainability of USAID-Supported Interventions**

The deterioration of the public education system closely paralleled Zambia's economic decline. This decline began in 1975 with the collapse of international copper prices, and accelerated in the period 1985 - 1994. Despite this long history of progressive deterioration, only recently have the quantity and allocation of resources allocated by the GRZ to basic education begun to address the problems of the sector. The immediate needs of the education system are vast, and the sufferings of children attending schools under the current prevailing conditions or excluded from the system are very real. The education system as it now is organized and funded is, in terms of education quality and access and in the context of a rapidly increasing school-age population, essentially unsustainable. While the GRZ appears to be firmly committed to reform, it will need donor support.

A strong case for USAID assistance to this sector can be made on the basis of support to the long-term sustainability of Zambian basic education. Despite the many negative aspects of the basic education system in Zambia today, there are signs of hope. Parents continue to demonstrate a strong commitment to their children's education, as evidenced by their willingness to continue to pay an ever-larger share of the cost of their children's education and by their participation in community education support groups such as Parent-Teacher Associations. The GRZ appears to have finally acknowledged the severity of the crisis in the schools and has finally begun to do something about it. Budgetary resource allocations to the basic education sub-sector have increased and the policy and analytical framework for revitalizing the sector have been put into place. The probability of the sustainability of the educational reform process at this stage looks better than even.

**13. Funding and Staffing Scenarios**

## a. "High" Scenario

FY	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Program(\$000)	500	1,000	2,000	2,000	3,000
NPA (\$000)	0	0	0	1,000	1,000
USDH	0	0	0	0	0
USPSC (P/y)	.5	1	1	1	1
FSN/PSC	0	1	1	1	1

## b. "Medium" Scenario

Program (\$000)	500	1,000	1,000	1,500	2,500
NPA (\$000)	0	0	0	0	0
USDH	0	0	0	0	0
USPSC (P/y)	.5	1	1	1	1
FSN/PSC	0	1	1	1	1

## c. "Low" Scenario

Program	0	0	0	0	0
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**14. Crisis Modifier**

A major drought in the early part of the strategy is not expected to negatively affect the expected outcomes and results under Strategic Objective 2, as the Mission's program is just getting started. A major drought in the out-years would negatively affect results, as parents' incomes would be reduced while family labor would be more highly valued than time spent in school, and would be important to families to make ends meet. The out-year drought scenario would negatively affect girls' enrollment and retention rates across the board. Funds designated by the Mission for basic education would not be subject to reprogramming into non-education sectors, as these funds are governed by a Congressional earmark. The Mission might be obliged to program a percentage of its food aid in to supplementary feeding in primary schools, in order to maintain the viability of its basic education program under conditions of high food insecurity. However, these types of feeding programs are notoriously complex and difficult to implement, and would greatly strain the Mission's human resource capacity due to their high management burden.

An influx of refugees with children might overload already strained and limited facilities and access. Domestic political instability could lead to closure of schools and reduced attendance. There is little the Mission could do in the short run to help address these conditions, which would disrupt its activities and delay the achievement of objectives.

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# **Annex 6**

## **Strategic Objective 3 Integrated Health**

**Strategic Objective 3:  
Increased Use of Integrated Child and  
Reproductive Health and HIV/AIDS Interventions**

**1. Statement of Objectives**

This strategic objective and its results framework take a uniquely integrated approach. Rather than adopting the more traditional "vertical" approach, where separate interventions are made in different parts of the health sector, USAID, with its Zambian partners, is pursuing a broad integration of services while decentralizing to the maximum extent possible and practicable. This strategic objective integrates activities directly addressing Zambia's needs in the four areas of Family Planning, Child Survival, Infectious Diseases, and HIV/AIDS into a mutually reinforcing and sustainable public health approach.

**2. Public Health in the Zambian Context**

Following independence in 1964, the Government of the Republic of Zambia (GRZ) embarked upon an ambitious program to provide free health care for all through a rapidly expanding network of rural health centers and district hospitals. Unfortunately, this approach proved unsustainable. Rapid population growth, accompanied by rampant urbanization, compromised the government's ability to provide health care for all. The situation deteriorated further with the effective collapse of Zambia's economy in the 1980s. The GRZ could neither maintain nor replace health infrastructure; health centers and hospitals experienced chronic shortages of essential drugs; and a significant number of qualified medical staff left for positions overseas or in neighboring countries. The decline of the health care system coincided with the onset of the HIV/AIDS pandemic, which further aggravated an already desperate situation.

Zambia, with a 45 percent urbanized population out of a total 9.5 million, is one of the hardest-hit countries in the world-wide HIV/AIDS pandemic, with an estimated 1 million individuals currently HIV-positive. As in the rest of Africa, the highest mode of HIV/AIDS transmission is heterosexual intercourse. Life expectancy is expected to fall from 51 in 1990 to 42.6 in 2002; and the rate of population growth is expected to decline from 3.5 to about 2.6 per cent. These last two trends are directly attributable to the effects of the HIV/AIDS pandemic.

The pandemic seriously threatens Zambia's prospects for recovery from its long-term economic decline as well as for sustainable future development. The threat posed is in the form of enormous loss of life among that part of the population in its most productive years, leading to economic disruption from the multiplier effects of an inadequate workforce on supply and demand. The viability of the health-care system is likewise threatened. The country's formal and informal social support systems are also in danger of being overwhelmed by the need to care for sick family members and for the enormous and growing number of AIDS orphans, conservatively projected to exceed 600,000 by the year 2000.

The pandemic continues to spread, in spite of the fact that the knowledge of AIDS is almost universal. Coming to grips with the pandemic is therefore a question of national survival.

Apart from the HIV/AIDS pandemic, the health status of much of Zambia's population has been worsening over the past decade, reflecting the deterioration in health services. Infant mortality, which had declined in the 1970s, began to rise again, and is now at a level of 109 per 1,000 births (1996). The mortality rate for children under five has climbed from 174 per 1,000 in 1980 to 197 per 1,000 at present (1996). Under current conditions, infant and child mortality rates are projected to increase further, to 129 and 269, respectively, by 2005.

Not all health statistics are discouraging, however. Progress continues to be made in the population sector. The contraceptive prevalence rate among currently married women in Zambia today is 26 percent (14.4 percent modern methods and 11.5 percent traditional), a significant increase from 15 percent in 1992 (ZDHS, 1996). The most widely used methods are the pill and withdrawal (accounting for 26 percent each of the contraceptive prevalence), followed by the condom (19 percent) and natural family planning (13 percent). Though the population growth rate remains at 3.2 percent, the total fertility rate has declined from 6.5 (1992) to 6.1 (1996).

### **3. More Effective, Integrated Health Services Delivery - A Priority for Zambia and for USAID**

As a result of Zambia's transition to multi-party democracy in 1991, an enabling environment was created which supports the GRZ's efforts to launch a dynamic health reform process designed to provide **equitable access to cost-effective quality health care as close to the family as possible**. The vision embodied in the Ministry of Health's **Zambian Integrated Health Package (ZIHP)** is to: 1) create environments conducive to health; 2) disseminate knowledge on the art of being well; and 3) ensure equitable access to an essential package of integrated health care services. Within the context of health reform, there is a major reorientation of policy away from highly centralized vertical programs and toward decentralized, integrated programs.

The major components of the GRZ's health reform strategy are:

- decentralization;
- financial and performance accountability;
- redirection of funding to the primary care levels of service delivery;
- defining essential packages of services and interventions;
- cost-sharing and referral;
- improved technical competence;
- community involvement and ownership;
- private sector participation;
- promotion of integrated health services;
- delinkage of personnel from the civil service;

- radical restructuring of central bureaucracies; and
- donor coordination in the context of a Sector Investment Program.

This restructuring of the health sector has been complemented by a resurgence in the supply of private sector health care. Health care-oriented PVOs and commercial firms, private clinics, social marketing of public health commodities (including contraceptives, insecticide-treated mosquito nets, and nutrition supplements) - are currently growth industries in Zambia in the dynamic new environment fostered by the GRZ's health care sector reform effort.

The **prioritized PHN interventions** to be supported by ZIHP include:

- i) an *integrated adolescent package* (family planning (FP), Sexually Transmitted Infection (STI) prevention and syndromic treatment, and HIV prevention);
- ii) an *integrated promotive/preventive package for women caring for children* (FP, STI & HIV prevention, Vitamin A-fortified sugar, malaria prevention, diarrhea prevention, immunization, exclusive breast-feeding for six months, and growth promotion/complementary feeding);
- iii) an *antenatal care package* (FP education, STI prevention & syndromic treatment, HIV prevention, chemoprophylaxis with antimalarial agents/treatment of malaria; Vitamin A-fortified sugar, iron supplementation, tetanus toxoid (TT) injections, antenatal care, breast-feeding, and warning signs of pregnancy complications);
- iv) a *safe pregnancy package* (FP, treatment of complications relating to septic abortion, emergency obstetric care);
- v) an *integrated promotive/preventive package with special emphasis on reproductive health as it relates to men* (FP, STI prevention, HIV prevention, male supportive environment regarding: malaria prevention in pregnant women and children, diarrhea prevention in children, immunizations for children, exclusive breast-feeding, growth promotion/complementary feeding); and
- vi) *integrated curative/care packages* (STI syndromic treatment, AIDS/TB community-based care, support for orphaned children and integrated management of childhood illness (IMCI));

The GRZ's health sector reform program is a Zambian-created model for decentralization of services. As such, it is an example of the African leadership that USAID seeks to promote in order to ensure ownership and sustainability of its development assistance efforts. The health sector is leading Zambian public sector reforms, which are characterized by an

emphasis on decentralization, devolution of authority to regional and local levels, and bringing service delivery and management closer to its customers, the Zambian public. In the case of health sector reform, this is to be achieved through the empowerment of local and autonomous institutions called District Health Boards (DHBs). The DHBs are responsible for managing their own resources to provide the services required and for personnel management. Privatization efforts in the health sector are an integral part of the government reform efforts. The government seeks to disengage itself from programs where it does not have a unique comparative advantage, and to turn those programs over to providers that are better equipped to deliver them effectively and efficiently. Rural health services provided through PVOs and urban health services provided through private clinics are both examples of how health care service delivery is being privatized and diversified.

Zambia's integrated health care reform program offers a unique opportunity for USAID to be involved in a high-impact program which is breaking new ground in the field of decentralization of public-sector services and which holds great potential for positive, sustainable results. Health-sector reform leading to improved delivery of promotive, preventive, and curative interventions, and the improved efficiency and effectiveness of government services through decentralization, are high priorities for both the Mission and the Agency.

#### **4. USAID/Zambia's Comparative Advantage**

USAID has long been in the forefront of assistance to decentralization and integration of health services in the developing world. Since initiating a concerted effort in Zambia in 1994, USAID/Zambia and its cooperating agencies have developed close ties to the government and other stakeholders in the health system. The current move on the part of the Mission to consolidate its health portfolio so as to more fully and explicitly support the GRZ's integrated health care reform is further strengthening those ties. With the growth of the permanent Mission staff in the health sector, USAID/Zambia has increasingly taken a leadership role among donors and stakeholders in the sector. The United States is recognized as the world leader in private sector health care and privatized services, and USAID's expertise in these areas can contribute greatly to this specific objective. USAID has also gained a strong international reputation for accurately and effectively analyzing, designing and implementing health care financing initiatives and decentralization programs. Finally, USAID's universally recognized leadership and expertise in Family Planning and HIV/AIDS is an unique advantage that the Mission can bring to bear to help ensure achievement of the SO. The SO-3 Results Framework was designed to emphasize USAID's comparative advantages in health sector development assistance, while leaving other functions where the Agency does not enjoy a comparative advantage to other donors.

#### **5. USAID/Zambia's Customers, Stakeholders and Partners**

The ultimate customers in this SO are the urban and rural population who take increased responsibility for their own wellness. Thus, the population becomes both the ultimate

customer benefiting from improved wellness, and an intermediate customer as the base supplier of health services within the family. This SO does not incorporate regional specificity nor targeting of certain segments of the population. It is a system-wide, national intervention.

The intermediate customers in this SO include public sector institutions and facilities, private sector institutions and PVOs, Ministry of Health organizational units, cooperating partners (other donors) and contractors. Some intermediate customers are directly involved in the chain of provision of services to the ultimate customer and others are indirectly supporting the delivery of services.

Stakeholders are those individuals/groups who have an interest in, and influence USAID activities, programs and objectives. Groups such as People Living with HIV/AIDS (PLHA), government staffers, public/private clinicians and NGOs have been involved in the development and refining of SO-3 since its inception.

In order to fully achieve the I.R.'s listed under SO-3 a strong collaborative relationship among partners must continue to exist. PHN has attempted to establish the necessary relationships with others who share the same goal of improving the health status of all Zambians. Our partners, including the MOH/CBOH, other Donors, PVOs, and Cooperating Agencies, will work towards the goal of providing equity of access to cost-effective quality health care.

## 6. The Development Hypothesis

The development hypothesis underlying this strategic objective is that an integrated, decentralized health-care system is the most cost-effective and technically sound framework for enabling individuals to improve their own health, for expanding access to services at the community level through the private sector, and for improving the quality of services.

Underlying this hypothesis is the expectation that creating this kind of health system requires:

- **Zambian vision and leadership;**
- **stronger Zambian institutions (governmental and private voluntary organizations), at the central, district and community-levels;**
- **enhanced individual, household and community participation in promoting health;**
- **an effective referral system;**
- **broader involvement by the private sector in services and support;**
- **improved health worker performance;**
- **improved efficiency of financing mechanisms;**
- **improved logistical and commodity distribution systems;**
- **improved planning capabilities at the local level; and**
- **a dynamic policy analysis and formulation process.**

The package of interventions and intermediate results that make up USAID/Zambia's health-sector assistance program and which address the above requirements are presented in detail below.

## 7. Critical Assumptions Governing Strategic Objective Achievement

Achieving results under the above hypothesis is dependent upon certain critical assumptions specific to this strategic objective. The first and most important assumption is that the government will continue to pursue its health care reform agenda with the same vigor as in the past. The GRZ has embarked upon an exciting program in an extremely turbulent sectoral environment, but nonetheless continues to demonstrate a deep and real commitment to this program. A second important assumption, closely related to the first, is that the decentralization program will continue to devolve greater and greater authority, responsibility, and financing to the local level. Up to now, the government has remained steadfast in its commitment to the decentralization program, despite the considerable, though expected, difficulties in implementation. The GRZ's reform program philosophy has remained constant and the trend is clearly toward increasing devolution to the community-level. The third and final critical assumption is one of continued progress in privatization and private sector growth. This is particularly important as the private sector, including private voluntary organizations, is expected to take on an increasingly important role in provision of services and critical support structures. An example of the important roles that the private sector is expected to assume is the management of the nation's central pharmaceutical supply store in order to increase efficiency. These steps are crucial to decreasing the fiscal and management burden on government associated with health services.

## 8. The SO-3 Results Framework

The Strategic Objective result expected at the strategic objective level is **increased use of integrated child and reproductive health and HIV/AIDS interventions**. This is consistent with Zambia's need for an integrated program addressing the key health concerns in the country. Child survival, infectious disease, population, and HIV/AIDS interventions are all incorporated within the integrated program. Other donors are addressing key needs such as the hospital care system, education of doctors, and pharmaceutical supply.

Five first-level intermediate results (IRs) are necessary to achieve the desired SO result :

- IR 3.1 Increased demand for PHN interventions among target groups;
- IR 3.2 Increased delivery of PHN interventions at the Community level;
- IR 3.3 Increased delivery of PHN interventions by the private sector;
- IR 3.4 Improved health worker performance in the delivery of PHN interventions; and
- IR 3.5 Improved policies, planning, and support systems for the delivery of PHN interventions

**IR 3.1, Increased Demand for PHN Interventions among Target Groups**, is an essential step toward increasing utilization of health services. The decline of government health services since independence has led to a lack of public confidence in the system and a loss of the habit on the part of Zambians of consulting the health services about preventive care. As citizens withdrew from the public health care system, the system was relegated to dealing largely with terminal cases. This trend in turn further eroded public confidence in the health care system, as it came to be associated with ineffectiveness of treatment. Reversing this downward spiral requires rebuilding customers' (the Zambian public's) confidence in government health care services, which will lead in turn to a resurgence in demand. Effective communication is the cornerstone of demand creation. Achieving I.R.-1 means motivating and empowering individuals to take greater responsibility for their personal health. This will be achieved by improving the knowledge, attitudes, and skills of the target groups through a variety of channels, such as group and interpersonal communication, mass media, traditional media, and community mobilization. To enhance the health communications capacity within Zambian institutions, including the Districts and the Central Board of Health (CBOH), targeted technical assistance will be provided.

**IR 3.2, Increased Delivery of PHN Interventions at the Community Level**, is important to ensuring that the services being delivered are relevant to the people of the community.

This IR focusses on establishing the systems needed to ensure that the health systems is being responsive. Typically, health centers have identified the needs of the community and implemented interventions without any input from the communities they are supposed to serve. This one-way approach has often resulted in inaccurate needs assessments, and inappropriate interventions which do not appeal to the community. This situation is expected to change as decentralization and participatory health care delivery are the hallmarks of the health reform process. ZIHP will help health centers form active partnerships with the communities they serve to identify problems and solutions. The formation of the Neighborhood Health Committees is already under way. ZIHP will also focus attention on developing linkages between private voluntary organizations (PVOs) and Health Districts in high-risk areas.

**IR 3.3, Increased Delivery of PHN Interventions by the Private Sector**, draws the private sector into the provision of health services. The government acknowledges that it has insufficient resources to serve the entire Zambian population and seeks to continue the pattern of collaborating with the private sector where appropriate. Historically, the government has encouraged public/private collaboration to enhance the reach and impact of health programs. ZIHP will help create additional private sector channels for the delivery of essential health services, commodities, and information. ZIHP is currently exploring the transfer of the Bolivian PROSALUD model of private health care delivery; expanding commercial production and delivery of PHN commodities; and creating an enabling environment for the private sector.

