



**Co-operation between  
The European Union  
and  
The Republic of Zambia**

**Joint Annual Report**

**2011**

FINAL - April 2012

## - 2011 Joint Annual Report for Zambia -

### LIST OF ABBREVIATIONS:

ACP	African, Caribbean, Pacific Group of States
CAADP	Comprehensive African Agricultural Development Programme
COMESA	Common Market for Eastern and Southern Africa
CP	Cooperating Partners
CSP	Country Strategy Paper
DFID	Department for International Development
DPP	Department of Public Prosecution
DTF	Devolution Trust Fund
EDF	European Development Fund
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
EOM	Election Observation Mission
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
ESA-IO	Eastern and Southern Africa – Indian Ocean
ETR	End Term Review
EU	European Union
EUD	European Union Delegation
EU EOM	European Union Election Observer Mission
EUR	Euro
FAO	Food and Agriculture Organisation
FISRI	Farmer Input Support Response Initiative
GAP	Governance Action Plan
GBS	General Budget Support
GBV	Gender Based Violence
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
GMCP	Governance and Management Capacity Development Plan
GRZ	Government of the Republic of Zambia
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information Systems
iEPA	Interim Economic Partnership Agreement
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
JASZ	Joint Assistance Strategy for Zambia
LA	Local Authorities
LDC	Least Developed Countries
LDCF	Least Developed Countries Fund
MACO	Ministry of Agriculture and Cooperatives
MDG	Millennium Development Goals
MDG-I	Millennium Development Goals - Initiative
MIP	Multiannual Indicative Programme
MoH	Ministry of Health
MMD	Movement for Multi-Party Democracy
NAO	National Authorising Officer
NAPA	National Adaptation Plan of Action
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
NPA	National Prosecutions Authority
NSA	Non-State Actors

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OBI	Open Budget Index
PAF	Performance Assessment Framework
PE	Programme Estimate
PEFA	Public Expenditure Framework Assessment
PEMFA	Public Expenditure Management and Financial Accountability
PEP	Performance Enhancement Programme
PF	Patriotic Front
PFM	Public Financial Management
PIF	Performance Indicator Framework
PRBS	Poverty Reduction Budget Support
PSD	Private Sector Development
RDA	Road Development Agency
ROADSIP	Road Sector Investment Programme
ROM	Results Oriented Monitoring
SNDP	Sixth National Development Plan
TA	Technical Assistance
TCF	Technical Cooperation Facility
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
USD	United States Dollar
V-FLEX	Vulnerability Flex
WB	World Bank
WFP	World Food Programme
WRAP	Water Resources Action Programme
ZDHS	Zambia Demographic and Health Survey
ZEMA	Zambia Environmental Management Agency
ZEZCO	Zambia Electricity Supply Cooperation
ZMK	Zambian Kwacha

## **I. EXECUTIVE SUMMARY**

The 2011 joint annual review for Zambia was undertaken by the European Union Delegation to Zambia and the National Authorising Officer (Secretary to the Treasury of the Ministry of Finance and National Planning) in March and April 2012. This included dialogue with Government authorities, Non State Actors, and EU Member States. The main findings of the review are summarised hereafter.

**2011 has been a year of political transition** with transparent and credible general elections in September resulting in a change of administration with the opposition gaining power. The first part of the year was overshadowed by political campaigning. This reflected on the political dialogue between the EU and Zambia which in 2011 was limited to informal meetings. Immediately after the elections, the new Government embarked in implementing the Patriotic Front Manifesto with a particular focus on the fight against corruption, equitable growth and job creation. The stalled constitution making process was re-started and dialogue with Non State Actors re-opened. The Human Rights situation in general continued to be satisfactory though the distribution of power between men and women remained unequal and violence against children and women continued to be a threat to many families.

The **macroeconomic situation remained broadly positive**. Growth has been at 6.6% in 2011 due to expansion in copper production, increase in agricultural production and an expansionary fiscal stance. Inflation decreased from 8.6% in 2010 to 7.2% in 2011. Several **commitments to continuing PFM reform** were taken throughout 2011 by the previous Government though more significant progress could have been made if it had not been for a year of elections. Zambia did not join the four ESA countries which in 2011 ratified an interim EPA.

