

ICR Review
Operations Evaluation Department

1. Project Data :

OEDID :
OEDID: C2764
Project ID : P003240
Project Name : Economic Recovery and Investment Promotion Credit
Country : Zambia
Sector : Economic Management
L/C Number : C2764
Partners involved : None
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2. Project Objectives, Financing, Costs and Components :

The project's objectives were to (a) consolidate improvements in macroeconomic management, including the tax and tariff regimes; (b) enhance availability of term resources to stimulate investment; (c) reform the social security system; (d) support the restructuring of and increase private participation in Zambia's mining industry . The credit provided financing of SDR 90 million (US\$140 million equivalent) for executing the macroeconomic program (including tax and tariff reforms), strengthening the financial sector; establishing a national pension system; restructuring mining and promoting private sector mining investment .

3. Achievement of Relevant Objectives :

The objectives of the project were largely achieved . Macroeconomic stabilization was substantially achieved (inflation was reduced) by improving fiscal performance, notwithstanding some lapses; a VAT system was launched; the share of social spending in budget outlays exceeded targets . In the financial sector govt . financial institutions are no longer providing long-term finance to the private sector; a new apex institution is mobilizing concessionary funds for lending to private investors through commercial channels . The Development Bank of Zambia [DBZ] has suspended lending (almost) to concentrate on loan collections . Legislation for a new national basic pension system has been enacted and measures taken to regulate private pension funds and insurance companies . Finally, efforts are underway to privatize Zambia Consolidated Copper Mines (ZCCM), for environmentally sound development of the mining sector, and for establishing a supportive legal and institutional framework for private investment in mining .

4. Significant Achievements :

Despite poor weather, a volatile copper market with falling prices, and a hiatus in external donor support, progress was made with macro-stabilization: inflation dropped, interest rates declined, the Kwacha stabilized, the budget achieved a domestic surplus (after grants). Growth, private sector investment and non-mineral exports picked up (relative to 1994). Budgetary shares of social sector expenditures exceeded targets. Extreme poverty appears to have dropped. Privatization (including of non-mining companies, not included in the credit's terms) made strides: 212 parastatals in a portfolio of 326 companies were privatized. Most important, the privatization of ZCCM is in train.

5. Significant Shortcomings :

Governance issues need to ensure timely and sufficient donor support. Changes in the negotiating team's leadership and privatization objectives delayed the second phase of the ZCCM privatization program, particularly of the key Nchanga and Nkana mining divisions. ZCCM's privatization is critical for signaling Zambian commitment to private enterprise. Backsliding by DBZ into lending activities and appropriate transfers of loan collections to Treasury need monitoring. Delays in pension and insurance legislation set back second tranche release and several significant details of the pensions system still remain to be ironed out.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
<input type="checkbox"/> Institutional Dev .:	Substantial	Substantial	
Sustainability :	Uncertain	Uncertain	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

Availability of technical assistance funds can help acquisition of technical expertise, if TMs and government have flexibility in allocating funds to problem areas as they arise. Continuity in task managership is beneficial particularly if the same TM is also responsible for related TA projects. Privatization projects need to be very clear about their goals right from the start and also assess the impacts of specific elements of the privatization package on the economy, key sectors, the budget and other macroeconomic parameters.

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR provides substantial details of progress in various components and supporting macroeconomic tables. However, its optimistic interpretation of macro developments may be premature: growth has been positive only in the last two years, GDI is still less than 15% (private investment in 1996-97 is no higher than in 1993-94), domestic

savings rates are pitifully low (about 3 %); the fiscal deficit, tax and revenue performance tables are difficult to assess (grants are included in revenue), and inflation in 1996 was still high. The ICR lacks discussion of a future plan for sustaining project benefits (though the Borrower's contribution does). Assessment of the relevance of the objectives, the complex project design, and governance issues, could have been more critical . The critical, but cryptic, remark about the project design ("In retrospect, the reform agenda under ERIP could have been more focused, with fence areas and related conditionality ") needs spelling out.

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