**IR 3.4, Improved Health Worker Performance in the Delivery of PHN Interventions**, is a prerequisite for the successful implementation of the other IR's. Zambia's health worker training system needs to be re-designed to provide demand-driven training, as well as effective continuing education. Responsibility for the training of health professionals in Zambia is spread across a number of local institutions, which have limited resources. Historically, tutors and health teachers have focused on imparting knowledge, rather than teaching clinical skills. ZIHP will design curricula and training programs with an emphasis on interactive teaching methods which enhance the clinical competency and performance of students. ZIHP's activities are also designed to empower Districts to monitor health worker performance and to identify training needs. USAID's comparative advantage in competency-based training and curriculum development is key to the success of the overall Zambian program. In addition, supportive clinical supervision will be promoted to continuously improve the quality of health worker performance in the delivery of integrated PHN interventions. Innovative approaches to training, such as interactive radio, radio distance learning, and computerized training, will be created.

**IR 3.5, Improved Policies, Planning and Support Systems for PHN Interventions**, establishes the institutional foundation for the delivery system. Sound policies, strategies and planning; well-designed management systems; national technical guidelines; and functional support systems are the institutional foundation for the efficient and sustainable delivery of PHN interventions. ZIHP will help develop coordinated systems between Health Districts and the CBOH. Selected technical institutions will also be targeted for institutional strengthening in policy analysis and formulation, guidelines development and applied research. ZIHP also places special priority on creating an integrated logistical system that reliably delivers vaccines, drugs, contraceptives and laboratory supplies. ZIHP supports improved implementation of health care financing schemes at the District level; and specific capacity-building interventions to help implement and monitor the decentralized delivery system envisioned by Zambian health reforms.

## **9. Links to Agency Objectives and Goals:**

USAID/Zambia has developed the "Zambia Integrated Health Package (ZIHP)" to map out its support for implementation of health reform for the Country Strategic Plan (CSP) period of 1998-2002. Achievement of the Mission's Strategic Objective SO-3, **Increased Use of Integrated Child, Reproductive Health and HIV/AIDS Interventions**, in partnership with the GRZ and other donors and partners, will lead to the Mission goal of **Sustainable Improvements in the Health Status of Zambians**. The Mission's SO is directly linked to the Agency goal of **Stabilizing Population and Protecting Human Health**. This SO integrates activities directly addressing the four target areas of family planning, child survival, infectious diseases, and HIV/AIDS.

## **10. Synergy with Other USAID/Zambia Program Elements and/or Cross-Cutting Themes**

This strategic objective incorporates numerous synergies with certain other Strategic Objectives in the USAID/Zambia 1998-2002 Country Strategic Plan.

The entire package of activities under IR 3.3, Increased Delivery of PHN Interventions by the Private Sector, is directly related to **SO-1, Increased Sustainable Rural Incomes**. The companies involved in employer-based delivery are private-sector programs which are also participants in SO-1 activities. The private providers of health services are micro, small and medium-sized enterprises as well as participants in SO-1's small business support activities or drawing loans from small-business lending programs under SO-1. The efforts on enabling environments under SO-3's IR 3.3 will be linked directly with efforts on reform legislation and market regulations under SO-1. We foresee close coordination between these two SO teams.

**SO- 2, More Equitable Access to Quality Basic Education and Learning, Especially for Girls** aims to improve health and educational performance of primary school age girls. Given the worldwide scientific evidence regarding the links between the level of girls' basic primary education and their subsequent health status, implementing promising and cost-effective micro-nutrient and de-worming interventions are linked directly to SO-3's I.R.s 3.1, 3.2, and 3.3, especially if these health interventions are implemented primarily through PVOs.

The decentralization approach embodied in the GRZ's health-sector reform program and reflected in SO-3s I.R.s 3.2 and 3.5 is directly related to activities under **SO-4, Expanded Opportunity for Effective Participation in Democratic Governance**. The health sector is in the lead in empowering local government and in revenue-sharing between the national government and the district and community government. As such, it is a test case for decentralization and many of the lessons to be learned from decentralization in the health sector process will be relevant to other Mission activities in the democracy and governance arena. We foresee close coordination between the SO-3 and SO-4 teams on these activities.

SO-3 addresses several cross-cutting sustainable development themes, including:

**Gender**

Women are major participants in the Zambian health care system, both as customers and as health workers. As customers, through maternal and child health care activities under this SO, they will be introduced to the health care system and develop confidence in the system. As health workers, they will be at the center of training efforts. In their social roles in Zambian society, they have primary responsibility for family health, making their involvement crucial to any effort aimed at improving public health.

<b>PVOs</b>	PVOs are directly incorporated into the activities in I.R.-3.2 and I.R.-3.3. They are key players in public health communications and in the privatization of health care service provision.
<b>Decentralization</b>	The health sector is on the cutting edge of the GRZ's decentralization efforts. The entire strategic objective is targeted at decentralized and integrated health services.
<b>Governance</b>	Decentralization requires that certain governance functions (planning, implementation, accountability) be strengthened at the local level. SO-3 incorporates a large measure of support to improved governance in the health sector.
<b>Urbanization</b>	Zambia is quickly becoming an urbanized country with approximately 45 percent of the population living in urban areas. This has important implications for strategic health planning. SO-3 targets both urban and rural areas of the country.

## 11. Performance Indicators

USAID support for the Zambian government's health reform process is expected to contribute to the following health results over the five-year (1998-2002) CSP period:

- Continued decline of the total fertility rate from 6.1 to 5.1 by increasing the modern contraceptive prevalence rate from its current level of 14% to 22%;
- Increasing family planning services and improving antenatal and obstetrical care is expected to reduce maternal mortality from its current level of 640/100,000 to 500/100,000;
- Reduction of the infant and under five mortality rates from their current level of 109 deaths and 197 deaths per 1000 live births, respectively, by improving the prevention and management of childhood illness (including malaria, diarrhea, pneumonia, and malnutrition) in the household and community and improving management of health care facilities.
- Improved HIV prevention through increasing condom use, decreasing the number of sexual partners, and improving the syndromic management STIs to reduce the transmission of HIV and other STIs.
- Mitigation of the AIDS pandemic through improved community-based support of AIDS/TB patients and orphans.

A Management Information System has been established where activity performance indicators are tracked down to the lowest level (at the individual activity implementation level) and data on lower-level indicators are aggregated to generate indicator data at the next-

highest level. In this way, it is possible to document the linkages and results from the sub-intermediate result and to the strategic objective level.

The following are the principal performance indicators by which progress towards, and eventual achievement of SO-3's Objectives and Intermediate results will be measured.

*SO-Level Performance Indicators:*

**Increased use of Integrated Child and Reproductive Health and HIV/AIDS Interventions.**

- Proportion of woman of reproductive age using a modern contraceptive method.
- Proportion of living children aged 12-23 months who have been vaccinated before their first birthday.
- Proportion of females/males age 15-24 who report using condoms during their last sex act, with non-regular partners, in urban areas.

*IR-Level Performance Indicators:*

**IR 3.1 Increased Demand for PHN Interventions Among Target Groups**

- Number of new family planning acceptors
- Number of people citing at least two ways of protection from HIV infection
- Proportion of children under 5 years of age with fever, that received anti-malarial agents.

**IR 3.2 Increased Delivery of PHN Interventions at the Community Level**

- Number of clients receiving PHN interventions from community-based workers.
- Percentages of serial facilities which are outlets for socially marketed condoms.
- Proportion of health centers with an active community partnership.

**IR 3.3 Increased Delivery of PHN Interventions by the Private Sector**

- Number of employers with > 100 employees who provide PHN interventions at the work place.
- Annual number of (specified) socially marketed preventive health products sold.

**IR 3.4 Improved Health Worker Performance in Delivery of PHN Interventions**

- Percentage of trained health workers who correctly diagnose and treat common illnesses and infections.
- Proportion of districts where staff have been trained in integrated technical guidelines.

**IR 3.5 Improved Policies, Planning and Support Systems for Delivery of PHN Interventions**

- Proportion of districts that conduct self-assessments of their integrated logistics systems.
- Proportion of districts submitting acceptable annual action plans according to national guidelines.

**12. Sustainability of USAID-Supported Interventions**

The government's principal objective in the integration of health services is to take the old, unsustainable system and evolve it into a more sustainable one. The minimum "essential package" of basic primary health care services (from the community to district level) is estimated to cost \$12 per capita annually. However, the total GRZ and donor "common basket" support is about \$4 per capita, creating a staggering 67% gap. In addition, poverty is acute and widespread in Zambia, which significantly limits the ability of Zambians to significantly contribute to the costs of the essential package. For these reasons, USAID/Zambia is developing a Sector Program Assistance (SPA) component to the ZIHP which will complement the ongoing project assistance. The SPA will be designed to help the GRZ carry out reforms whose accomplishment requires additional resources not available through the ordinary budget process. The funds would be released in tranches linked to the implementation of specific reforms or stages in the reform process. Ultimately, the sustainability of the Zambian health reforms will depend on the successful implementation of current political and economic reforms. Zambia must work toward the success of macroeconomic policies and mechanisms designed to promote parastatal reform and privatization; encourage trade liberalization and increase operational efficiency.

### 13. Funding and Staffing Scenarios

#### Funding and Staffing Scenarios (000)

##### "High" Scenario:

FY	1998	1999	2000	2001	2002
OYB	17,000	16,000	16,000	16,500	16,000
USPSC	1*	1*	1*	1*	1*
USDH	2	3**	3**	2	2
FSN/PSC	3	3	3	3	3

##### "Medium" Scenario:

FY	1998	1999	2000	2001	2002
OYB	16,000	12,000	12,000	12,000	12,000
USPSC	1*	1*	1*	1*	1*
USDH	2	3**	3**	2	2
FSN/PSC	3	3	3	3	3

##### "Low" Scenario:

FY	1998	1999	2000	2001	2002
OYB	11,780	11,800	12,000	12,000	11,300
USPSC	1*	1*	1*	1*	1*
USDH	2	3**	3**	2	2
FSN/PSC	3	3	3	3	3

\* TAACS Fellow; does not count against Mission ceiling.

\*\*Includes one IDI; does not count against Mission personnel ceiling.

### 14. Crisis Modifier

Drought, political instability, and the influx of large numbers of refugees are all factors which could most negatively affect the PHN/SO-3 outcomes.

Malnutrition is one of the most important health and welfare problems among infants and young children. Inadequate food intake is a result of insufficient food availability at the

household level and/or improper feeding practices. A systemic shock, such as a drought, would significantly increase an already serious malnutrition problem. While the Mission's PHN program can attempt to educate households about proper feeding practices and food intake balance, the Mission can do little about the negative consequences of a drought. In addition, domestic resources targeted for health reform would be siphoned off to help mitigate the effects of a drought and the availability of staple foods.

It is not difficult to imagine the impossibility of implementing a decentralized health reform program at the district and community levels under conditions of political instability and uncertainty. To date, GRZ support, largely due to its dynamic Health Minister, for the nationwide development and implementation of health reform has been solid and constant. A climate of widespread political instability would severely hamper the country's ability to deliver quality health programs on a sustainable basis.

Lastly, a massive influx of refugees would over-burden an already burdened health system. As the GRZ vision of health reform is "to provide cost-effective quality health care as close to the family as possible", an unexpected exogenous increase in the population would compromise the GRZ's ability to deliver quality health services.

Annex 6: o:\sapub\zambia\docs\scspso3n.doc

# **Annex 7**

## **Strategic Objective 4 Decocracy and Governance**

**Strategic Objective 4:  
Expanded Opportunity for Effective Participation  
in Democratic Governance**

**1. Statement of Objectives**

Despite some notable successes at the beginning of the decade, Zambia's political culture has demonstrated that it has some distance to go before a truly open and participatory democratic system fully takes hold. Through activities under this Strategic Objective (SO-4), USAID/Zambia continues to promote expanded opportunities for effective participation on the part of all Zambians in democratic governance. Accordingly, activities under this strategic objective focus on the strengthening of existing democratic structures in this inter-election period in order to foster the principles of transparency, accountability and effectiveness so crucial to good governance. The SO-4 Team, working in conjunction with all of the Mission's other SO teams, elements of the U.S. Mission Country Team, the Government of the Republic of Zambia (GRZ) and other partners and donors, seeks to support key institutions and organizations that will play an essential part when Zambians next go to the polls to choose their leaders.

**2. Democracy and Governance in the Zambian Context**

Efforts under SO -4 relate directly to the Agency goal of "sustainable democracy built." Our efforts in Zambia have concentrated on consolidating the transition from a socialist, single-party political control structure to the elusive concept of multi-party democracy and the transparent, accountable government that only a pluralistic model can achieve and safeguard.

The Mission's vehicle for this work has been the Democracy and Governance Project, launched in 1992 and recently extended through September 1998. Significant accomplishments have included assistance with the reorganization of the interministerial Cabinet Office to respond to the changing demands for good public sector management in a complex market-oriented society composed of many interest groups; provision of training of independent journalists to help establish a free and responsible press; and support to the Constitutional Review Commission on a new framework outlining rights and responsibilities in an emerging democracy.

During 1996, attention focused on the second multi-party national elections, which were dogged by controversy. Nevertheless, the November 1996 elections were on the whole peaceful and demonstrated the persistence of the democratic spirit, though they also revealed some of the difficulties in effecting a sustainable transition from one-party rule. The election of an overwhelming Movement for Multi-Party Democracy (MMD, the incumbent President's party) majority in the Parliament after a boycott by major opposition actors, resulted in opposition voices being largely unrepresented.

### **3. Effective Democratic Institutions and Good Governance - A Priority for Zambia and for USAID**

While confrontation between the MMD and the opposition characterized much of Zambia's political scene during 1995/96, and the controversies surrounding the GRZ's conduct of the elections led to some strain in relations between the GRZ and its donors, there have also been several positive developments that indicate there is a general consensus among Zambians and donors that effective democracy and good governance are essential to Zambia's recovery and future development. Among them are several important accomplishments under USAID/Zambia's Democracy and Governance Project having a long-term impact, including :

- conclusion of the constitutional review process;
- complete overhaul of the civics curriculum for middle schools;
- formal autonomy of the Zambian Institute for Mass Communication from the central government;
- increase in the number of women parliamentary candidates from 10 in 1991 to 56 in 1996; and
- improved policy-making process in the Cabinet Office, assisted by the publication of a Cabinet Handbook.

Moreover, there were visible signs from other areas of public and private life in Zambia, many in which USAID has been active, of the growing strength and resiliency of democratic processes and institutions. Real progress toward decentralized decision making in health care delivery, and the growing importance of civic organizations in the health sector in partnership with government, provides an encouraging beginning for a new paradigm for the role and function of government. The government's delivery on promises of economic reform, privatization and trade liberalization have enabled Zambians to be active participants and stakeholders in an institution of great important to a democracy: a freely-functioning market for goods and services.

### **4. USAID/Zambia's Comparative Advantage**

USAID has had five years of experience managing Democracy and Governance activities in Zambia. Effective working relationships have been forged within the Mission across Strategic Objective Teams on matters where increased citizen input and management impact on policy formulation and program implementation. Regular and productive discussions with the GRZ, the U.S. Country Team, partners and other donors have been instituted to coordinate our programs and leverage additional resources. The Mission has identified a network of local organizations, both inside and outside of government, that can serve as an important consultation and implementation resource for the future. The understandings created between USAID and its partners regarding goals, objectives and expectations provide

a foundation for a realistic, implementable agenda for change and improvement in Zambia's still-evolving democracy.

In a broader context, the US is recognized as a world leader in promoting democracy, good governance, and human rights. Although the US ranks seventh among bilateral donors, the Mission has enjoyed disproportionate leverage in key fora with government representatives and civic reformers alike. Our own willingness to rethink, reinvent and improve our institutions of governance and administration can be an inspiration for those who want change and offers valuable lessons on what works and why, and how to implement programs of democratic change.

## **5. USAID/Zambia's Customers, Stakeholders and Partners**

Formulation of a strategy in democracy and governance, followed by its implementation, requires that USAID renew ties with some old customers with whom we have worked successfully in the past and familiarize ourselves with some new customers. As part of this effort, it will be necessary for us to develop a broader range of stakeholders, not only with the independent media and civil society where we are well known and have effective working relationships, but also within the different branches of government. Potential new stakeholders include the Parliament, the Judiciary (High Court and Supreme Court, Ministry of Legal Affairs) as well as perhaps a return to the Cabinet Office, and a pilot line ministry, possibly one with which USAID is already actively involved in a sectoral program.

Partners in implementation of this new strategy will include international and local NGOs, professional associations of lawyers, journalists, and perhaps others. Groups at the University of Zambia, local consulting and research organizations, and perhaps one or more US-based contractors will be instrumental in providing management and technical assistance to the activities contemplated under the SO.

What is crucial for achieving results is that the number and diversity of stakeholders be dramatically increased.

## **6. The Development Hypothesis**

To achieve greater opportunity for participation in the various institutions and processes of democratic governance in Zambia, several crucial elements must be in place. First, to create an effective demand, a more competitive political process needs to be established. Formally, this requires a better functioning Parliament, one that maintains a two-way flow of information from constituents to their MPs, and back in the form of services to constituents. Both citizens and their elected representatives benefit from and depend upon news media that report accurately and fairly on issues of public interest. In order to effectively organize people with common interests and concerns, solutions must be found to ensure the viability

of civil society organizations. It is only when these organizations have become largely "member supported" and thereby truly autonomous that we can expect them to fulfill their role in the development of a more politically active democratic society. Citizens must appreciate the relationships between personal freedoms and responsibility and the role of government, and be empowered to act in pursuit of their interests in a manner that benefits both them as individuals and society at large.

A thoughtful and highly visible supply response must be seen to meet and reinforce the citizenry's demand for greater participation. Strengthening the rule of law and government respect for human rights is fundamental to the building of a more sustainable democracy. The Judiciary plays a particularly important role as the institution interpreting and enforcing the rules under which a democratic society and market-based economy functions. Another response to the demands of democracy on the part of government must come from the Executive branch. Well-designed and properly executed government solutions to problems that society has agreed are important must be demonstrated. Taken together, demonstrated progress in all of these critical areas, even on a modest scale, can maintain the forward momentum toward full democratization, while preventing backsliding by government toward more familiar, though less democratic, behavior.