In spite of economic progress, **income inequality remained extremely high**. The still unpublished Zambia Living Conditions Monitoring Survey states that extreme poverty remain around 42% between 2006 and 2010. **The poverty reduction rate is too slow to achieve the 2015 target of 29%**. The Human development report 2011 mentions noteworthy **improvements in education**. **Progress on various health indicators** has been significant. Zambia has halted the progress of the HIV epidemic and good progress is also reported regarding the fight against Malaria and Tuberculosis. However, **significant additional efforts will be required to meet the MDG targets regarding child health and maternal health**

The 2011 pre-electoral period was **not conducive for effective programming or implementation of development cooperation**. This was marked by limited dialogue with the MMD Government and the stalling of reforms in many areas such as Public Finance Management, Agriculture, Roads and Health. Disbursements of General Budget Support and Health Sector Budget Support were only made after the elections, late in the year. Road Sector Budget Support was once again not possible to disburse due to protracted discussions within Government on the revision of the policy framework ROADSIP II. , After the nomination of the new Government activities were limited to courtesy calls on the new Ministers and to the holding of the second PRBS Review. In spite of a difficult context, a number of important achievements were still attained including the signature of three Financing Agreements for 10<sup>th</sup> EDF programmes (transport and agriculture) or the decision by the Commission to allocate as part of the MDG Initiative EUR 44 million to Zambia.

2012 will be a critical year for the delivery of EU cooperation to Zambia, with a number of interventions at risk in the Health and Transport sectors.

## II. COUNTRY ANALYSIS

### II.1 Update on the political situation

2011 was a **year of political transition** with the tripartite presidential, parliamentary and local elections, which were held on 20<sup>th</sup> September and resulted in a change of administration. Former MMD President Rupiah Banda lost the elections to opposition Patriotic Front candidate Michael Sata, and a peaceful transfer of power took place.

The **first nine months of the year were overshadowed by political campaigning**, with an MMD Government taking very few new policy initiatives, unless these favoured its electoral agenda.

The **Constitution review process was stalled** after the MMD Government failed to have its proposal endorsed by Parliament. **No progress was made on media regulation nor on the adoption of the Freedom of Information Bill.** The **space for Non State Actors kept shrinking** with Government engaging in the preparatory work on the implementation of the "NGO Act" passed by Parliament in 2009. Civil Society, which considered the law as overly restrictive, expressed much concern on the direction taken and relations with Government tensed considerably.

The **most positive political development of the year was therefore the elections** which several observation missions, chief among which was the EU Election Observation Mission (EOM), declared transparent and credible. The EU observation exercise benefitted from a careful planning beforehand based on the multi-annual EDF support to the election cycle programme, as well as a dedicated Election Expert Mission (on voter registration). The general observations and recommendations of the EU EOM included among others that the existing and adequate legal framework for elections could be further strengthened. The Electoral Commission was found competent, but lacking decentralised structures; the election campaign lacked transparency/accountability of campaign finance; the low participation of women and minorities' would require affirmative policy making; civil society organisations, which played a very positive role, need to be further supported. Finally, the media environment was highly polarised and the sector lacked an appropriate regulatory framework. Some of the recommendations of the EOM have been reflected in the EDF project in support to the election cycle project which is implemented by UNDP.

The new PF Government immediately embarked on implementing its Manifesto, with a particular **focus on the fight against corruption, equitable growth and job creation.** High ranking officials suspected of mismanagement in various Government bodies were fired or/and investigated and a number of commissions of inquiry were constituted. The PF Government also **re-started the constitution making process** soon after its inauguration with the establishment of a 20 person strong technical committee, aiming to finalise the new Constitution in 2012.

The **Human Rights situation in general continued to be satisfactory overall.** In spite of the existence of many human rights related legislation, policies and structures, Zambia faces various constraints affecting implementation and suffers poor complaints and monitoring mechanisms. No progress has been made towards abolition of death penalty in Zambia. The issue is likely to be raised again in relation with the ongoing constitutional review process.

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In relation to gender, **the distribution of power between men and women remains unequal**. Following the 2011 Elections, only 11.5% of members of parliament are women, a statistic that falls far below regional and international targets. The national legal framework does not provide for affirmative action for the representation of women. There has been however some noticeable presidential appointments recently, an effort from the Government to bring the scale to balance for women representation in decision making positions. The **Gender Inequality Index** is 0.627 indicating that gender inequality is deeply embedded in Zambia where traditional norms and patriarchal culture are deeply entrenched. Despite the fact that Zambia is party to numerous international and regional instruments which guarantee the promotion and protection of women's human rights, the **legal framework in Zambia** is discriminatory against women. While the Constitution protects women against discrimination, Article 11, Article 23(4) negates this guarantee by allowing the **application of customary law in matters of personal law** (i.e. marriage, divorce, and devolution of property). This has a negative effect on women's ability to fully participate in national decision-making, earn a decent living through formal employment or enterprise, acquire and own property.

**Violence against children and women** is recognised as a significant threat to many families in Zambia. There has been an increase in gross violations of human rights in the form of Gender-Based Violence (GBV) and child labour. With concerted efforts, the culture of silence is being broken and public discussion of GBV is no longer a taboo. According to the Zambia Demographic and Health Survey (2007) 47% of women have suffered some form of physical violence with 54% suffering physical, emotional or sexual violence.

Overall, gender discrimination, which remains pervasive, has limited women's access to land, education, credit and other productive assets and has created a power imbalance preventing women and girls from having full control over their lives<sup>1</sup>. This has led to women being overrepresented among the extremely poor, the unemployed and the illiterate.

The coming into power of a new Government brought **relief and opened a new prospect for a more conducive environment for Non State Actors (NSA)**. The newly re-named Ministry of Community Development, Mother and Child Health has resumed the process of implementing the NGO Act taking into account the provisions of the new Government and in consultations with NSA and Cooperating Partners. Furthermore, the future role of civil society may be improved by the new Constitution, which is formulated with participation of a wide range of stakeholders. NSA are actively engaging in the constitution making process and have long awaited the roadmap to be announced to coordinate their role into the process. During the beginning of 2012, a grouping of NSA formed the Civil Society Constitution Coalition (CSCC), in addition to the already existing Oasis forum, to engage more effectively in the process towards and the contents of the future constitution.

Overall, it is assumed that **progress continued to be made on the implementation of the Governance Action Plan (GAP)** that was agreed in 2007 and last updated in 2009. At the time, progress had been noted with regard to several areas of commitments. A national anti-corruption policy had been launched between 2007 and 2009, and since then a number of corruption cases e.g. in health and infrastructure sectors, have found satisfactory follow up. Actions – supported in cooperation with the EU and UN – against Human Trafficking are being implemented. Measurable – albeit slow – progress has been made on financial governance. The overall assessment of GAP progress in 2009, which described slight improvements may have been valid until the national elections of 2011. Since then the newly elected Government has taken visible steps towards accelerating progress on

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<sup>1</sup> 2011 Zambia UN Report on Violence Against Women

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Governance issues. At this point it is too early to assess the sustainability of the various new initiatives and their eventual impact. The GAP will be comprehensively assessed in the second part of 2012 on the occasion of the 11<sup>th</sup> EDF programming exercise.

Given the general elections that took place in September, **political dialogue between the EU and Zambia in 2011 was limited to informal meetings** with a wide variety of stakeholders (media, political parties, civil society, Parliament).

## II.2 Update on the economic situation

The **macroeconomic situation remained broadly positive**. Growth has been at 6.6% in 2011 due to expansion in copper production, increase in agricultural production and an expansionary fiscal stance. Inflation decreased from 8.6% in 2010 to 7.2% in 2011. The current account remained in surplus due to high copper prizes. Though the final fiscal tables for 2011 after the supplementary budget of December 2011 are still outstanding, Fiscal deficit remain at 4.1% in 2012. The former Government had successfully completed a 3-year IMF Extended Credit Facility programme in June 2011 and the new Government is yet to announce its intentions on whether to embark on a new IMF programme.