#### **7. Critical Assumptions Governing Strategic Objective Achievement**

Although Zambia has now had two multi-party democratic national elections, the political situation is still fragile. The process of political transition from the old systems, habits and reflexes of one-party rule toward an open, participatory and pluralistic democracy appears stalled, at least for the moment. In order for USAID/Zambia's Democracy and Governance SO to be achieved, certain critical assumptions must hold, including:

1. Opposition parties are permitted to organize freely and compete fairly with the current ruling party;
2. There are regular opportunities for peaceful changes of government through an open electoral process;
3. The economy continues to grow and benefits become more widely shared among the population in an environment of macroeconomic stability;
4. The government maintains its commitment to political and economic reform; and
5. The Southern Africa region remains stable, and that stability is strengthened by growing political cooperation and economic integration.

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## 8. The SO-4 Results Framework

The result expected at the Strategic Objective level is **Expanded Opportunity for Effective Participation in Democratic Governance**. Three Intermediate Results (IRs) contribute to the achievement of this objective. They are:

**IR 4.1, Strengthened Rule of Law and Respect for Human Rights**, is an essential step toward the building of a democracy made sustainable by a set of institutions establishing norms and governing behavior in which citizens feel a sense of belonging and ownership. There are two sub-IRs which support IR 4.1:

**IR 4.1.1 Improved Legal Framework for More Effective Functioning of Free Markets.** The perception of a lack of independence on the part of the judiciary, and the overwhelming difficulties experienced by the judicial system - particularly the civil court system - in carrying out its role have made it difficult to identify strategic points of entry and a meaningful role for donor assistance. The United States Information Service in Zambia has established contacts with the judiciary, and encouraged its interest in creating an adjunct civil justice system for the arbitration and resolution of commercial and trade disputes. This offers a promising avenue for USAID assistance in the future, one which ties with the Agency's support for freer and more efficient markets. USAID will offer assistance in the training of mediators, design and implementation of a system of caseload management to direct cases most likely for arbitration, and the establishment of capacity for monitoring and evaluation, improvement, and continuity.

**IR 4.1.2 Improved Administration of Justice.** This IR is to be achieved through improved access to current and accurate legal information for professionals as well as for ordinary citizens. The current lack of access remains a major constraint to the effective working of democratic governance. The publication and dissemination of new legislation and regulations, along with compiling of case law rulings from the Zambian courts using computer/Internet technology, has been supported by USAID in partnership with the Zambian Legal Information Institute and the University of Zambia with assistance from Peace Corps volunteers. In Fiscal year 1998, additional hardware and software will be provided to expand access to this information, as well as assistance in the development of a business plan to ensure continuity and growth. The Mission will also provide assistance to the Supreme and High Courts in developing and implementing a system of computerized tracking of court cases. This assistance will provide a powerful management tool to streamline the administration of justice by properly directing case assignment to judges, leveling workloads, and permitting the monitoring of case progress.

**IR 4. 2, More Competitive Political Process**, provides the incentive for continuous change and improvement on the part of government and a means for holding elected leaders accountable for results. This process, including both its formal and informal aspects, ensures

the opportunity for effective participation on the part of citizens in public debate and decision making. This IR forms the core of the Mission's "demand enhancing" activities for democratic governance. There are four sub-IRs which support this IR:

**IR 4.2.1 Better-Informed Parliamentary Processes.** Zambia's strong presidency and a parliament dominated by the same political party act to limit political competition and weaken the Constitution's system of checks and balances on the use and concentration of power. The fragmentation of the political parties in opposition to the current government and their lack of access to resources, combined with the advantages of incumbency enjoyed by the ruling party, aggravate these tendencies. Parliament is still, however, the principal forum for public political debate and for citizens - through their elected representatives and advocacy organizations - to make their views known to the government. USAID can help strengthen Parliament in its role by providing positive examples of representative governance, political pluralism and the constructive aspects of party politics as it works in older, more-established democracies. Orientation, training and study tours and exchanges for political leaders from the ruling and opposition parties will be organized, with careful attention paid to lessons learned that can be applied to Zambia's political context. Assistance will also be offered in improving citizen communication with, and access to, the workings of Parliament, in order to encourage more open and vigorous competition between ideas.

**IR 4.2.2 Accurate News Media Reporting on Issues of the Public Interest.**

USAID support to news media development has been targeted toward the establishment of journalist in-service training and a modern production facility, both independent from government. The University of Zambia's Department of Mass Communications has also been strengthened in the provision of would-be journalists' pre-service education and preparation for professional practice. However, the fact that much of the media remain under direct government control, and that much of the private media are given to sensationalism, are significant impediments to the development of a free and independent press. Under such circumstances, the information dissemination and watchdog functions for which the media in democracies are responsible are difficult to carry out. USAID will encourage the functioning of Zambia's journalist training and news media development organizations as an integrated and mutually supportive system through technical assistance and grants to improve political and economic reporting. In addition, training and encouragement will be provided in the area of media diversification for market segmentation and greater penetration. Concurrently, USAID will work with government and independent organizations to carry out methodologically sound public opinion sampling to provide citizen feedback through the media to government, and to facilitate public discourse. At the same time USAID will encourage the government to adopt a more narrow definition of its role and functions that gets it out of the business of delivering news, commentary and entertainment and which permits and encourages the development and expansion of responsible independent media including radio, TV and print.

**IR 4.2.3 Effective Advocacy by Civil Society Organizations Representing Diverse Interests.** Growth in both the numbers and quality of Civil-Society Organizations (CSOs) has helped to advance democratic governance in Zambia. Such organizations serve to attract, represent, and otherwise serve groups of citizens with similar interests. As intermediary institutions between people and a highly centralized government, they currently offer one of the few opportunities for meaningful citizen participation in the political system. USAID, both directly and indirectly through its assistance implementors, has advised CSOs on management issues and provided financial resources for organizational strengthening and implementation of programs. USAID has also worked to define a role for these organizations in the making of public policy and its implementation. USAID efforts will focus on the following four activity areas: 1) identifying opportunities for cooperation and sharing among CSOs so as to promote efficiency and exploit economies of scale, without compromising diversity and effectiveness; 2) use of donor funds to encourage scaling the size and complexity of these organizations to the interests of their members and their ability to support such organizations; and 3) defining, in policy as well as in operational terms, the role and function of government to explicitly include the participation of CSOs. USAID's efforts will include effective coordination with other donors working in democracy and governance, as well as close cooperation with the GRZ to encourage it to achieve closure on its policy on CSOs, with changes in law and regulations as appropriate. The GRZ currently has a draft under review. The fourth activity area will be advisory assistance to both government and CSOs on the delivery and use of information and opinion as part of an advocacy process.

**IR 4.2.4 Citizen Awareness of the Relevance of Democratic Governance to Basic Needs.** There is growing evidence to suggest that the occasional act of casting a ballot is not sufficient to foster what should be the special relationship between citizens and the people that they elect to represent them in government. The next elections in Zambia will likely be those for local councils, as they have already been postponed on more than one occasion and are long overdue. In anticipation of these local elections and in preparation for the next round of national elections, USAID will work at building a strong and very relevant connection between formal and informal processes of political participation and the daily concerns, fears and aspirations of ordinary Zambians. This "basic needs" focus for USAID's civic education activities is intended to make the theory and practice of democratic governance relevant to Zambians, and give them a sense of ownership in their system. This sense of ownership is key to the sustainability of a new democracy.

**IR 4.3 More Transparent and Accountable Government Institutions,** creates an environment in which government belongs to and serves the interests of its citizens. It is supported through the achievement of one sub-IR.

**IR 4.3.1 Improved Administration, Planning & Budgeting.** This result is to be realized through a combination of decentralization of decision-making authority and civil service

reforms. These efforts are currently in various stages of implementation. At present, public administration remains largely centralized. The changes currently taking place involve the delegation of responsibility, but are not as yet accompanied by the resources or the authority necessary to exercise effective local control in the planning and provision of public services. Previous USAID assistance efforts in the Cabinet Office were productive, but short-lived. These will be reconsidered in the current (1998-2002) Country Strategic Plan in order to encourage and influence GRZ thinking about the appropriate role and function of government at various levels, as well as about the benefits to be gained from decentralization. This activity will be implemented in coordination with the Mission's other SO Teams, through a pilot initiative involving a GRZ line ministry such as the Ministry of Agriculture, of Health, or of Education. The intent is to support the central government's movement away from service delivery commensurate with progress in private sector, NGO and local government capacity to provide these services. The central government would focus more on policy making, creating an enabling environment, monitoring and evaluation, so as to ensure that socially optimum levels of public goods and services are provided.

Highly visible examples of good governance in practice are needed to underscore its importance to Zambia's development and for efforts to solve the persistent problems of poor management and corruption to take hold and to be taken seriously. In concert with other donors, including the World Bank, USAID/Zambia will design and implement an initiative involving improvements in the management of public funds, be it in revenue collection and reporting, procurement, auditing, or personnel, and will take the form of a 'best practices' campaign.

USAID will work with responsible oversight organizations to help them to be able to play a more effective role.

## **9. Links to Agency Objectives and Goals**

This strategic objective, as stated for Zambia at this particular time, is believed to be the most effective and realistic way of realizing the Agency objective of "a sustainable democracy built". The target to aim at is increasing participation in the process of governance. Activities funded under this SO will be directed at this target to remove barriers, increase opportunities, and establish the link between participation and improvements in the lives of Zambians.

## **10. Synergy with Other USAID/Zambia Program Elements and/or Cross-Cutting Themes**

This Strategic Objective incorporates extensive synergies with the following elements (Strategic Objectives) of USAID/Zambia's 1998-2002 Country Strategic Plan:

SO-1. Small Enterprise Development and Privatization: SO-4 is directly linked with, and supportive of, this SO via its activities aimed at improving Zambia's civil justice system through the establishment of alternative mechanisms (binding arbitration) for commercial dispute resolution.

SO-2. Decentralization of basic education and the reorganization of the Ministry of Education.

SO-3. Public Health: SO-4 will support the development of a more decentralized public health administrative and management system to yield more responsive, efficient, and customer-focused health service delivery.

We propose to work closely with selected private voluntary organizations, women's groups and community-based organizations. Because of the nature of our proposed interventions, activities will have an urban rather than a rural focus.

## **11. Performance Indicators**

The following are the principal performance indicators by which progress toward, and eventual achievement of SO-4's Objective and Intermediate Results will be measured:

### *SO-Level Performance Indicator:*

#### **Expanded Opportunity for Effective Participation in Democratic Governance**

- Increase in number and quality of avenues for citizen participation.

### *IR-Level Performance Indicators:*

#### **IR 4.1 Strengthened Rule of Law and Respect for Human Rights**

- Satisfaction with operation of aspects of the judicial system as indicated by surveys of judges, lawyers, and parties to commercial disputes

#### **IR 4.2 More Competitive Political Process**

- Change in citizen awareness and attitudes about inclusion in the political process

#### **IR 4.3 More Transparent and Accountable Government Institutions**

- Measure of subsidiarity: the degree to which functions are delegated to the lowest possible level in the organization

All four IR-Level performance indicators require that a methodology and baseline measures be established prior to the setting of targets. Some initial work under the recent Cooperative Agreement with Michigan State University may prove helpful in the design and execution of this monitoring and evaluation work. The work will be done in FY 98, concurrently with program design in order to have in place the relevant measures, a starting point, and clear understanding of desired changes brought about by program interventions. A set of sub-IR level performance indicators will also be formulated as the SO-4 activity design process progresses.

## 12. Sustainability of USAID-Supported Interventions

The commitment on the part of the Zambian government and civil society to continued economic and political reform is now clear. Zambia has come a long way in its political development, from unrepresentative one-party, centrally-directed statist rule to an open, potentially multi-party democracy and a largely free market. Much has changed, significantly and for the better. However, much work remains to be done in consolidating and building upon Zambia's progress to date. Zambia still requires much in the way of changes in attitudes and institutions to create a stable and enduring system of democratic governance. These needs are demonstrated by recent events such as the 1996 elections, where citizens chose to work outside rather than through these admittedly new and imperfect systems in order to express their grievances. The democratic ideal and process are in place, but the habits and reflexes of the old political order are still very much in evidence. USAID can help to consolidate Zambia's democracy through a judicious application of resources, effective donor coordination, and cooperation with government and civil society.

## 13. Funding and Staffing Scenarios

### *"High" Scenario:*

	FY	1998	1999	2000	2001	2002
Program (\$000)		961	3,500	2,500	2,500	2,000
USDH		0	0	0	0	0
USPSC		1	1	1	1	1
FSN/PSC		1	1	1	1	1

*"Medium" Scenario:*

Program (\$000)	961	3,500	2,000	2,000	2,000
USDH	0	0	0	0	0
USPSC	1	1	1	1	1
FSN/PSC	1	1	1	1	1

*"Low" Scenario:*

Program (\$000)	961	0	0	0	0
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**14. Crisis Modifier**

As recent history shows, the veneer of democratic governance is thin indeed. A number of imponderable events can occur which will have an effect upon the Democracy and Governance Strategic Objective. Some of the more likely:

1. *Imposition of a State of Emergency results in human rights abuses and unpopular, not widely supported nor understood curbs on civil liberties.* We would predict that the effect would be a small but vocal group calling for repeal of the state of emergency, for international sanctions, and a change of government by whatever means. We can expect a defensive response on the part of the government but with the Judiciary becoming an even more important player in enforcing the constitution, interpreting the law and controlling possible excesses. This can cut two ways. If found to be enforcing unpopular laws, it will be accused of lack of independence and integrity. If on the other hand it successfully acts as a check on Executive power and Parliamentary error, USAID support, as planned, can be instrumental in a supply response to democratic governance with likely strong demand-building consequences.

2. *Privatization of key state owned enterprises including mines, telecom and other utilities, results in perceptions regarding winners and losers leading, possibly to a backlash against government and thus threatening the sustainability of economic liberalization.* By making more explicit and intelligible the downstream benefits of economic liberalization and concerted efforts at empowering citizens to not only understand these changes but see how they can themselves benefit from them, this problem can be turned into an opportunity for sustaining the direction and speed of the economic changes now underway. The increased costs and inequities of liberalization can also be an important selling point with government as to the benefits of being more inclusionary in their deliberations, so that both the blame and some of the the credit are shared between government and opposition groups.

# **Annex 8**

## **Development Setting**

## ANNEX 8 DEVELOPMENT SETTING

### I. OVERVIEW OF THE DEVELOPMENT ENVIRONMENT

#### A. Background

Zambia borders eight states in southern Africa (Congo Kinshasa and Tanzania in the north; Malawi and Mozambique in the east; Zimbabwe and Botswana in the south; Namibia in the southwest and Angola in the west). As a member of the Southern African Development Community (SADC) and the Community of Eastern and Southern African States (COMESA), Zambia now has access to a vast \$50 billion regional market that includes twenty countries. Compared to many of its neighboring states, Zambia has made significant progress in implementing economic reform, in promoting democracy and accountable governance. In recent years, Zambia has been referred to as a "model" for economic liberalization in Africa. In spite of its many developmental challenges, Zambia has contributed troops to the political and social stabilization of several neighboring African states, including Rwanda, Mozambique and Somalia. Zambia also hosted and brokered the Angolan peace talks.

There is vast potential for growth in Zambia. With a good tropical climate and rainfall that provides 45 percent of the entire water resources of southern Africa, there is abundant agricultural land, of which only 25 percent is now under cultivation. Zambia is the world's largest producer of cobalt and the fourth largest producer of copper, and has historically relied heavily on trade of these minerals for foreign exchange. Although international trade of agricultural and manufactured products is steadily on the rise, more than eighty percent of Zambia's foreign earnings still come from copper exports alone. This continues to make Zambia's economy largely vulnerable to fluctuations in the world price of copper.

In 1991, Zambia made a peaceful transition from one-party rule to a democratically-elected government when Frederick Chiluba's Movement for Multi-Party Democracy (MMD) soundly and, to many, surprisingly defeated President Kenneth Kaunda's UNIP, which had ruled Zambia since independence in 1964. The results of the 1991 election brought a sudden end to one-party rule, a nationalized economy, and the era of socialism and state control. The transition is notable in a region where political and economic reforms have been slow in coming.

The democratically-elected MMD government has made substantive reforms that have taken the Zambian economy from the verge of collapse to a slow recovery. With a more open and transparent system of government and more liberalized economy, Zambia is now well-positioned for sustained economic growth. While Zambia's real gross domestic product (GDP) has been stagnant since 1974, there have been improvements in recent years: real GDP growth reached 6.5 percent in 1996 but is projected to slow to 3.5 percent in 1997.

## B. Political Setting

The MMD government came to power with a platform for democracy, human rights, and a free market economy. Although the government has often lagged behind scheduled reforms, it has generally pursued this platform. Since 1991, there have been several free and fair by-elections. Local elections were conducted in 1992, following the passage of the Local Elections Act, but they have not been repeated, although they were scheduled for 1995.

Although the government has a record of solid accomplishments in the economic arena, there are periodic signs of problems especially those relating to political reform. These matters came to a head in 1995 and 1996, during the run-up to the November 1996 national and presidential elections and reflected primarily problems with a controversial Constitutional Amendment because of its provisions and the method of adoption.

In 1993, President Chiluba appointed a Constitutional Review Commission, with the support of USAID and other donors. The Commission completed its review in 1995, recommending among other things that a candidate for election as President should be qualified if both his parents were Zambians by birth or descent. This precluded the former President Kaunda from standing for the general elections in 1996 (Kaunda's parents were born in what is now Malawi).

The constitutional reform process has proven to be the most controversial issue for the MMD Government. The exclusion from the election of the only viable opposition candidate, together with an inadequate voter registration process, led to a flawed election. Elections took place amidst protests from various groups, including an elections boycott by UNIP. The turnout was very poor, with those voting comprising less than a third of the eligible population. With five presidential candidates running, Chiluba won with 69 percent of the votes cast and the MMD won 131 seats in parliament (out of 150 seats).

Following the 1996 election fiasco, UNIP has openly dropped its socialist orientation for a "social market" approach, defined as "capitalism with a conscience." Despite this, however, UNIP has continued to lose support and there are speculations that the party is financially insolvent. A large number of other small parties continue to exist that espouse political platforms somewhere in between those of UNIP and the MMD, but all claim to favor market-oriented economies. To date, these splinter parties have found it impossible to combine with UNIP in a cohesive opposition force.