Several **commitments to continuing PFM reform** were taken throughout 2011 by the previous Government, notably evidenced by the extension of the PEMFA programme to continue key reforms on IFMIS implementation, procurement, revenues and internal audit and the elaboration of a draft comprehensive PFM reform strategy up to 2015. The new Government committed itself strongly towards enhancing PFM, fight against corruption and service delivery in the 2012 budget speech, notably towards a more consultative, transparent and accountable way of managing public finances. A new PAF was developed by the PRBS group and the Government in 2011, which includes commitments to further PFM reform and will be useful to monitor progress in PFM. .

In terms of **Public Finance Management performance**, the Budget for 2012 was presented timely, in spite of a change of Government, which underlines the Government's commitment to adherence to the new budget cycle, following the constitutional amendment effected in August 2009. In terms of budget execution, there was overall significant overspending compared to the initial budget. One of the most visible achievements in 2011 was the sustained high coverage capacity of the Office of the Auditor-General (now at 79% expenditure coverage). The Office of the Auditor General will receive a substantial Budget allocation increase of around 24% in 2012 compared to 2011, confirming the Government's commitment to a strong and independent Office of the Auditor General. However, the follow-up to external audit recommendations needs to be further improved. The introduction of Procurement Regulations for the new Procurement Law in 2011 also have an impact on the transparency and effectiveness in the use of public resources, though capacity building and standard bidding documents are needed for effective implementation at ministries' level. In terms of budget transparency, according to the findings of the Open Budget Index (OBI) 2010, Zambia needs further improvements as it provides only "minimal information to the public in its budget documents during the year". Zambia OBI score is higher than the scores of Angola, DRC or Mozambique, but lower than the average in Southern Africa.

Although international copper prices have remained at record highs, the mining sector has come under pressure from a rise in labour unrest in the latter part of 2011. Copper prices are forecast to stay above their average over the last five years but are not expected to breach USD10,000/t in the 2012-2013



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period. More importantly, although the Government is eager to raise revenue collection from mining, it has indicated that it will first focus on improving compliance with the current tax regime, in which there are major gaps. Furthermore, there are a number of large planned investments in the sector that are expected to lead to a 55% increase in Zambia's exports between 2013 and 2016. The Government will be keen not to jeopardise these given that mining is a significant source of fiscal revenue (estimated at just under 10%) and, as the main source of exports earnings, has implications for the strength of the currency.

Zambia was yet to join the four ESA countries (Mauritius, Seychelles, Madagascar and Zimbabwe) that signed in 2008 and eventually ratified in 2012 an interim Economic Partnership Agreement with the EU. Meanwhile, negotiations on the full EPA continued with all 11 ESA countries, with two main negotiations sessions having taken place in 2011. Areas of agreement for trade in goods included Non-tariff measures, Customs and trade facilitation, Technical Barriers to Trade and Sanitary and Phytosanitary measures. Outstanding issues on which negotiations continued into 2012 included the Most Favoured Nation clause, Export taxes, Agricultural safeguard, coverage of the liberalisation and Rules of Origin.

### II.3 Update on the social situation and poverty

In spite of economic progress, which translates into a GDP per capita (PPS) of USD1,430, income inequality is extremely high as demonstrated by a GINI co-efficient of 50.7. The richest 20% of Zambians are reported to earn 57% of all income, while the poorest 20% share a meagre 3.3%. **The MDG Progress Report 2011 describes some progress on reducing extreme poverty, which declined from 58% in 1991 to 51% in 2006, while the still unpublished Zambia Living Conditions Monitoring Survey, which used a different methodology, states that extreme poverty was 42.7% in 2006 and 42.3% in 2010. Irrespective of the source of data, the poverty reduction rate is too slow to achieve the 2015 target of 29%.**

Persistent high poverty levels are also reflected in the poor nutritional status of children. Still 15 % of the under-fives are underweight and the prevalence of stunting still stands at a worrying level of 47%. In spite of improvements in recent years, significant additional efforts are required.