Encouraged by donors, the MMD is making attempts to re-establish dialogue with other parties on various issues such as the need to establish a credible system for ongoing voter registration, maintaining free press and making progress on corruption issues. However, recent political events and a failed military coup have given rise to the declaration of a state of emergency. These developments may hamper longer-term prospects for a meaningful political dialogue.

Widespread corruption in public life remains a constraint to development. Part of this is a result of greed; other elements relate to low public sector salaries; yet others are associated with the patrimonial state, based on patronage and nepotism.

Higher funding levels for anti-corruption and other related commissions will be a necessary step in achieving progress in tackling corruption. In addition, a new bill of rights and mechanisms for checks and balances among the executive, legislative and judicial branches of government should reduce the tilt in Zambia's constitution toward executive powers.

Beginning in 1992, there have been some notable successes with decentralization of health services which represent a major initiative to improve equity, access, cost-effectiveness and service quality. It is widely hoped that the Government's health reforms will provide a model for social services delivery and public sector reform in general.

During the 1996 campaign, President Chiluba again stressed the importance of decentralizing government authority through the Ministry of Local Government and Housing and members of the Cabinet have expressed their support for continued work on a decentralization program. This should bring delivery of services such as housing, water and sanitation to local district councils and therefore, closer to the people.

## **B. Socio-Economic Situation**

### **1. Social, Political and Cultural Values**

The vast majority of the Zambian population (over 99 percent) is of indigenous African origin. Most Zambians identify themselves in terms of ethnic and regional affiliation, although less divisively so than in other African countries. Although the population can be sub-divided into eighty distinct linguistic groups, sufficient cultural similarities exist to permit clustering into seven distinct categories.

Few sharp cultural boundaries exist among the indigenous ethnic groups apart from traditional political organizations, methods of kinship affiliation and traditional economic activities. These distinguishing variations continue to be important to social interaction and development activities in spite of the high degree of urbanization and the emergence of a national identity.

Zambia has the most urbanized population among countries of the Southern African Development Community (SADC), with 43 percent of the population residing in urban areas in 1994. The rate of continuous migration of people from rural areas to mining towns and urban areas appears to be slowing, however, from the previous two decades.

Traditional political systems continue to co-exist with the modern form of government, sometimes dividing people's loyalty between the two. Adherence to tradition is abetted by the government through division of rights and obligations to the people as citizens of the state

and as subjects to traditional leaders. Traditional leaders (chiefs and headmen) mediate local disputes, allocate traditional (reserve) land for settlement and agriculture, and serve as power brokers in local affairs. The government provides national security, a few social services and protection of civil rights. For most people, the former issues such as access to land and association with an immediate protector or benefactor are more important than those falling under government auspices.

Kinship affiliation is important, regardless of place of residence. The absence of a formal social security system and emergency welfare services makes people dependent upon kinship ties for assistance in times of need. Most ethnic groups are matrilineal with a few patrilineal groups existing. The reckoning of descent through matrilineal or patrilineal lines is important as it determines rights and entitlement to family property and support. It is also important because it affects the custody and maintenance of children should divorce or death dissolve a marriage. In particular, it has undermined women's access to productive land under secure title and precluded them from obtaining inheritances.

Traditional political allegiances combined with strong kinship obligations have been associated with the "patrimonial" system of governance, based on political and economic patronage and nepotism. Reciprocity and obligation exist in all relationships, serving as an added dimension to formalized roles and structures of government, parastatals and business. Objective criteria of fair-play, equity and non-favoritism are observed when dealing with "strangers" but a special set of criteria, emanating from tradition, is to apply to relatives, people from similar ethnic affiliation, and friends. The continuing centrality of lineage, clan and ethnic groups helps to promote these types of relationships, and raises fundamental concerns about bureaucratic structures that rely on performance and qualifications.

## **2. Demographics and Health**

During the years after Independence and under the Kaunda government health facilities were centralized. These facilities deteriorated, resulting in poor delivery of health services to the majority of the people.

According to a 1996 Survey conducted by the Government's Central Statistics Office, Zambia's population grew from 4.0 million in 1969 to 9.5 million in 1996. The rate of population growth remains high, at 3.2 percent per annum, following the trend of the past two decades. Continued high fertility has contributed to Zambia's high rate of population growth.

The infant mortality rate, which had declined from 141 deaths per 1,000 live births in 1969 to 97 per 1,000 births in 1980, increased to 107 per 1,000 births in 1992 and increased further to 109 in 1996. The under-five mortality rate, which is often used as a single overall indicator of the well-being of a nation's children, showed that in 1980 an estimated 179 per 1,000 children died before the age of five; by 1992 this number had risen to 191 per 1,000, and Zambian Demographic and Health Surveys (ZDHS) estimates for 1996 are 197 per

1,000; an alarming trend that runs counter to that observed in other sub-Saharan countries. According to a 1994 report prepared jointly by the GRZ and UNDP, the rise in urban child mortality rates is due to the decay and decline of utilities and social services in urban areas, or their total lack, especially in shanty towns. In spite of an anticipated urban bias of investment and service provision, child mortality rates in Lusaka are believed to be the highest in the country.

Studies have shown that there is a close link between the level of education of the mother, and child mortality rates. According to the 1992 ZDHS, the infant mortality rate for uneducated mothers was 115 per 1,000 live births, as compared with 99 for mothers educated up to the primary level and 79 for mothers with secondary education. The Report of the 1996 ZDHS demonstrated similar links. Important reasons for this include better maternal care; exclusive breast feeding to provide nourishment and protection from common illnesses during the first six months of life; better young child feeding; and better management of common illnesses. Deteriorating living environments have also contributed to the rise in child mortality rates, as these can lead to early cessation of breast feeding, inadequate nutrition, and a high incidence of preventable diseases, such as malaria, diarrhoea and respiratory infections.

Life expectancy reached a peak of around 54 years in the mid-1980s, by 1992 the average life expectancy of a Zambian had deteriorated to only 45.5 years. In 1996, according to ZDHS, this number may have fallen further, to around 44 years. Both the high incidence of AIDS and malaria, which is endemic throughout Zambia, have contributed to the deteriorating trend. Due to continued financial constraints, the National Malaria Program of the Ministry of Health has not been able to conduct annual anti-mosquito spraying. This, along with shortages of drug supplies and increasing malaria resistance to a number of antimalarial drugs, are implicated in the rising trend of malaria deaths.

Decentralization of health services in Zambia, which began in 1992 and marked a radical departure from past approaches which were often excessively centralized and non-consultative, has offered reason for hope. According to the GRZ, the overall vision of these health service reforms is "to provide Zambians with equity of access to cost-effective, quality health care as close to the family as possible." The main approach to implementation has been to decentralize responsibility for essential service functions to the district level in order to make services more responsive to local needs and accountable users. This has involved the establishment of District Health Boards and Hospital Management Boards that are made up of elected and appointed community representatives. These reforms are said to be yielding positive results in terms of better use of scarce resources, stocking of essential drugs, and raising staff morale.

Up through the 1980s, Zambia's centralized, bureaucratic management of health care led to inefficiencies in the provision of health and other social services. Pneumonia, diarrhoea and malaria case fatality rates doubled between 1982 and 1992. These problems were compounded by the incidence of HIV/AIDS, which is considered by many to be the most

serious threat to development in Zambia. AIDS was first identified in Zambia in 1985, at which time the Government established a National AIDS Surveillance Committee and an Intersectoral AIDS Health Education Committee, but it remained cautious about discussing the crisis openly in public. By 1992, however, the Government position had changed. As a result, after several years of promoting public awareness of AIDS, the wider implication of deaths and ways of avoiding infection are more widely known. But slowing down the rate of infection has proven difficult to accomplish. While the 1996 Zambia Demographic and Health Survey results show that knowledge of AIDS is "universal," with an estimated 99.6 percent awareness, the country's HIV sero-positive prevalence rate remains among the highest in the world. Statistics on HIV prevalence vary. Zambia HIV Sentinel Surveillance data from 1994 estimated that the adult prevalence of HIV was between 22 and 25 percent in urban areas and between ten and 13 percent for rural areas. According to the UNDP, for the 15-39 age group, HIV prevalence is estimated at 24 percent for urban areas and 14 percent for rural areas.

In 1995 AIDS was estimated by UNDP to account for almost half of all deaths, although the cause of death is not always diagnosed as AIDS, and people will therefore usually be known by their surviving families to die of another disease or ailment. Computer-based projections of the rates of deaths from AIDS suggest that they will continue to rise through the end of the century, with a possible reversal of that trend during the first decade of the twenty-first century. During this period, the number of AIDS orphans is expected to increase three-fold. Because public services and even extended families have not been able to adequately cope with the problem of AIDS orphans, the number of street children estimated in 1994 to be 70,000, has continued to rise (from 35,000 in 1991).

Family planning is not widely practiced in Zambia. Overall only 26 percent of married women practice family planning. Further, the use of contraceptives is substantially higher in urban areas than in rural areas and is also closely correlated with the woman's level of education. Uneducated women rarely use pregnancy prevention methods, as compared to nearly two-thirds of women who have higher education.

### **3. Education**

Tremendous gains were registered immediately after independence in expanding school enrollment, particularly in primary schools; however, this trend reversed after 1985. This was due to a variety of factors including, most notably, a continued lack of government revenues and high rates of population growth. The population growth rate of 3.0 percent to 3.2 percent over the past three decades has outstripped the resources to supply schools, places, teachers and books.

Zambia's formal education system has a 7-5-4 system (seven years of primary, five years of secondary divided into two years of junior high school and three years of senior high school, and four years of university). Zambia's education system is highly centralized. The Ministry of Education (MOE) formulates and communicates policy, disburses funds

authorized by parliament, sets human resource ceilings and assigns personnel, and defines standards, monitoring, and evaluation mechanisms.

The GRZ appears to have acknowledged the severity of the crisis and has, through the Ministry of Education, initiated several reforms in 1995, as part of the GRZ's overall Public Service Reform Program. The reforms seek to devolve more responsibility to the district and school levels and set up structures that will effectively decentralize decision-making and administration. The decentralization policy focuses on the establishment of Education Management Boards (EMB) at the district level for primary schools, and at the institution level for secondary schools and teacher training colleges. In theory, the EMB will be empowered to, among other things, recruit teachers and staff, manage school discipline, procure educational materials, control educational quality, contribute to curriculum, own property, raise, borrow and manage local funds, and authorize contracts for local services.

In addition, the government has directed a greater share of resources to education, from 9 percent of total GRZ expenditure in 1990 to more than ten percent in 1995 (3 percent of GDP in 1995). The government also gave priority to the basic sub-sector, where the problems are the most acute. Consequently, total GRZ expenditure on primary education as a share of total expenditure on education increased from 29 percent in 1990 to 41 percent in 1995 whereas expenditure on secondary and tertiary education declined.

The policy and analytical framework for revitalizing the education sector continued in 1997 through the Education Sector Investment Program (ESIP), with a continued emphasis on primary education.

#### **4. Poverty and Income Distribution**

At independence in 1964 Zambia was one of the richest countries in Africa. Today, however, with real per capita GNP at \$350 (one estimate of real GDP per capita is \$320), Zambia has become one of the poorest countries in the world.

Statistics on poverty in Zambia vary, largely due to the different categories that are used to define poverty. However, the characteristics of the poor do not change and according to a recent World Bank poverty assessment a poor person lacks food, money and clothing.

Defining poverty as a level of expenditure below which one would be unable to provide for adequate nutrition and other basic needs, the 1994 World Bank poverty assessment found that 69 percent of Zambians are living below the poverty line, and that rural poverty was more prevalent, deeper and more severe than urban poverty. In agreement, another study by the UNDP in 1996 estimated that roughly two thirds of the population is living in poverty and suggested that the incidence and severity of poverty was worse in remote rural areas. Depending on the study, poverty afflicts 70 to 88 percent of the rural population, and 29 to 55 percent of the urban population. Which groups are most adversely affected by poverty is

a matter of some debate. The GRZ, for example, recently suggested that the groups most adversely affected by poverty are to be found in the peri-urban areas. Subject to urban prices, with precarious prospects for income and formal employment, these groups live in overcrowded, unserviced shanty-towns, referred to as "compounds." As most living in rural areas engage in some form of subsistence farming, they are somewhat less vulnerable to fluctuations in market prices for food, but still lack access to adequate potable water, medical care and basic education.

Whether rural or urban, female-headed households are highly correlated with poverty. Poor physical security, poor or absent services, and poor transportation often mean that women attempt to make their living at home, and girls are kept out of school. In the urban areas the poor live in unplanned squatter settlements at the edge of the town or city. In such communities, land and dwellings do not count as assets because they are untitled. In terms of employment, the urban poor are concentrated heavily in marginally productive petty trading and the making of cheap and single consumer products.

The rural poor, like the urban poor, also suffer from a lack of productive assets. In this case, such things as draft animals, modern farm implements, simple irrigation equipment, and secure storage facilities would increase rural productivity. In addition to lack of assets, the rural poor also face geographic isolation, poor access to basic services, and lack of transport for themselves and their goods.

Poverty is also subjected to periodic times of stress and in rural areas the stress period is on a seasonal basis, usually during Zambia's rainy season (between late November and early April), when food stocks from the previous harvest are low or unavailable, malaria and other causes of morbidity reach their peak, and household expenditures are at their highest (education, health, food, farming inputs, and holiday festivities). In urban areas, times of stress tend to occur at the end of each month when people have run out of money and are waiting for their next block of income. These stress periods affect dietary intakes of many large families in peri-urban and urban areas that are dependant on month-end income.

With regard to income distribution, indications are that Zambia's income inequality has been worsening in recent years. In 1991 for instance, the highest 20 percent of the population had a share of 49.7 percent of income while the lowest 20 percent had 5.6 percent. In 1993 the highest 20 percent had 50.4 percent of income compared to only 3.9 percent for the lowest 20 percent.

## II. PROSPECTS FOR GROWTH AND DEVELOPMENT

### A. Prospects and Opportunities

#### 1. Factors of Production

Progressive restructuring of the economy and a long list of policy reforms, including privatization, agriculture and financial sector liberalization, significant tariff reductions, foreign exchange regime liberalization, and investment incentives have positioned Zambia to better take advantage of growth and export prospects than in the past.

There is no shortage of unskilled labor, given Zambia's high un-and under-employment rates estimated to be 22 to 25 percent of the work-seeking labor force while wage rates are among the lowest in the region.

Of Zambia's 75 million hectares, approximately 16 million are considered suitable for livestock grazing and nine million are classified as arable with good potential for crop cultivation. Only about 1.5 million hectares of this nine million are under cultivation. While Zambia has good potential for irrigation, little of it is done. The northern region of the country, which is sparsely populated, averages about 30 inches of rain a year and has great, untapped agricultural potential. Four percent of land is owned by the state, with most of the rest held communally. Until recent legislation, land was deemed to have no intrinsic value, and could not be bought or sold on a permanent basis. Laws have changed and land (both developed and undeveloped) can now be privately owned, sold, transferred and subdivided.

Zambia has about 20 commercial banks, but because of the prevailing liquidity situation and high core liquid assets requirements, almost all domestic credit is short-term and predominantly for working capital and/or trade financing. Measures are being implemented to address weaknesses in the banking sector. Increased capitalization of commercial banks and improved regulation will strengthen the banking sector, while government's improved macro-economic and fiscal management should lower lending rates and reduce the "crowding out" effect. Foreign investors are able to arrange offshore credit.

Zambia is landlocked and generally dependent on the good-will and transport policies and facilities of its neighbors. The country no longer has a national airline but is served by several private domestic air carriers and regional companies, as well as by two major international airlines. The rail link to Benguela (Angola) disrupted by years of civil war, has not been fully restored, but the Zambian-Tanzanian jointly owned railway company TAZARA provides poor quality service to the port city of Dar es Salaam. Most of Zambia's non-copper exports and most of its imports go by the southern route through Zimbabwe and South Africa or by truckers. The trucking industry is privately operated, open to entry by new firms, and very competitive. Regulation of road weights is recent in Zambia and even now not widely monitored or enforced. A Roads Board, and Roads Transport Fund, based on the at-the-pump fuel tax were set up with the assistance from the World Bank and

bilateral donors. The World Bank is also spearheading an effort to have a four-year, \$700 million, multi-donor investment program with the GRZ to revamp the road network (ROADSIP).

Water and electricity have generally been reliable services, especially in the urban areas. The parastatal power company, ZESCO, has historically been an exporter of electricity to Congo Concessi and Zimbabwe. With the assistance of multilateral and bilateral institutions it will remain government owned, but put on a commercial basis. Zambia has one of the better telecommunications system in the region, though its costs are very high. The telecommunications parastatal, ZAMTEL, will be privatized, which should lead to increased competition, new equipment, better service, and lower costs.

## **2. Export Opportunities**

Zambia's trade-openness has greatly improved with tariff reductions and a liberalized foreign exchange regime. Non-traditional exports rose from \$50 million in 1992 to \$230 million in 1996. Zambia is a member of both COMESA and SADC. As only 12 percent of its exports are destined for Africa, Zambia is following a two-pronged trade strategy, pushing trade with the rest of the world as well as working increasingly with SADC for greater regional integration. South Africa is the most important regional market for Zambia's non-metal exports, so its import duties, subsidies, and degree of adherence to the SADC trade liberalization protocols are important to Zambia. Increased exports and greater market penetration in the region will require diversification of Zambia's export base, improved quality control, as well as continued regional trade reform.

Export of copper and cobalt has traditionally accounted for the majority of Zambia's foreign exchange earnings. This is beginning to change, however, as non-traditional exports such as floriculture, cement and fabricated metal products are expected to grow at double-digit rates in the next couple of years. Largely due to relatively low labor costs, Zambia is also a competitive producer of textiles and garment pieces from a purely cost point of view, but its supply lines to market are long and tenuous, quality unproven and reliability untested. Privatization and management changes in recent years have helped, and the export of these and other products is expected to grow.

## **3. Productive Potential**

As privatization of ZCCM concludes, the long-term decline in production and exports should be reversed, equipment replaced and upgraded, and new mines and smelters brought on line. Critical issues will be the swings in world copper prices, and whether or not private management can turn Zambia into a lower-cost copper producer.

The mining of gemstones presents a viable economic activity with valid growth potential for a large number of small artisanal miners. Smuggling of gemstones out of Zambia remains a big problem, however.

There is tremendous growth potential in agriculture because 80 percent of Zambia's arable land is unused. A major World Bank study concludes that, depending on the assumptions used, the agriculture sector could grow by more than seven percent per year in the next five years. The GRZ is very aware of this, and has liberalized both price and distribution on the input side, particularly of fertilizer. The country seems to have more-or-less traversed the most difficult stage of transition from a controlled to a market-based agricultural system.

However, if Zambia's full agricultural potential is to be realized, issues of land tenure, infrastructure, credit, and the GRZ's lack of focus on small farmers need to be addressed. Overall, Zambian agricultural growth remains fragile because of its dependence on weather conditions, continued over dependence on maize, a high degree of subsistence production, and the present narrow export base. While intensification of crop production will be a central strategy to increasing sectoral growth in the long term, in the next 10-15 years the greatest increase in output will likely come from area expansion.

With the splitting up and privatization of ZCCM, and a resurgent agricultural sector with decontrol, crop diversification, and reasonable rains, the manufacturing sector could also see its own resurgence. The GRZ has targeted investments in manufacturing, using local raw materials and exporting.

Formal sector manufacturing firms which have growth and export potential are those using local raw materials, labor intensive operations, and high value-to-weight niche items. Firms which serve the local market, particularly in mining-related activities and bulkier consumer goods, also have potential. As state-owned enterprises are divested, the close supplier relationships built on proximity and systemic bonds will likely be reduced, resulting in a further shake-out and reduced costs.

SMEs with good profit potential include agricultural processing, metal working and blacksmithing, building materials and construction, ancillary industries related to mining, processing of forest products, textiles, and processing of fishery products. In many of these subsectors, comparative advantage lies in the substantial cost savings gained by processing near the raw material source. Economies of scale foregone may be outweighed by the lower labor costs of informal rural enterprises, flexibility of adaptation of small firms, and the use of more appropriate technologies.

Increasing world interest in wildlife conservation and a more realistic exchange rate will make eco-tourism a potential growth industry. The government has targeted high-cost, low impact tourism as one of their areas for investment, though there is potential for mass tourism in Livingstone. The GRZ is optimistic about growth in this sector because of their campaign to attract investment to the sector; better marketing by Zambia's core of privately run lodges and camps; and with the end of sanctions, South African tourism.

## **B. Analysis of Key Constraints to Growth and Development**

### **1. Economic**

While the country has an abundance of water and arable land, farming is hampered by land tenure constraints and surveying and titling activities which require long, expensive waits. Productivity is low because of health, attitudinal and education constraints; lack of systems tying performance to productivity; insufficient know-how in middle management in marketing and in certain technical areas, and an unwillingness to import such skills.

The general health of the population affects labor productivity. The average life expectancy at birth has come down from 54 years in the mid 1980s to 44 years in 1996. AIDS has hit the educated groups disproportionately and is likely to decrease life expectancy even further.

Literacy is above 70 percent but less than 40 percent of higher education graduates have pursued studies in technical, scientific, medical or managerial fields and skilled labor is in very short supply. Technical schools and vocational colleges are few, and quite a substantial number of the country's university graduates live and work outside Zambia.

The availability of loan finance for Zambia's private sector has declined markedly and not only has there been a 58 percent decline in real terms of Zambia's banking sector since 1991, but also large, risk-free treasury bill holdings by the captive banks (because of high core liquid assets requirements) cause heavy crowding out of lending to the private sector.

The composition of the lending portfolio has also changed. Over the last five years, credit to mining decreased by about 90 percent and to manufacturing by 73 percent. Given the heavy debt over-hang in agriculture from 1992 and 1993 ( a significant facet of the "debt forgiveness" and "no repayment" culture), there has been almost no new lending in that sector. Almost all credits are short-term.

The lack of long-term finance is a major obstacle to private investment by Zambian firms and there would be substantial gains from any new initiative to channel finance to the private sector. The situation is especially severe for small and medium-sized Zambian enterprises, whose government lending institutions are moribund.

Existing rail and road networks have deteriorated from lack of maintenance and new investment, as well as civil wars in neighboring countries through which rail lines to the Atlantic and Indian Ocean pass. The jointly owned parastatal Tanzania and Zambia Railway (TAZARA) and Zambia Railways provide poor quality service at high rates. Zambia's dependence on trucks, along with the lack of infrastructure maintenance, has been a major cause of the abysmal state of Zambia's road network, including feeder roads. The other cause is lack of adequate budgetary allocations for road repairs and maintenance.

Poor macroeconomic management and the drought of 1992, which necessitated the sudden purchase of large quantities of food imports, resulted in high rates of inflation at the beginning of this decade. From 1990 to 1993 inflation ranged between 94 percent and 200 percent. However, macroeconomic management has shown some improvement in recent years. From 1996 to 1997, however, the situation improved considerably, with inflation currently down to 23 percent. The relative stability of the nominal effective exchange rate since April 1996 has also contributed to the slowing of inflation.

Government has made little progress in improving the structure of public expenditure. Procedures regarding budget preparation and expenditure control continue to show serious weaknesses which undermine confidence in government's abilities to meet fiscal targets. However, economic management has become a principal development issue being addressed by GRZ with help from donors.

Although the privatization program has done far better than expected, there are still certain risks associated with implementation, such as negative reactions from those who are targeted for retrenchment, redeployment or retirement measures.

Despite the great range of potential opportunities, attracting investment to Zambia continues to be a challenge. As economic growth has been slow, and income levels very low, increases in average savings have not been forthcoming. Because of very low domestic savings rates, resources have not been available for higher levels of investment and a large portion of foreign assistance is effectively used to service external debt. In the past, Zambia's low savings has also been due to negative real interest rates, inflation, and the wasteful use of parastatal resources for consumption. Multilateral donors have expressed concern about repayment of existing debt.

## **2. Political**

The executive branch continues to dominate the political decision making process, over the legislative and judicial branches of government. Prospects for improving the situation are in dialogue with all stakeholders especially the opposition.

Government to date has made little progress in civil service restructuring. The delay impedes improvement of the structure of public expenditure, which is characterized by a high public wage bill and excessive levels of recurrent expenditure which crowd out much needed public capital and social sector investment.

## **3. Social**

The high rate of population growth, which has ranged between 3.0% and 3.2% over the past three decades, continues to put budgetary pressures on the GRZ to provide more in the way of social services.

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Over the past 20 years, the deterioration of the economy, along with poor management of the health care budget, has greatly contributed to the worsening health status of Zambians. Decentralization improves prospects for better provision of health services, but centralized control of resources remains. The health sector reform program is seriously jeopardized by continuing foreign exchange constraints on the GRZ budget, occasioned by Zambia's debt burden and fiscal management. At present, the GRZ is still reliant on donors to fund its primary health care system.

For the moment, Zambia's educational system remains centralized and management of the education sector remains within the Ministry of Education. Further, the amount of GRZ funds going into training and education has not matched Zambia's high population growth rate. As a result, there remains a chronic shortage of educational facilities and skilled personnel.

Recent estimates suggest that about 70 percent of the Zambian population is living below the poverty line and real per capita GDP has been declining. Poverty alleviation therefore, will have to be a major task for government.

# **Annex 9**

## **Economic Analysis**

## ANNEX 9 ZAMBIA: ECONOMIC ANALYSIS

### I. Introduction

Zambia is a landlocked country sharing borders with Angola, Botswana, Malawi, Mozambique, Namibia, Tanzania, Congo-Kinshasa, and Zimbabwe. Zambia's trade links to the sea and to the rest of the world depend on the stability of these countries, as well as on South Africa.

The average altitude of Zambia is 1500 meters, and the climate is temperate. The population of 9.5 million is growing at 3.2 percent per year. With 43 percent of the population residing in urban areas, Zambia is one of the most urbanized countries in Africa. Life expectancy at birth is 44 years. Infant mortality is 109 per 1000 live births, and has been rising steadily since its low of 97 in 1980. Real per capita GDP has been falling steadily at about two percent a year since 1975. It now stands at about \$350 per year.

Zambia is very rich in mineral resources. It is the fourth largest copper producer, and largest cobalt producer in the world. Agriculturally there is abundant crop and grazing land. Zambia uses only about 25% of total available arable land. In recent years Zambia, like much of the rest of Southern Africa, has suffered a series of droughts. These are cyclical; their recurrences are expected. Only in the northern half of the country has rainfall been dependable, at about 36 inches a year. Zambia has one of the highest potentials for irrigation in Africa because of the generally steady flows from the Congo, Zambezi, and Kafue watersheds.

Public focus on Southern Africa has recently been on South Africa, or Mozambique and Angola. More recently this focus has been on Rwanda, Burundi, and Congo-Kinshasa. The events in these countries typically attract more attention than the less well publicized political and economic reforms that have occurred, and continue to occur in Zambia. It has sustained many of the economic and social reforms begun after the 1991 multi-party elections which were the first in Southern Africa and, in fact, repeated that success with peaceful elections in 1996.

While Zambia's socio-economic transition is not complete, and could still go awry, it thus far exceeds any movement towards pluralism and an open economy of just about any country in Africa. Retrograde tendencies exist, however, and are more obvious in the political than in the economic sphere.

On October 31, 1991, the Zambian electorate rejected after 27 years, the socialist "development dictatorship," and one-party "social humanism" of Kenneth Kaunda, who led Zambia to independence in 1964. The new government of Frederick Chiluba, and the Movement for Multi-Party Democracy (MMD) made economic restructuring a part of its campaign, and then, with extensive bilateral and multilateral support for the party's manifesto, followed through on many of its commitments. As a result, despite remaining problems that need serious attention, such as putting systems in place to capitalize on and

implement the reformist policies, Zambia may be the most liberal economy, with the best growth prospects of any economy in southern Africa. On November 18, 1996, the Zambian electorate reconfirmed the leadership of the MMD government for another five-year term. Turning Zambia's growth prospects into the reality of improving social, health, and education achievements is the very large challenge of the newly elected government.

## II. Economic Performance and Policy Environment

### A. Independence to 1991

Zambia's economic performance, and its policy environment since 1964 fall into two distinct stages. The first is the period 1964 to 1991 under Kenneth Kaunda's UNIP, while the second is the period 1992 to the present, under the MMD government.

At independence in 1964, Zambia had one of the highest per capita income levels in sub-Saharan Africa.<sup>1</sup> Large copper deposits made GDP growth seem a certainty. Economic prospects appeared bright. The high level of per capita income and seemingly endless copper revenues led the Government of Zambia (GRZ) to think it could focus almost solely on the problems of equalizing income. Income distribution in Zambia was very uneven. Most Zambians worked outside the formal economy, predominately in subsistence agriculture, did not have the skills to work in the formal sector, and did not benefit from the higher income levels there. The formal economy was heavily controlled by non-Zambians.

In its push for "equitable growth", however, the GRZ failed to recognize the necessity of growth itself. Zambia already had structural problems: The country was overly dependent on the copper sector for employment, revenues, foreign exchange, and GDP,<sup>2</sup> and was extremely vulnerable to changes in extraction costs and in market prices for copper. Instead of trying to resolve the various structural problems in the country, the government used its expenditure program as a policy instrument to maintain urban consumption and redistribute the wealth created by the copper industry.

The GRZ focussed on providing free health and education services, replacing expatriates with Zambians in economic activity (Zambianization), nationalizing industries<sup>3</sup>, and over-extending the role of the public sector. Agriculture, which played a smaller role in the Zambian economy than in most others in Africa, was all but ignored. In 1968, under the

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<sup>1</sup> *In 1970, Zambia's per capita GDP at \$440 (in 1990 dollars) was 2.75 times the average for Sub-Saharan Africa with Nigeria excluded.*

<sup>2</sup> *In 1970, copper provided 90 percent of export revenues and 64 percent of revenues.*

<sup>3</sup> *Between 1965 and 1975 the Zambia government established nearly 80 parastatal companies either through new investments or acquisitions of existing private companies, taking majority shares in over 96 percent. Only agriculture and banking remained largely in private hands.*

Mulungushi Declaration, the GRZ established a restrictive policy environment which limited the degree of internal and external competition to which the domestic economy was exposed; suppressed the role of market mechanisms in guiding resource allocation; imposed a protectionist trade regime, and extended the role of the public sector. (This restrictive environment remained largely intact until 1989). During the first ten years of independence, the GDP growth rate was less than the rate of population growth, and per capita GDP fell.

Between 1965 and 1975 the Zambia government established nearly 80 parastatal companies either through new investments or acquisitions of existing private companies. Nearly half of the companies (45 percent) were in manufacturing, 30 percent in retail/wholesale, finance and other service sub-sectors, and the remaining 25 percent were in transport, agriculture, and energy. The Government took majority shares in over 96 percent of them. Nearly all these companies had to rely on imported machinery and equipment and over 80 percent of them had to maintain production by use of imported intermediate goods. By 1975, the parastatal companies accounted for over 50 percent of the output from the manufacturing and transport sectors. They dominated service industries such as insurance and wholesale/retail businesses as well as the production and distribution of energy.

The rapid expansion of the parastatal sector was accompanied by growth of government employment and public-expenditure programs. Between 1966 and 1975, government employment rose from 90,000 to over 125,000, while formal sector employment declined from 170,000 to 120,000. Public expenditures, as a share of GDP, rose from an estimated 35 percent in 1970 to over 40 percent in 1975. The growth of expenditures was led by the growth of government wages, increased subsidies on maize meal for urban consumers, and increased military spending.

As a result of increased incomes and desire for consumer spending, import-substitution industries grew at the expense of exports; most companies had to rely on imported machinery and equipment; over 80 percent of them had to maintain production by use of imported intermediate goods, when they could pay for them.<sup>4</sup> Zambia became a classic public-sector led economy with excessive controls, parastatal monopolies, and a pro-urban, anti-agricultural bias.

Growth in domestic manufacturing was stimulated by protectionist trade policies and by tariff and non-tariff protection. The tariff structure also gave greater protection to industries producing consumer goods than those producing intermediate or capital goods. This, then, explained the rapid expansion of manufacturing through import substitution and the inability to develop an export manufacturing sector.

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<sup>4</sup> For much of the 1970s, the nominal rate of protection for all goods was estimated to be 34 percent and the effective rate 160 percent.

The high dependency on capital-intensive and import-intensive industries, and the predominance of the public sector in the economy resulted in the structural barriers still facing Zambia today. Capital stock eroded because new and replacement investment were lacking, particularly in public infrastructure; there was a shortage of factory space; transport facilities and infrastructure were inadequate; bottlenecks in telecommunications made it difficult for business to operate and expand; basic urban infrastructure such as waste management and garbage disposal was inadequate; much of the capital equipment imported in the 1960s and 1970s has little useful economic life left. Clearly, up-grading Zambia's capital stock is urgent.

Although copper provided Zambia with an income source that was not available to most countries, it also left the country very vulnerable. It allowed Zambia to enjoy social services and consumer goods without paying for them at market prices and permitted the country to delay laying any groundwork for growth.

The moment of truth came in 1975 when copper prices fell precipitously. Copper export earnings fell and because of drastic reductions in plant, equipment and exploration, Zambia's copper production began a steady decline from 700,000 tons in 1975 to 308,000 tons in 1996. Mineral revenues as a share of GDP declined from 3.8 percent in 1975 to less than 2.0 percent in 1975-1985. In 1991, mineral revenues were at an all time low since 1986.

This should have been a signal that restructuring of the economy was necessary. A private sector-led economy would have been forced to adjust; a public sector dominated one did not. The GRZ committed two "Dutch Disease" errors. First, the GRZ considered the change to be temporary and borrowed from abroad to maintain consumption. The result was a large fiscal deficit, large external borrowing, and a sizable balance of payments deficit. The second error was to attempt to compensate for the loss of revenue and of foreign exchange by increasing control over the economy. This initially took the form of foreign exchange and price controls and wide-spread nationalization of business.

The budget deficit continued to grow as revenues fell, due to the decline in the copper industry, and government expenditures continued to rise. Revenues dropped sharply from over 28 percent of GDP in 1975 to less than 18 percent in 1989. Rather than adjust expenditures to available revenues, the GRZ's expenditures rose from 27 percent of GDP in 1974 to over 30 percent for most of the 1980s. The GRZ focused on sustaining public consumption and maintaining the government's intervention in the economy, even resorting to external financing to maintain consumption.

As foreign sources of funds dried up, the GRZ printed more and more money and inflation accelerated reaching 62 percent by 1988. Price and interest rate controls created severe misallocations of resources, resulting in declining investment and savings and a proliferation of black marketeering and smuggling. As a result, Zambia registered one of the world's

worst economic growth performances.<sup>5</sup> Consumer imports largely replaced capital and producer goods. Additional problems were caused by policies that discouraged manufacture of products in which Zambia appeared to have a comparative advantage, such as agricultural-based industries.

Determined to continue providing free education and health services, subsidize basic commodities, and generally maintain the economy's consumption, the GRZ cut investment and increasingly borrowed abroad. As a result, the capital stock deteriorated, as consumer imports replaced capital and producer goods; debt skyrocketed and per capita income declined. By the late 1980s, unaddressed problems demanded attention by the GRZ.

	Debt/GNP	Debt/Export	Debt Service/ Exports	Interest/ Exports
Mozambique	426.0	1,117.1	10.6	4.3
<b>Zambia (end 1991)</b>	<b>160.6</b>	<b>624.8</b>	<b>50.0</b>	<b>26.1</b>
<b>Severely-indebted LICs</b>	<b>112.9</b>	<b>389.6</b>	<b>23.8</b>	<b>11.2</b>
Sub-Saharan Africa	111.1	329.5	19.1	8.9
Low-Income Countries <sup>6</sup>	82.6	306.5	24.9	11.0
Malawi	78.5	318.8	25.0	9.0
Zimbabwe	57.0	164.9	27.2	14.4
Lesotho	39.2	73.2	4.6	1.8
Botswana	15.7	23.0	3.4	1.4

**Source:** World Development Report (for pre-1991 data and multi-country data) World Development Report for 1991 data.

External debt became a major problem. The debt to GNP and debt to export ratios grew to levels higher than those of almost any country in the world. (In 1990, they were 2.3 and 1.3 times the average for heavily indebted low income countries). Only rescheduling and an increase in copper prices kept the debt service ratio and interest payments from being equally high. (Table 1 gives comparisons of Zambia's debt with that of other African countries.)