The Human development report 2011 mentions noteworthy improvements in education. In the area of primary education net enrolment increased from 80% in 1990 to 102% in 2009 and gender gaps have been narrowing. However, in spite of increasing investments, the education sector struggles to meet the demands of a rising population. Efficiency remains a challenge and transition rates (Grade 7-8) have been stagnating around 55%. Post-basic education attainments are overall low and show a significant gender gap: While overall 5 % of the population have reached higher than secondary education, the percentage among men was 8% .

Progress on various health indicators has been significant. Zambia has halted the progress of the HIV epidemic and the MDG target of an HIV prevalence below 16% will probably be reached. Further progress is expected from an expansion of anti-retroviral treatment and the promotion of male circumcision. Good progress is also reported regarding the fight against Malaria and Tuberculosis.

However, significant additional efforts will be required to meet the MDG targets regarding child and maternal health: the current under-5-mortality of 119 per 1,000 live births and the maternal mortality



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ratio of 591 per 100,000 live births are still far from the respective MDG targets of 64/1000 and 162/100,000.

In spite of the commendable achievements in recent years, there is a strong case for continued and increased investment into social services with a view to improving outcomes in the areas of education, health, and nutrition.

### **II.4 Update on the environmental situation**

The MDG Progress Report 2011 states on *MDG 7: Ensuring environmental sustainability* that the percentage of land covered by forests in Zambia decreased from 66% in 1990 to 56% in 2007 and this has been a serious cause of concern. High priority efforts to curb deforestation and to regenerate forest cover is a critical factor to protect and enable the more sustainable use of the country's rich natural resource base and be more resilient to climate change shocks. The UNDP 2011 Human Development Report illustrates that a very large proportion of the poor in Zambia still lack access to clean water and improved sanitation. This remains a significant challenge.

The new PF Government is committed to the United Nations Global National Conservation Strategy which was adopted to form Zambia's National Environmental Action Plan as a basis of environmental policy in Zambia. The Government has re-aligned the environment and natural resources sector from the former Ministry of Tourism, Environment and Natural Resources to two ministries namely, the Ministry of Lands, Natural Resources and Environmental Protection and the Ministry of Foreign Affairs and Tourism which includes wildlife.

The Environmental Management Act approved in 2011 has taken into account aspects of pollution control and natural resources management which, compared to the previous Act, are progressive. The new Zambia Environmental Management Agency has now the mandate to regulate pollution and natural resources which is in line with environmental protection conventions which seek to separate the roles of regulatory and management of the environment and natural resources.

Zambia has identified climate change as a major threat to sustainable development and made significant strides in developing and launching the National Adaptation Plan of Action (NAPA) in 2007. Initial steps of implementing certain aspects of the NAPA include the Least Developed Countries Fund (LDCF) adaptation project in the agricultural sector and establishment of a facilitation unit in the then Ministry of Tourism, Environment and Natural Resources. The Climate Change Facilitation Unit, funded by Norway and UNDP has finalised a Climate Change Response Strategy for Zambia which is awaiting Cabinet approval. The Unit is in the process of developing a National Policy on Climate Change and its related Act. Government has requested UNDP to support the revision of the Wildlife Policy, while a review of the Forestry Policy is still underway.

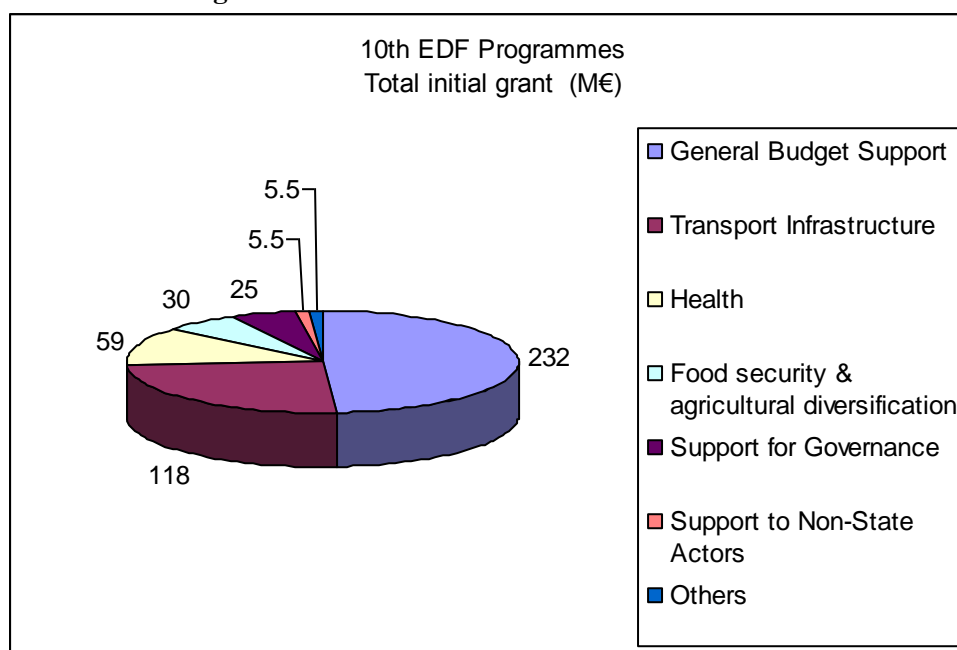
## **III OVERVIEW OF PAST AND ONGOING CO-OPERATION**

Under the **10<sup>th</sup> EDF CSP-NIP (2008-2013)**, signed in December 2007 between the European Commission and the Government of the Republic of Zambia, the EU provided an initial allocation of **EUR 475 million** to Zambia. The funds are mainly targeting three focal sectors: Poverty Reduction Budget Support, Transport Infrastructure (with emphasis on Road infrastructure) and Health. Funds are

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also made available for non focal sectors such as Food Security and Agricultural Diversification and Governance. These areas of intervention are in line with the Government's National Development Plan and the Cooperating Partner's Joint Assistance Strategy for Zambia (JASZ).

**Table 1: Distribution of funding under the 10<sup>th</sup> EDF for Zambia as of 2008**



In 2009, the funding for Zambia was topped-up by a EUR 30 million allocation under the **V-FLEX** programme (General Budget Support) and in 2011 a new allocation of EUR 44 million was granted under the **MDG Initiative** bringing the **10<sup>th</sup> EDF total to EUR 549 million**. Finally, Zambia also benefits from financial support through **other EU funding sources** (such as the Water and Energy Facilities, Thematic budget lines, Food Facility and the accompanying measures for sugar producing countries) which complement the interventions financed under the EDF.

**Table 2: 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> EDF financial performance 2008-2011:**

8 <sup>th</sup> , 9 <sup>th</sup> & 10 <sup>th</sup> EDF	2008 (M€)	2009 (M€)	2010 (M€)	2011 (M€)
Global commitments	346	35	55.9	<b>0</b>
Individual commitments	68.6	261	9.3	<b>83.6</b>
Payments	101.5	80.8	70.4	<b>75.3</b>

**The situation at year-end under the 10<sup>th</sup> EDF was as follows:**

**Table 3: 10<sup>th</sup> EDF - Financial situation year-end 2011:**

10 <sup>th</sup> EDF programmes	Allocated (M€)	Committed 2008-2010 (M€)	Committed 2011 (M€)	Contracted 2008-2010 (M€)	Contracted 2011 (M€)	Disbursed 2008-2010 (M€)	Disbursed 2011 (M€)
<b>FOCAL SECTORS:</b>							
Focal sector 1: Transport	117	117	0	77	<b>71.13</b>	0.2	<b>6.55</b>
Focal sector 2:	59	35	0	35	<b>0</b>	11.5	<b>8.50</b>