<sup>5</sup> The rate of growth for GDP averaged 2.0% per year from 1965 to 1980 and 0.8% per year from 1980 to 1990. The corresponding figures for all low income countries (excluding China and India) are 4.8% and 3.9%.

<sup>6</sup> Excluding China and India.

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The rate of inflation, which averaged 6.3 percent per year from 1965 to 1980, averaged 42.2 percent from 1980 to 1990. In 1990, Zambia experienced 100 percent inflation. While the economy apparently took second place to international policies and social services delivery, performance in the latter area also deteriorated. For example, in 1991, 67 percent of Zambians lived in poverty, compared to an estimated 60 percent in 1975-85.

From independence until the late 1980s, Zambia's economy deteriorated and serious restructuring became essential. In 1970, Zambia's per capita GNP was 2.75 times the average for Sub-Saharan Africa (excluding Nigeria). Of the countries listed in Table 2, Zambia had the second highest per capita income in 1970. By 1990, it was only 1.1 times greater and by 1992, over one-third of these countries had per capita incomes exceeding Zambia's. Zambia's growth performance was one of the worst in the world. Real per capita GDP fell steadily after independence and by 1991, it was less than two-thirds the 1965 level.

The period from 1964, and particularly from 1975, to 1991, was characterized by central direction of the economy, over reliance on the copper industry and an over-valued exchange rate. Real gross domestic investment declined by an average annual rate of 1.2 percent a year, while real per capita GDP declined by an average of two percent a year from \$438 in 1965 to \$260 in 1991 in constant 1977 prices and the population grew at a rate of 3.0 percent per annum from 1970. The standard of living had dropped by 1991, and remains today, roughly half of what it was in 1964.

Zambia tried several approaches making its transition from a fixed exchange rate system to a market-determined one. Beginning in October, 1985, Zambian authorities introduced an auction system for determining the exchange rate. This was characterized by substantial nominal depreciation of the kwacha and, initially, major real adjustment. During the auction period, the exchange rate fluctuated due to periodic over- and under-funding of the auction and deteriorating expectations as to the future of auctions. The auction mechanism continued until May 4, 1987.

On May 4, 1987 the authorities fixed the exchange rate at an appreciated level above the level of the last auction. This was followed by 18 months of a fixed exchange rate and fairly high inflation up to November 9, 1988, when there were the first of two exchange rate adjustments since abandonment of the auction. Following these adjustments, the level of the Kwacha fell.

Reality finally could no longer be ignored and the UNIP Government belatedly recognized that reform was absolutely essential. In 1988 it embarked on an economic adjustment and restructuring program within the context of a domestic Policy Framework Paper (PFP) as an alternative to an externally imposed restructuring program. It was designed to shift from a centrally-managed economy to one that was market-determined. Eventually an external

<b>Table 2: Per Capita GNP (countries in order of 1970 GNP)</b>						
	1970	1975	1980	1985	1990	1995
Mozambique	N.A.	N.A.	N.A.	180	80	80
Malawi	60	120	180	170	200	170
Mali	70	120	240	150	270	250
Tanzania	100	160	280	310	120	120
Lesotho	100	230	410	390	470	770
Kenya	130	230	420	310	370	280
Botswana	130	350	780	920	1,600	3,020
Low Income Africa	140	280	520	430	260	N.A.
Nigeria	150	440	1,030	930	270	260
SSA (excl.Nigeria)	160	260	420	320	360	N.A.
Cameroon	180	310	760	810	1,000	650
Uganda	190	220	280	230	250	240
Ghana	250	280	410	370	390	390
Congo-Kinshasa	260	430	630	270	260	N.A.
Cote d'Ivoire	270	510	1,180	650	790	660
Swaziland	270	590	820	740	900	1,170
Zimbabwe	310	570	710	620	650	540
Zambia	440	550	600	370	390	400

Source: World Development Report (for pre-1991 data and multi-country data) World Development Report for 1991 data.

economic and financial stabilization program was added in 1990, making Zambia eligible for the IMF Rights Accumulation Program. During this time, the World Bank sent several missions to Zambia in areas of trade policy, parastatal reform, civil service reform, agricultural marketing, and mining. Between 1988 and the election of the new government in 1991, several reforms took place. In 1989, the GRZ removed price controls from all items except maize and fertilizer. In 1990, further steps were taken to liberalize markets. Maize-marketing arrangements were liberalized as farmers were permitted to sell directly to millers and private traders, ending the monopoly of cooperative unions. GRZ introduced a

dual foreign exchange market to provide higher prices to non-traditional exporters; it reduced fertilizer and maize subsidies and targeted remaining subsidies to the poor; and initiated the Open Generalized License (OGL) imports system for financing specific industrial inputs and spare parts. The dual exchange rate system was unified in 1991.

Many structural problems remained, however, and little progress was made on stabilization. The GRZ still controlled most marketing and distribution functions, and controls/subsidies on maize continued. Price disincentives hurt copper exports. By the end of the 1980s, there was excessive monetary growth; inflationary pressures increased; interest rates were highly negative. Yet the government maintained higher than budgeted subsidies for maize meal, greatly increased public sector wages, and defaulted on debt-service payments to the World Bank.

A quote from a World bank document is instructive at this point:

"The dominance of the public sector in Zambia's economy was only partly attributable to the central role of copper, however. It was also a response to the experience of the colonial period, a reflection of the economic theories of the time..., and a confirmation of the belief that the copper boom would continue. Whatever the causes, the basic strategy was a disaster. It focussed on the wrong sector (manufacturing), the wrong primary actors (parastatal companies), and the wrong methods (tariff protection and price controls). The result was one of the worst records of economic decline of any country not engaged in external or internal warfare." (World bank working draft. "Prospects for Sustainable Growth in Zambia 1995 - 2005." December 1, 1995).

The legacy left by the UNIP government for the MMD government, was truly daunting. The MMD inherited a situation in which central government activities accounted for 32 percent of GDP, formal sector employment growth had stagnated, the inflation rate rose from 100 percent in 1990 to nearly 200 percent in 1991, and the Government had arrearage problems with both its bilateral and multi-lateral lenders. The World Bank rating on macroeconomic policy for 1990-91 rated Zambia as very poor overall and especially with respect to the real exchange rate, budget deficit and overall monetary policy.<sup>7</sup> Inflation for 1990-91 was 101.8 percent. Only one country in SSA, Sierra Leone with 106.8 percent, had a higher level. Zambia fell into the group of countries having the largest budget deficits. The foreign exchange rate fell into the "extreme" category, commanding a very large black market premium.

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<sup>7</sup> "Adjustment in Sub-Saharan Africa: Progress, Payoffs, and Challenges," Policy Research Report Number 2, Policy Research Department, The World Bank, June 29, 1993, Working Draft

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## B. 1992-Present: The MMD Government

The October 1991 elections threw out the discredited UNIP regime and brought in a new government which had economic reform as one of its major emphases. Almost immediately upon assuming office, the new government began to pursue policies of structural adjustment such as trade policy reforms, deregulation, and exchange rate adjustment, aimed at enhancing the competitiveness of non-copper sectors and stabilization, designed to restore fiscal and balance of payments equilibrium and price stability.

Three major objectives enunciated were similar to the reform goals of 1988: (1) establish a market-based mechanism for adjusting foreign exchange; (2) implement economic stabilization measures, particularly in deficit reduction and inflation control; and (3) introduce policy changes to tackle longer-term growth and structural issues. Privatization was an added objective. The new government gave greater emphasis than the old to establishing a vibrant private sector that included decontrol of pricing and marketing, reform of the parastatal sector, and general promotion of the private sector, supported by reform in public sector management, and privatization of public enterprises.

The government also removed remaining price controls, and eliminated consumer and producer subsidies, which formerly took 10 percent of the budget.

### **External Sector**

The GRZ introduced the Bureaux de Change for buying and selling Kwacha in October, 1992. For all except ZCCM, the copper company whose receipts went to the Central Bank, the GRZ increased the share of export earnings that exporters could retain for their own use or sale in the export retention market from 50 percent to 100 percent. In 1992, the Open Generalized License (OGL) system was expanded to include fertilizer and the number of groups of products subject to import restrictions was reduced. The licensing requirement for OGL imports was eliminated in 1993 followed by a removal of the remaining restrictions on international transactions in 1994. All exchange rates are now unified and market-determined.

Zambia has one of the most liberalized foreign exchange systems in Africa, with no restrictions on repatriation of after-tax profits, or of capital. While investment projects must be registered with the government, the government is precluded by law from expropriation, except in cases of security or "the national interest", and then only with compensation.

International trade has also been liberalized. Import and export licenses have essentially been abolished. Tariffs have been lowered and reduced to three bands of 5, 15 and 25 percent -- the lowest in Southern Africa. There are duty-drawback provisions, and tariffs on most imported raw materials and intermediate goods were eliminated in 1995.

Zambia is a member of SADC, with its market of about 120 million people. SADC and the Zambia-Zimbabwe Cross-Border Initiative are actively working to further lower and harmonize tariffs in the region, and continue the process of simplifying cross-border trade and investment. Manufacturing in-bond is permitted in Zambia. All these actions make it easier to conduct international trade. Further reform is needed, however, as exports and import substitution industries have been disadvantaged by the system. Under the present system, domestically-produced goods, facing tariffs on raw materials, often have higher total taxes than competing imports. In recent reform efforts, tariff rates were rationalized and brackets narrowed. Prior to reform, nearly all imports were subject to quantity restrictions; at present none are. The GRZ has simplified the schedule of external tariffs and reduced the highest tariffs to 40 percent. The tariff system is still inefficient and difficult to administer, however, and taxes on trade are still being examined and modified.

With an outstanding foreign debt of almost \$7 billion, Zambia is one of the most indebted countries in sub-Saharan Africa. At the end of 1996, the stock of medium- and long-term public sector debt was equivalent to 204 percent of GDP and 530 percent of exports of goods and services. The debt burden has been essentially stable for the past five years.

In February, 1996, Zambia's Paris Club creditors agreed to reschedule on concessional ("Naples") terms Zambia's outstanding arrears on pre-cutoff-date debt and debt service falling due on pre-cutoff-date debt during the period 1996-98, with the agreement entering into force in March 1997 (after the completion of the midterm review under Zambia's first annual ESAF arrangement with the IMF). As of end-September 1997, Zambia had signed bilateral agreements with three of the nine participating creditors, including the US. Virtually no payments were made in 1996 by Zambia to its non-Paris Club official bilateral creditors.

At the end of 1996, just under half of public sector external debt was owed to multilateral institutions, principally the World Bank and IMF. Most of the remainder (36 percent of total debt) was for loans from Paris Club creditors. In 1996, the only disbursements of medium- and long-term credit came from the World Bank. There has been virtually no new lending by official bilateral creditors in recent years. Instead, assistance has been in the form of grants and debt relief.

Scheduled debt service on Zambia's public and publicly guaranteed external debt fell from an estimated \$590 million in 1995 to \$453 million in 1996, largely because 1995 was the final year of an amortization schedule for an earlier Paris Club rescheduling. Cash debt service fell by nearly \$100 million, to an estimated \$279 million, with one major factor in the decline being the \$45 million reduction in payments to the Fund, as charges on the IMF's general resources were replaced with interest due on Zambia's concessional ESAF loan. As a result, Zambia's debt service paid, (as a proportion of exports of goods and services) fell from 27.3 percent in 1995 to 21.5 percent in 1996.

The increase in imports and a fall in both the price and export volumes of copper, counteracted the growth in cobalt export volumes and non-traditional exports. Consequently, there was a trade balance deficit in 1996. In addition, a sharp fall in bilateral donors' official transfers to Zambia, contributed to the current account deficit. In 1997, present indications point to a continued deterioration on the balance of payments accounts.

### Internal Sector

The government has initiated a series of tax reform measures designed to reduce tax rates, simplify the tax system, and provide private investment incentives. Top rates for income taxes have been reduced progressively to 35 percent for corporations, and 30 percent for individuals. A 20 percent value added tax was introduced in 1995. This was reduced to 17.5 percent in January, 1997 effective July 1, 1997.

Like many countries in Africa, Zambia has had difficulty balancing its budget. During the period from 1980 to 1991, Zambia was a very large deficit nation (the worst category of the World Bank). Zambia not only has had a high budget deficit, it remains very dependent on donor grant funds to support budget expenditures, making it vulnerable to changing donor priorities and funds.

When inflation rose to over 200 percent in 1992, the GRZ gave high priority to budget control and instituted a cash budget. Despite the drought of 1992, which caused expenditures to rise and revenues to drop, the GRZ reduced the budget deficit (excluding grants and interest) from about 7 percent of GDP in 1991 to 2 percent in 1992. In 1993, the Government stuck to its budget, refusing to fund increased expenditures by any department until funding sources could be identified. These measures brought inflation down significantly, and the budget deficit was eliminated in 1993.

Since introduction of a cash budget, the government has generally refrained from borrowing from the Bank of Zambia, but continues to borrow heavily from the private sector through its treasury bill sales. When the government has run a deficit, the deficit as a percentage of GDP has been considerably lower than in the 1980s. The Government does periodically increase expenditure for unbudgeted/off-budget items, resulting in a deficit and inflationary pressures, and this has been a frequent area of contention with bilateral and multilateral donors. An unsuccessful government bailout of the Meridien Bank in 1995 and recent, unbudgeted increases in civil service salaries are cases in point.

Inflation has been one of Zambia's most serious economic problems. As a result of excessive government spending financed by external borrowing and money creation, the rate of inflation was almost 200 percent in 1992. The GRZ promised the donors it would bring the rate down by financing all expenditures on a cash basis, requiring payments from parastatals, and eliminating subsidies to these organizations. Although greatly reduced, inflation remains a problem. Government performance in controlling inflation has been

mixed. Though inflation was higher than the target of 35 percent in 1996, it has continued its downward trend in 1997, and currently stands at 13.2 percent ( up to October, 1997).

Interest rates have been allowed to float since mid-1992, when the ceiling on commercial bank lending rates and the floor on deposit rates were removed. Interest rates are now in part driven by prices in the Treasury Bill market and are positive in real terms. For approximately a year after starting to float, interest rates had risen to over 200 percent (summer of 1993). The weighted commercial banks' lending rate was 42 percent at September 30, 1997. Recent legislation has strengthened the hand of the central bank in monitoring and regulating the financial sector and significantly increasing commercial bank capitalization.

Investment licensing procedures have been simplified, and an Investment Center is operational. The GRZ is revising outdated and restrictive investment and business laws, including the Companies, Stock Exchange, the Securities, Bank of Zambia, and Financial Institutions Acts. A small stock exchange is now functioning and should stimulate savings and provide a new forum for raising capital. The import and export licensing system operates quite efficiently through the commercial banks; the new exchange rate policy and recently lowered tariffs further enhance a more liberal trade and investment regime.

Although Zambia has sufficient agricultural land, present land laws need further reform and regulation to allow, among other things, free transfer and subdivision. The GRZ is looking at land reform to make land more readily available for commercial use, through leasehold of Government-owned land in the short run and to address customary land laws in the medium- to long-term.

Perhaps the least successful aspects of the reform program have been social services delivery and the social safety net. The Government has focused on deregulating the economy and pressing ahead with stabilization and structural reform measures. Through 1992 and into 1993, delivery of social services and the establishment of a social safety net were all but ignored. The GRZ has increased the share of the budget going to social services since 1994.

In 1991, parastatals accounted for 50 percent of industrial (non- mining) output. Many were inefficient quasi-monopolies. They had long been a drain on the budget and a contributor to the deficit. The Privatization Act became law in August 1992, and the Zambia Privatization Agency was established. Zambia's program of parastatal reform and privatization was considerably more ambitious than that of most countries and included: (a) eliminating ZIMCO (the overall holding company) and abolishing its sub-holding companies; (b) privatizing parastatals; (c) ZCCM privatization; and (d) reforming the remaining public utilities and establishing appropriate regulatory agencies to enhance efficiency in the provision of public services.

With USAID's support, the GRZ has since 1992, implemented an increasingly vigorous privatization program, selling or liquidating most of the GRZ's parastatal corporations, including the huge Zambia Consolidated Copper Mines (ZCCM). Although Zambia's divestiture program got off to a slow start, it is now an African success story. To date, more than 200 state-owned enterprises have been sold or liquidated.

The government's seriousness in the endeavor includes legislation prohibiting subsidies to those parastatals as yet unsold or destined to remain on the government's books, such as the electric power company ZESCO.

In addition to privatizing parastatals, the GRZ is completely revising key laws governing business activity. Most of these laws are outdated and restrictive. Guidelines have been established to help investors learn/understand Zambia's regulations. The GRZ is preparing legislation that will prevent monopoly parastatals from becoming private monopolies after being dismantled.

Despite putting in place a wide array of progressive economic policies over the past five years, Zambia has registered positive economic growth in only two of those years. With reasonable economic and political stability, reduced external debt payments, and very strong agricultural growth, the government has set GDP growth targets in 1997 and 1998 at 5.5 percent a year. Real GDP growth in 1996 was reported to be six percent.

Zambia continues to benefit from a series of World Bank structural adjustment programs aimed at widening and deepening the private sector orientation of the economy, and improving the investment environment. In December 1995 Zambia completed a three-year Rights Accumulation Program with the IMF, and graduated to a one-year Economic Structural Adjustment Facility (ESAF). Zambia received favorable marks from the Fund staff and board during its mid-term review in February 1997. The Fund's action allowed Zambia to formalize its eligibility under the Paris Club Naples terms, reducing its interest payments by about \$100 million a year, and paving the way for a reduction in debt stock of \$1.7 billion in 1998.

All of this should give rise to optimism about Zambia's growth prospects. However, additional elements are necessary for sustainable growth. The policy framework needs to more effectively address Zambia's deteriorating transportation and communications infrastructure. It also needs to more creatively and effectively meet the resource needs for health, education and social safety net programs which have long been neglected. Zambia also needs to plan for the continued ravages of HIV/AIDS, that, despite improvements in other areas of health, are likely to force life expectancy in Zambia even lower than it is now. And since it tends to strike people during their more productive years, the AIDS pandemic has a negative effect on GDP.