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Health							
Macro-economic support (MDG-C)	232	225	0	225	0	62.8	33.08
<b>NON FOCAL SECTORS:</b>							
- Agriculture	30	8.9	0	0	6.89	0	0.58
- Governance	25	15	5	15	0	6.7	0
- Non State Actors	5.5	0	0	0	1.39	0	1.42
- Trade support	2	2	0	0	0.07	0	1.08
- TCF	3	3	0	0.9	0.83	0.6	2.08
- Others (including Budget lines)	1.5	1	0	0	0	0	0
<b>NIP SUB-TOTAL:</b>	<b>475</b>	<b>406.9</b>	<b>5</b>	<b>352.9</b>	<b>80.31</b>	<b>81.8</b>	<b>53.29</b>
V-FLEX (2009)	30	30	0	30	0	30	0
MDG-I (2011)	44	0	44	0	0	0	0
<b>GRAND TOTAL:</b>	<b>549</b>	<b>436.9</b>	<b>49</b>	<b>382.9</b>	<b>83.31</b>	<b>111.8</b>	<b>53.29</b>

In addition to the above, and under complementary budget lines to the EDF, the EU contracted EUR 3.2 million and disbursed EUR 22 million for Zambia in 2011.

In 2011, the pre-electoral period was not conducive for effective programming or implementation of development cooperation. This was marked by limited dialogue with the MMD Government and the stalling of reforms in many areas such as Public Finance Management, Agriculture, Roads and Health. Disbursements of General Budget Support (EUR 32.8 million) and Health Sector Budget Support (EUR 8.5 million) were only made after the elections, late in the year. However, Road Sector Budget Support was once again not possible to disburse due to protracted discussions within Government on the revision of the policy framework ROADSIP II. The only cooperation related highlight of the last 3 months of the year, after the nomination of the new Government, was the holding of the second PRBS Review. Other activities were limited to courtesy calls on the new Ministers and little could be moved forward at administrative level.

In spite of a difficult context, and in addition to the above Budget support disbursements totalling EUR 41.3 million, a number of important achievements were attained:

- Signature of 3 Financing Agreements for 10<sup>th</sup> EDF programmes: (i) Aviation Sector Support Programme (EUR 3 million); Agriculture Performance Enhancement Programme (EUR 8.9 million) and (iii) Rehabilitation of the Great East Road (EUR 38 million).
- Commission decision on a 2011 AAP in support to the NAO (EUR 5 million).
- Commission decision on the EU MDG Initiative allocation (EUR 44 million), based on a concept note submitted in June.
- Approval of the new (EUR 5.8 million) Conservation Agriculture Project, financed from the Food Facility
- Timely submission of AAP 2012 Action Fiches for Conservation Agriculture (EUR 11.1 million) and Non State Actors (EUR 5 million). (An Identification Fiche for a Sector Policy Support Programme in Health (EUR 24 million), submitted in June, could unfortunately not be followed by an Action Fiche as further dialogue was necessary with the new Government on its sector policy).
- Launch of EU Country Evaluation and completion of the Food Facility Global Evaluation Zambia field phase.

## **Budget Support**

### **Macroeconomic support, including General Budget Support**

In 2011, Zambia remained broadly compliant with the eligibility criteria for Poverty Reduction Budget Support (PRBS), and received USD152 million from, DFID, Finland, Germany, Norway, the World Bank and the EU. The EU disbursement as part of the **10<sup>th</sup> EDF MDG-Contract** was EUR 32.8 million.

Dialogue was pursued with Government in the framework of the two PRBS Reviews which remained the main forum for policy related discussions. Issues addressed related to the topics covered by the newly streamlined Performance Assessment Framework (PAF): Public Finance Management reforms, and fuel pricing as well as sector developments in Health, Agriculture and Roads, amongst others. Engagement of other stakeholders such as parliamentarians and civil society on issues pertaining to budget support remained limited; but a broader participation was observed in the 2<sup>nd</sup> review held in November 2011. In terms of quality of data, further efforts are still necessary on improving the national statistical system<sup>2</sup>, which Cooperating Partners are committed to support.