### III. Overview of the Productive Sectors

The importance of manufacturing in the Zambian economy has been validated in recent years while mining's dominance of the economy has been shrinking. Fortunes in agriculture have been dictated by weather patterns and in times of drought output has been poor. Similarly, there has also been a strong link between the performance of agriculture and the growth in GDP. Thus, good weather conditions have resulted in positive and even high growth in agriculture and also in the growth of GDP. In addition, the majority of the population derives its income from agriculture. Other important sectors in the economy include: community, social and personal services which rank after agriculture in importance (and sometimes even above, depending on weather); real estate and business services; and wholesale/retail trade. In the services sector, the growth of earnings of the tourism sector are worthy of mention. The performance of construction has been disappointing for most part during recent years. (Please refer to Table 3 ).

#### A. Mining

Mining has long been the backbone of the Zambian economy, as the country's principal export earner. However, after 1975, ZCCM invested little in either infrastructure or exploration. As a result, production has fallen steadily, from a 1970s high of over 700,000 metric tons per annum to a low of 310,000 metric tons in 1996. Current indications are that production in 1997, is expected to be slightly below this level. Mining's contribution to GDP has declined from seven percent in 1993 to six percent in 1996. There is however, another two to three percent of mining-related GDP in services and manufacturing. The sector has also an impact on the economy beyond its share of GDP (because copper and cobalt have traditionally accounted for over 80 percent of Zambia's export earnings), at least until 1995, when Zambia's non-traditional export sector began to surge.

Until 1997, Zambia's copper and cobalt mining and refinement have been run by Zambia Consolidated Copper Mines (ZCCM), which was 60 percent government owned. After two years of soul-searching, planning, and preparation, the GRZ accepted bids to privatize various mines and smelters of ZCCM to such world-class mining combines as Anglo-American, Anglo-Vaal, Phelps-Dodge, and Canada's Noranda. This is expected to resuscitate the copper and cobalt industries. New investment on the order of \$1.5 to \$2.0 billion over the next ten years may be anticipated and probably \$200 million of this will stay in Zambia as direct real investment.

Gemstone mining is a potential source of new growth in the sector. The three most important gemstones mined in Zambia are emeralds, amethysts, and aquamarines. Two parastatals account for the bulk of legal gemstone mining, and the largest of these, Kagem, is in the process of being privatized. Apart from these two companies, there are several hundred licensed small miners and individuals who engage in gemstone mining without licenses. Government licenses for gemstone mining are limited to Zambian citizens, though

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**Table 3: Zambia, GDP by product of origin at constant prices; 1992-1996 (K'million)**

	1992	1993	1994	1995	1996
Agriculture, forestry and fishing	272.00	458.00	371.00	327.00	421.00
Mining and quarrying	167.00	152.00	127.00	113.00	127.00
Manufacturing	657.00	605.00	553.00	538.00	552.00
Electricity, gas and water	61.00	63.00	65.00	63.00	56.00
Construction	59.00	48.00	38.00	23.00	22.00
Wholesale/retail trade	166.00	184.00	157.00	146.00	165.00
Transport and communications	102.00	103.00	98.00	90.00	89.00
Community, social and personal services	385.00	392.00	404.00	402.00	385.00
Financial institutions and insurance	52.00	54.00	55.00	65.00	62.00
Real estate and business services	186.00	192.00	197.00	209.00	210.00
Restaurants and hotels	79.00	76.00	67.00	66.00	78.00
Plus: Import duties	22.00	20.00	14.00	15.00	20.00
Less: Imputed banking service charges	32.00	23.00	23.00	27.00	26.00
<b>TOTAL GDP</b>	<b>2176.0</b>	<b>2324.0</b>	<b>2123.0</b>	<b>2030.0</b>	<b>2161.0</b>

**Contribution**

Agriculture, forestry and fishing	12.5%	19.7%	17.5%	16.1%	19.5%
Mining and quarrying	7.7%	6.5%	6.0%	5.6%	5.9%
Manufacturing	30.2%	26.0%	26.0%	26.5%	25.5%
Electricity, gas and water	2.8%	2.7%	3.1%	3.1%	2.6%
Construction	2.7%	2.1%	1.8%	1.1%	1.0%
Wholesale/retail trade	7.6%	7.9%	7.4%	7.2%	7.6%
Transport and communications	4.7%	4.4%	4.6%	4.4%	4.1%
Community, social and personal services	17.7%	16.9%	19.0%	19.8%	17.8%
Financial institutions and insurance	2.4%	2.3%	2.6%	3.2%	2.9%
Real estate and business services	8.5%	8.3%	9.3%	10.3%	9.7%
Restaurants and hotels	3.6%	3.3%	3.2%	3.3%	3.6%
Plus: Import duties	1.0%	0.9%	0.7%	0.7%	0.9%
Less: Imputed banking service charges	1.5%	1.0%	1.1%	1.3%	1.2%
<b>TOTAL GDP</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: IMF; September, 1997

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it is generally accepted that there are large Israeli and West African "connections" in this industry

## B. Agriculture

If mining has been the backbone of Zambia's economy, particularly because of its foreign exchange earnings, agriculture has been the backbone of the people. While historically accounting for only 18 to 20 percent of GDP, with related government services and processing accounting for another five to ten percent, agriculture provides employment for 75 percent of the population. Zambia's agriculture is based on 600,000 small farms of two or three hectares, 30 to 40 thousand "emerging" farmers with 30 to 100 hectares, and about 2,000 commercial farmers and ranchers running spreads of several thousand hectares.

Until 1991, the government controlled almost all agriculture prices and marketing channels. Access to credit was also inadequate. Because of price distortions, agriculture focused on maize in the Southern and Eastern Provinces. Maize is not drought resistant and these provinces are drought prone. After 1991 the government ended subsidies and price controls, credit provisions, and state marketing. With the end of maize subsidies and the decontrol of markets, farmers now have incentives to shift to different cropping patterns. Cultivation of such cash crops as groundnuts and sunflower has increased greatly. Further, sorghum, a traditional crop in Zambia's drier areas, is making a comeback because producers are no longer driven by maize subsidies.

Zambia has recently been heavily hit by two of the worst droughts in memory (1992 and 1995). Agricultural production fell by 40 percent in 1992-3, contributing to a 3.0 percent decline in real GDP. The economic recovery in 1996, with real GDP growth of more than 6 percent, was buoyed by a near doubling of the maize harvest and a dramatic increase in non-traditional exports, much of which was primary agriculture products. The favorable development in the non-traditional sectors can be attributed to several factors, including liberalization in the agricultural sector and exchange and trade liberalization, which has greatly improved domestic firms' and farmers' access to inputs and investment goods.

For food security purposes, Zambia is diversifying away from maize in its Southern and Eastern provinces. For export purposes, Zambia should anticipate two events. First, that South African farmers will shortly lose both their production and export subsidies. Without these subsidies, South African farmers will no longer be competitive grain producers on the world market. Zambia, if it moves its grain belt northward, is competitive on the world market, assuming improvement in the transportation system. Even assuming continued market and infrastructure inefficiencies in Zambia, the south eastern Asian and Chinese markets offer major growth opportunities if the government and the private sector look beyond their immediate short-term concerns.

Assuming external markets can be found, the fact that 75 percent of Zambia's arable land is unused suggests growth potential that is not trivial. A major World Bank study concludes

that, depending on the assumptions used, a growth rate in excess of seven percent a year for the agriculture sector in the next five years is attainable. The GRZ is very much aware of this, and has liberalized both price and distribution of the output side, particularly maize, as well as the input side, particularly, fertilizer. However, if Zambia's full agricultural potential is to be realized, issues of land tenure, infrastructure, credit, and the GRZ's lack of focus on small- holders need to be addressed. It is hoped that Zambia's \$350 million, four-year Agricultural Sector Investment Program (ASIP), supported by the World Bank and a number of donors, will help Zambia address many of these issues. However, ASIP suffers from some structural and perceptual problems which have to be addressed before it can begin to make the sectoral impact it is supposed to have.

### C. Manufacturing

In Zambia, manufacturing (and processing) are often holdovers from the days of tariff protected import substitution, and often tied to either the mining or the agricultural sector. Manufacturing accounts for between 25 and 30 percent of GDP.

The manufacturing sector has experienced mostly negative growth for five years running. Average plant capacity utilization was estimated to be 25 percent in 1993. Unofficial estimates in 1996 were about the same although the Zambian Association of Manufacturers believes that it was even lower. However, the manufacturing sector could also see its resurgence with the unbundling and privatization of ZCCM, and a revitalized agricultural sector with decontrol, crop diversification and reasonable rains.

Between 1992 and 1995 the sector experienced an increasingly open trade regime that allowed into Zambia the discipline of competition from abroad, while at the same time the sector had to absorb import tariffs on raw materials and intermediate goods of up to 20 percent. During 1996, tariffs on intermediate goods were reduced to 15 percent. This was not a trivial policy change by the GRZ since over 60 percent of the manufacturing sector inputs are imported.

An area of Zambia's economy not well understood, and not well measured, are the small-scale, often non-agricultural activities. Various studies indicate that in Zambia, as in other countries, these small-scale manufacturing and processing activities are a source of employment equal to that of the formal sector. Thus, in a total labor force of about 3.8 million, with formal sector employment accounting for about 450,000 employed, or about 10 percent of the total labor force, informal employment could meet or even exceed, this figure.

While the donor and lender community do not know nearly enough about this sector of the Zambian economy, they do know, simply from observations, that it has grown rapidly since the economy and the society began to open up in 1992. Roughly 80 percent of micro and small-scale enterprises are in rural areas, with two-thirds of these being part-time or seasonal activities of farmers seeking supplementary non-agricultural income. These enterprises are dominated by services, transport, street merchandise, water-carrying, and refuse collections

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in urban areas; and by farming, beer-brewing, basketry, carpentry, furniture making, and charcoal production in rural areas.

#### D. Services

The services group of activities includes wholesale and retail trade, transportation, communication, financial, real estate, business, tourism, and the usual government services. The largest category is comprised by community, social and personal services whose contribution was about 18 percent in 1996. Real estate accounted for ten percent while wholesale and retail trade had a share of eight percent. Transport and communications are next in rank with four percent. The tourism sector has been picking up, albeit at a slow pace.

Government public service has been the focus of reduction and reform over the last several years, but without much implementation. Currently Zambia's redundancy law requires very expensive severance packages. In 1995, 125,000 persons were employed in the public service; this was reduced to 122,500 at the end of 1996, but increased again to 134,000 in 1997. In its budget for 1997, the GRZ allocated K20 billion (at then K1280 to the U.S. dollar) for the retirement and retrenchment of excess public servants under the auspices of a retrenchment scheme with bypasses the redundancy law. This was to be the government's first serious step to make good on its claims that it would reduce a bloated and ineffective civil service, a requirement of a succession of IMF and World Bank programs. The process is moving forward, albeit slowly.

Zambia's potential for tourism is significant, but largely undeveloped. The tourism sector is hampered by security problems, poor infrastructure, user-unfriendly immigration formalities, tourism and environmental policies and practices that are generally not very encouraging for tourism activities. Poor maintenance of infrastructure, where it exists, and poor or non-existent maintenance by Parks and Wildlife personnel have, over many years, allowed poaching to go largely unchecked. Private efforts, such as the Kafue Anti-Poaching Company (Limited by Guaranty) have, and continue to make, major gains against the poachers, many of whom are backed by powerful domestic political and international interests.

In 1994 Zambia had more than 20 commercial banks, and also a reputation as one of Africa's most overbanked countries. However, Zambia had a lower number of commercial banks after a number of mergers and the liquidation of the largest bank, Meridien-BIAO, in 1995. Several of the smaller banks are considered border-line solvent and generally do not do much more than hold GRZ ministry and parastatal accounts (not exactly a growth sector). Three have recently been taken over by the central bank or placed in receivership status. The large, "full-range" commercial banks include the parastatal Zambia National Commercial Bank which is to be privatized, and locally incorporated subsidiaries such as Barclays, Citibank, Standard Chartered, and Stanbic. The banking sector's health improved measurably after the collapse of Meridien, when the Bank of Zambia obtained increased

powers of regulation, and greatly increased the capitalization required of the commercial banks. The Development Bank of Zambia, a state insurance corporation, and the Import Export Bank, are to be privatized or liquidated.

#### **IV. Status With The IMF and World Bank**

In December 1995 Zambia completed a three-year Rights Accumulation Program with the IMF, and graduated to a one year Economic Structural Adjustment Facility (ESAF); a second one-year program is currently under negotiation (December, 1997). In June 1997, Zambia completed its first one-year ESAF, albeit with waivers on several important criteria. The Fund's action allowed Zambia to formalize its eligibility under the Paris Club's Naples terms, reducing its interest payments by about \$100 million a year, and paving the way for a reduction in debt stock of \$1.7 billion in 1998.

Negotiations on a second annual ESAF could not be concluded in June, mainly because of serious fiscal slippages in the first quarter of 1997, the emergence of sizable unbudgeted fiscal liabilities, and the lack of progress on civil service retrenchment.

When judged in terms of progress made, Zambia's performance has been outstanding. When looking at "opportunities," Zambia's performance is sometimes wanting. Zambia has little room for error, and the government periodically takes actions that call into question its commitment to reform and that have potentially serious consequences for Zambia's economic development. Having an ongoing Fund program is important for Zambia's economic development. Without an agreement, Zambia will not get the kind of debt relief or continued donor support critical to maintain its development program.

Zambia has had a series of World Bank structural adjustment programs aimed at widening and deepening the private sector orientation of the economy and improving the investment environment. Performance under these programs has generally been good, though donors, including the USG, have often felt the Bank was too lenient in granting performance waivers. The main elements of the Bank's strategy are to support efforts to:

- achieve macroeconomic stability and initiate a path of sustainable and equitable growth by eliminating the budget deficit, attaining a competitive exchange rate, and increasing the allocation of resources to economic and social sectors through a restructuring of the composition of public expenditures;
- ensure sufficient access to imports and an adequate reserve cushion through maintenance of an appropriate exchange rate and other measures to encourage exports;
- coordinate donor assistance and efforts to secure debt relief;

- improve the climate for private sector development through deregulation, provision of infrastructure, and privatization of parastatals;
- strengthen human resource capacity by rehabilitating the education and health systems and improving quality; and
- implement an effective environmental strategy.

Like the Fund, the Bank thinks the GRZ remains committed to maintaining the cash budget.

## V. Summary

Overall, the Zambia Reform Program has been fairly successful. The GRZ appears to be truly committed to economic reform and to addressing its remaining structural problems. The rate of inflation has dropped dramatically, and though still high, there is no longer hyper-inflation. Interest rates have started dropping and the value of the Kwacha has begun to stabilize. In 1996, GDP growth registered 6.5 percent, mainly because of a 90 percent increase in the maize harvest and a dramatic increase in non-traditional exports (mostly primary agricultural products). Real GDP also increased in mining, trade, real estate, and business services but there was a fall in real GDP of public utilities, transport, storage, communications, and construction. Growth, albeit reduced, has been forecast for 1997.

However, periodical government deficits resulting from unbudgeted items which create inflationary pressures will have to be addressed in order to continue curbing inflation which remains a serious threat. In the agricultural sector, an efficient system for transfer and subdivision of land is very crucial to increasing output.

In the external sector, international trade has been liberalized with import and export licenses abolished while tariffs have been reduced. In addition, Zambia has one of the most liberalized foreign exchange systems in Africa. However, Zambia's external financing requirements remain high, both for debt and imports; donors must of necessity continue financing a major percentage of the import bill and debt finance or the recovery program will stall.

Major tasks remain in the economic reform process such as: civil service reform, and privatization of large entities such the Zambia Electricity Supply Corporation and the Zambia Telecommunications Company.

# **Annex 10**

## **Donor Partners**

## ANNEX 10 DONOR PARTICIPATION

### Aggregate Assistance

The local UNDP office prepares a series of annual reports entitled "Development Co-ordination - Zambia" which are often a year or more behind and lack consistent donor information. The latest data available are for 1995 and official sources have indicated that levels for 1996 are not significantly different. The UNDP reports include data obtained from bilateral donors, multilateral institutions, and non-governmental organizations (NGOs), on the basis of project files and a standardized Development Cooperation Report questionnaire. UNDP notes that donors provide their data in different formats, which makes a thorough and comparable inventory difficult to compile.

With that caveat, according to UNDP total development assistance has fallen from a high of \$970 million in 1993, to \$740 million in 1995<sup>1</sup>. In 1995, external assistance amounted to more than twenty percent of Zambia's GDP. The UN system has become the largest source of development assistance for Zambia in recent years and accounted for more than 40 percent of total development assistance in 1995. The UN system is comprised of the World Bank, its affiliate, IDA, the IMF, and UN system organizations (such as UNDP, UNICEF, UNIDO etc). According to data in the Development Co-operation Report for 1995, IDA is the largest donor in this category, accounting for more than 90 percent of total UN multi-lateral aid to Zambia and 38 percent of total development assistance to Zambia. Please refer to Table 1.

**Table 1: Overseas Development Assistance to Zambia, by Donor Group, 1992-1995**  
(Reported Expenditures)

Donor Group	1992		1993		1994		1995	
	US\$M	%	US\$M	%	US\$M	%	US\$M	%
IDA	191.3	23.3	206.5	21.3	282.7	39.1	281.4	38.0
Other UN System	24.3	3.0	24.3	2.5	28.2	3.9	23.6	3.2
UN System-Total	215.6	26.3	230.8	23.8	310.9	43.0	305.3	41.2
Non-UN Multilaterals	52.1	6.3	103.2	10.6	78.7	10.9	166.0	22.4
Bilaterals	547.5	66.7	622.8	64.2	314.6	43.5	264.5	35.8
NGOs	6.1	0.7	12.7	1.3	18.6	2.6	4.4	0.6
<b>Total</b>	<b>821.3</b>	<b>100</b>	<b>969.5</b>	<b>100</b>	<b>722.8</b>	<b>100</b>	<b>740.0</b>	<b>100</b>

Source: UNDP/GRZ, Development Co-operation Report: Zambia 1995 (as adjusted by USAID/Zambia)

Note: Amounts do not include Balance of Payments Support for the UK and Sweden.

<sup>1</sup>The amount used here for 1995 differs from what is in the Development Co-operation Report, 1995 because it has been adjusted for the United Kingdom's and Japan's development assistance which was understated.

One of the principal development issues addressed by the GRZ during 1995 included maintenance of an effective macroeconomic management system. In line with this, IDA devoted almost all its assistance to Economic Management, which includes Macro-Economic Policy and Planning, Employment Policy and Planning. IDA's efforts in Economic Management were supplemented by UNDP, the IMF and UNIDO. Another area of activity included Development Administration (especially foreign aid co-ordination and public administration).

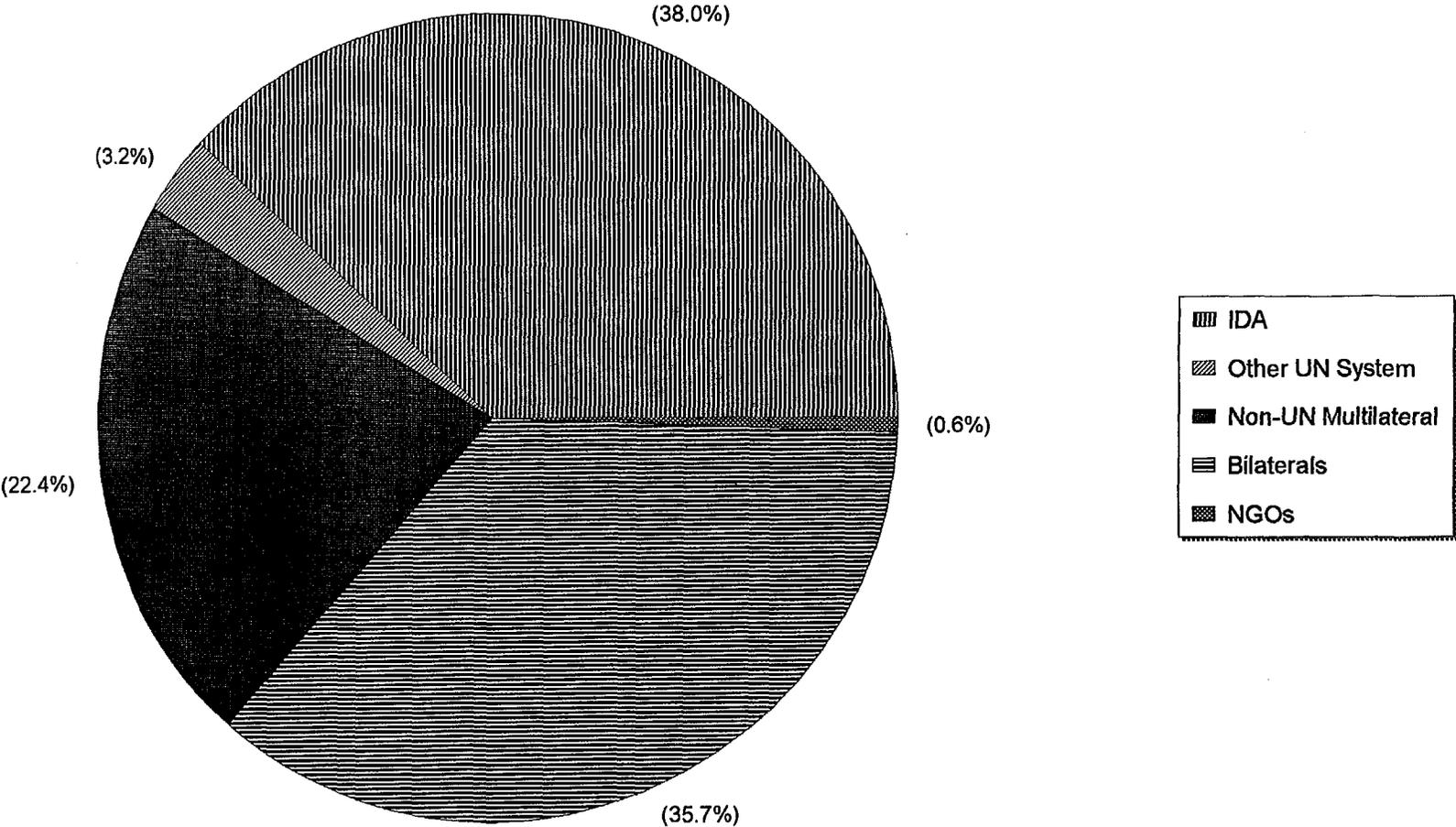
The other major category of donors was the Bilaterals who accounted for 36 percent of total development assistance to Zambia in 1995. Of the bilateral donors, Japan was the largest contributor with a share of 20 percent of total bilateral aid (or 8 percent of total development assistance) targeting agriculture, forestry and fisheries. The United Kingdom was the second largest donor with a focus on health, education, the Zambia Revenue Authority, and local government. Other major bilateral donors were Germany, the Netherlands, Norway, Denmark, the USA and Sweden. For these donors, economic management, development administration, agriculture, health, human resources development and rural development were the main areas of activity. Within these areas, there were varying degrees of emphasis by the respective donors. For instance, Germany focused on economic management, along with the Netherlands, while Norway and Denmark gave the transport sector the highest priority. The US has been most active in health and Sweden focuses on human resources development.

During 1996 all bilateral donors suspended or terminated balance-of-payments support payments over democracy and governance issues. As a result, total support from these sources was reduced by between US\$100 million and US\$200 million. This pattern continued through 1997 but more modest levels of balance of payments support by donors are expected to resume in 1998.

Non-UN multilaterals were the third largest category of donors and contributed 22 percent of total overseas development assistance in 1995. This category of aid has been increasing over the past four years; it was only 6 percent in 1992. The European Union (EU) has become a dominant non-UN multilateral and gave Zambia US\$166 million in 1995, which accounted for almost the entire non-UN multilateral assistance amount. The European Union focused on economic management during 1995 but also targeted rural development. Other areas of activity by the EU were transport, agriculture, industry and international trade. The only other non-UN multilateral donor was the Commonwealth Fund for Technical Co-operation (CFTC) which contributed \$109,000 for human resources development.

# Chart 1: Overseas Development Assistance by Donor Group, 1995

(Reported Expenditures, Percent)



**Table 2: Major Donors-Total Expenditures, \$000; Zambia 1995**

DONORS	TOTAL EXPENDITURES
IDA	281,377
European Union	165,967
Japan	53,730
United Kingdom	41,000
Germany	38,307
Netherlands	34,786
Norway	23,251
Denmark	21,181
United States	13,777
Sweden	11,780
Others	54,704
Total	739,860

Source: UNDP/GRZ, Development Co-operation Report:Zambia 1995 (as adjusted by USAID/Zambia)

Note: Amounts do not include Balance of Payments Support for the UK and Sweden.

The smallest group of donors is comprised by the international NGOs whose contribution accounted for less than one percent of total overseas development assistance in 1995. The NGOs targeted agriculture, human resources development, industry and health.

In 1995 the US was ranked as the seventh bilateral donor to Zambia. Since the start-up of a Mission in Zambia in 1977, USAID has delivered more than \$800 million in economic development project and non-project grants, loans and food commodity assistance to the Republic of Zambia in the following sectors: agriculture, health, privatization, and democracy and governance.

### Donor Coordination

The formal channel for donor coordination is the annual Consultative Group Meeting (CG) chaired by the World Bank. At the July 1997 CG meeting held in Paris, donors were said to be relatively pleased with the Zambian Government's economic reforms which have contributed to Zambia's macroeconomic stabilization. Specifically, following several years of poor economic performance, inflation dropped substantially and the Kwacha's exchange

rate continued to be largely market-determined, although over-valued. Delegates stressed the importance of building on these achievements by maintaining strict fiscal discipline, and by concluding the privatization of the Zambia Consolidated Copper Mines (ZCCM). Donors were less sanguine on the GRZ's governance management performance and civil service reform efforts.

Between CG meetings, coordination takes place periodically between the Zambian Government and donors. More informal meetings among donors also take place, largely on an ad hoc but continuing basis. Donors are looking more and more to the GRZ to define needs, which has proven to be a formidable challenge. With a large bureaucracy, the GRZ has historically had many ministries and institutions involved in the donor coordination process. In an effort to avoid duplication and waste of donor resources, the GRZ in 1996 restructured the Ministry of Finance and its National Commission for Development Planning (NCDP), with the aim of creating one institution responsible for aid coordination and mobilization.

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## **Annex 11**

### **Key Statistics on the Zambian Economy**

**ANNEX 11**  
**KEY STATISTICS ON THE ZAMBIAN ECONOMY**

	1993	1994	1995	1996	1997 <sup>(a)</sup>
Area (000 square kms) 753,000					
Population (millions)	8.9	9	9.1	9.3	9.5
GNP per capita (US\$)	380	340	320	350	-
Real GDP Growth rate (%)	6.8	(8.6)	(4.3)	6.5	3-5 <sup>(b)</sup>
Inflation rate % period average	187.3	54.6	34.9	43.5	24.4
Exchange rate K/-US\$ <sup>(c)</sup> , period average	458.8	670.0	864.6	1213.0	1301.3
Broad money, end of period (M2, K' m)	199,266	299,340	437,573	561,532	659,804
Credit to Private sector, end of period (K' m)	60,427	116,377	254,024	293,325	268,525
Interest rates (%)					
28 days Treasury Bill yield	251.2	21.9	48.6	75.6	23.5
91 days Treasury Bill yield	205.1	26.5	46.9	72.9	29.7
182 days Treasury Bill yield	170.1	24.9	43.6	71.4	29.8
Budget - Overall domestic balance, cash basis (K' m)	(65,042)	(24,327)	3,886	53,400	41,882
Revenue (K' m) of which:	239,284	449,618	595,860	839,310	268,853
Tax	233,622	418,879	545,911	747,675	248,336
Non-Tax	5,662	30,739	29,723	91,635	10,517
External debt (US\$m), end of period	6,919	6,214	6,411	6,571	-
Total Exports (US\$m), fob	949	1,185	1,190	975	-
Non-traditional exports (US\$m)	124	149	216	241	-
Total Imports (US\$ m), cif	1,019	1,003	1,244	1,199	-
Gross Reserves (US\$ m)	192.3	298.0	210.5	220.7	202.7
Copper Production (metric tonnes)	403,100	359,400	307,890	314,200	78,300
Maize Production (metric tonnes)	929,846	476,288	344,675	668,123	-
Urban Population (%)	-	-	45	-	-
Unemployment rate (%) <sup>(d)</sup>	-	-	-	14	-
Rural- urban migration (%)	-	-	-	7	-
Life Expectancy at birth, years	-	47	-	49	-
Adult Literacy rates %, Male	-	-	86	-	-
Female	-	-	71	-	-
Under five Mortality per 1000 live births	-	-	-	197	-
Fertility rate (number of children)	-	-	-	6.1	-

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## Sources:

- (i) World Development Report, World Bank 1995, 1996, 1997.
- (ii) Ministry of Finance and Economic Development Planning, Macro.Economic Indicators, July and October, 1997, GRZ, Zambia.
- (iii) IMF, Zambia. Selected issues and Statistical Appendix, Sept., 22 1997.
- (iv) Central Statistical Office (CSO), Living Conditions Monitoring Survey, 1996 GRZ.
- (v) Central Statistical Office, Zambia Demographic and Health Survey, 1996, GRZ, September 1997.
- (vi) Barclays Bank of Zambia, Quarterly Economic Review, Third Quarter, 1997.

## Notes:

- K Kwacha
- Not available
- (a) June, 1997
- (b) GDP growth rate for 1997 is projected between 3 and 5 %
- (c) Commercial Bank market rate
- (d) Persons 12 years and above, all Zambia, both sexes.

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## **Annex 12**

### **Environmental considerations**

**ANNEX 12**  
**ENVIRONMENTAL THREATS ASSESSMENT: ZAMBIA 1997**

**A. Background**

The requirement that USAID country missions conduct an environmental assessment of threats and opportunities is based on Sections 117, 118, 119 of the Foreign Assistance Act (FAA). Section 117 indicates that: "Special efforts shall be made to maintain and, where possible, restore the land, vegetation, water, wildlife and other resources upon which depend economic growth and human well-being, especially of the poor." Section 118 requires that every country development strategy statement or country plan prepared by USAID include an analysis of: "1) the actions necessary in that country to achieve conservation and sustainable management of tropical forests, and 2) the extent to which the actions proposed for support by the agency meet the needs thus identified." Section 119 dictates that USAID country strategic plans include: "1) The actions necessary in that country to conserve biological diversity, and 2) the extent to which the actions proposed for support by the Agency meet the needs thus identified."

Further legal impetus for the inclusion of environmental assessments and prioritization in country strategic plans is provided by Section 496 of the FAA which establishes the Development Fund for Africa (DFA). Two of the DFA's priority areas are related to the environment: a) Increasing agricultural production in ways that protect and restore the natural resource base; and b) maintaining and restoring the renewable natural resources base primarily in ways that increase agricultural production. The legal requirements of the FAA are reflected in USAID's 22 CFR Part 216 which codifies the Agency's procedures "to ensure that environmental factors and values are integrated into the USAID decision making process."

In order to conform to FAA requirements and USAID DFA guidance USAID/Zambia undertook a desk top assessment<sup>1</sup> with the following objectives: 1) To evaluate the condition of the Zambian environment; 2) To identify and assess the severity of environmental problems from the standpoint of the three country-level environmental objectives; 3) To identify the root causes of the principal environmental problems as revealed by the review.

The desk top assessment was complemented by two REDSO/EA field visits and a forest threats report<sup>2</sup> from the Missouri Botanical Garden. This report described biodiversity in 75 local, provincial and national forests, game management areas, national parks, and other sites

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<sup>1</sup> Environmental Threats Assessment: Zambia, Joao S. de Queiroz, Natural Resources Management Advisor, USAID/REDSO/ESA, October 9, 1997.

<sup>2</sup> Forest Threats Initiative: Protected Area Status, Dr. Dan Harder, Missouri Botanical Garden, submitted June 16, 1997.

recognized by Zambia's National Heritage Conservation Commission and was based on field investigations and interviews over the 1993 - 1997 period.

Notwithstanding this considerable effort to assess Zambia's environmental status it should be noted that while there is a considerable volume of information on Zambia's environment, the data are often outdated and/or of dubious quality. In addition, with regards to the site visits by the Missouri Botanical Garden staff, the irregular distribution of human populations across Zambia made it impossible to make generalizations as to biodiversity status by province or district.

## **B. Environmental Threats and Related USAID/Zambia Activities**

### **1. Water Resources: Rivers, Streams, Lakes and Fisheries**

Zambia does not face a water shortage. Only 2% of total available water is consumed. The water quality situation is also favorable, with the exception of the Kafue River where high turbidity and high nutrient content affect the upper and lower portions of the river.

There are signs that Zambia's fisheries are threatened. Fish catch per unit effort has declined in Lake Tanganyika, Lake Mweru and the Kafue Flats, three of Zambia's most important fisheries. The reversal of this trend will entail an increase in aquaculture production.

### **2. Forests and Woodlands**

While the situation of Zambia's forests has not been quantified in over 30 years, the country-wide unweighted average deforestation rate is estimated to be 5%. Deforestation is caused primarily by fires, charcoal making and land clearing for agriculture.

Illegal and unsustainable use takes place due to inadequate Forest Department enforcement capacity and the lack of community involvement in forest management. Zambia's forests are left to their own devices. Where access and population pressure is high - Copperbelt, Lusaka and Central Province - forest degradation is at an advanced stage. In isolated and less accessible areas, especially in Northwestern Province, forest cover is in good shape, irrespective of protected status.

### **3. The Condition and Trend of Wildlife Resources**

Although the rate of wildlife depletion has stabilized since the 1980s, the current rate of ongoing depletion is alarming. In 14 out of 19 National Parks the populations of principal species are either depleted or experiencing a downward trend. The situation in Game Management Areas (GMAs) adjacent to National Parks, where poaching is common, is similar. Because of an inadequate data base, hunting quotas allocated by National Parks and Wildlife Services often far exceed sustainable levels. Thus, GMAs are under threat due to

poaching and poor management. To these direct threats it is necessary to add losses and degradation of habitat due to the expansion of agriculture and deforestation.

#### **4. Condition and Trend Affecting Agricultural Resources**

Soil erosion and degradation is a localized phenomenon, estimated to affect 100,000 hectares in the south and southeast regions of Zambia, where population densities are highest and soils are most conducive to arable agriculture. Soil acidification fueled by government fertilizer subsidies and the resulting over application of chemical fertilizer during the 1970s and 1980s is a more pervasive problem. Chemical by-products from the transformation of nitrogenous fertilizers led to soil pH reductions in already acidic soils. Lower pH values resulted in reduced productivity. In some areas, this reduced maize yields (for example) by half. The problems caused by excessive fertilizer application are likely to diminish as subsidies have largely been removed, fertilizer application reduced and fertilizer application efficiency enhanced.

#### **C. USAID Threat Response**

Much of the damage to Zambia's natural resources can be attributed to low rural incomes and a lack of income earning opportunities. This lack of opportunity leads to poor natural resource use decisions at the community and enterprise level. This problem is exacerbated by a lack of institutional capacity, including weak capacity at the local level to evaluate and participate in natural resource use decisions, as well as inadequate national capacity to undertake cross-sectoral management planning.

During the strategy period, USAID will increase rural family livelihood opportunities. This will include facilitating the emergence of NRM based rural enterprises that foster sustainable forestry, participate in the safari hunting industry as joint venture partners, and employ sustainable agricultural production activities. USAID will also collaborate with or contribute to the significant natural resource management programs being implemented with European Union, IFAD, NORAD, SIDA, Danida and World Bank support.

USAID will continue its applied research in participatory rural development and the role rural associations and rural non-farm enterprises can play in sustainably increasing rural incomes. Lessons learned from ongoing activities will be applied to future village level agricultural production and natural resource management interventions. They will also be disseminated in workshops and policy or program discussions with relevant ministries. Finally, USAID will continue its regionally funded community-based wildlife management activities.

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