As far as results are concerned, some sectors have consistently shown a positive trend (Education, HIV/AIDS, most of PFM), while others continue missing their targets, e.g. agriculture policy and investments, rural feeder roads. In 2011 the PAF shows health score reaching 67%, up from 12% in 2009. Challenges were experienced in setting the content and the targets for the 3 year rolling PAF, given that the new PF government had just taken office at the time of the 2<sup>nd</sup> review and thus it was agreed that the target of the PAF for 2012 and 2013 will be reviewed according to the new priorities.

The MDG Contract mid term review conducted in 2011 resulted in determined the amount of disbursement for the following years. In terms of the performance of the MDG-Tranche (MDG-T), the assessment made over the last three years pointed to a weighted average of 63%. This translates to in a disbursement profile for the remainder of the programme, consisting of the annual base component of EUR 33.32 million and an annual variable performance tranche of maximum EUR 3.75 million, making a total maximum per year of EUR 37.07 million. A comprehensive evaluation of budget support provisions by the PRBS group was undertaken, indicating overall good performance of the "financing function". Although there is room for improvement in the predictability of timing of disbursements, the overall amounts disbursed have been broadly in line with commitments. However the evaluation did reveal weaknesses in the use of budget support as a policy dialogue tool, due to the varied expectations towards the instrument.

### **Sector Budget Support – Roads**

The **sector dialogue** with the former Government had initially been overshadowed by the consequences of the Auditor General's report of March 2010, i.e. dismissals of Road Development Agency (RDA) board and senior managers, but at the time of the September 2011 elections there had been significant improvements though no Joint Donor Forum could take place. The change of Government and the dismissal of the RDA Board at the end of the year resulted in a standstill in the sector dialogue. The EU, lead of the Transport CP group, held meetings with the CPs to prepare for the

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<sup>2</sup> A draft National Strategy for the Development of Statistics (NSDS) was issued in September 2008.

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first High Level meeting with the new Government which was chaired in December by the new Permanent Secretary for the merged Ministry of Transport, Works, Supply and Communications. However the dismissal of the RDA board and the uncertainty at RDA had its impact on project implementation and the absorption of funds.

The turmoil in the road sector continued in 2011 though there were positive developments in the first half of 2011 with the appointment of a new Director/CEO and senior managers at RDA, the agreement between the Cooperating Partners and the Government on medium to short-term remedial actions as response to the audit findings, and the first draft of the revised ROADSIP II road sector investment plan for the period up to end of 2013. However, the adoption of the Addendum to the ROADSIP II was delayed. Consequently, the **Road Sector Budget Support (EUR 88.5 million 9<sup>th</sup> EDF & EUR 69.3 million 10<sup>th</sup> EDF)** that had been suspended since 2009 in light of questionable PFM practises related to budget commitment and execution control, poor financial and contractual road management at the level of RDA as well as the absence of a viable policy framework, could not be disbursed in 2011. The total accumulated withheld sector budget support since 2009 amounted at the end of 2011 to EUR 61.95 million (EUR 11.65 million from the 9<sup>th</sup> EDF and EUR 50.30 million from the 10<sup>th</sup> EDF). **There is a high risk that this Sector Budget Support will not be implemented and there is a need to look at an alternative use of this financing.**

### **Sector Budget Support – Health**

A Sector Budget Support Programme has been in place since 2009 with a total funding of EUR 35 million. After an initial disbursement in 2009, the disbursement of the second tranche was carried over from 2010 into 2011 as the disbursement request was received in December 2010 only. The decision making process leading to the disbursement itself was also delayed for a number of reasons (the assessment of the relevant features of public financing in the health sector was complicated and the assessment of technical aspects was hampered by the limited availability of reliable data). Eventually, in December 2011, an amount of EUR 8.5 million, equivalent to the 2010 fixed tranche was released. The variable tranche could not be disbursed as two of the three conditions in the Financing Agreement had not been met: (i) the utilization of Primary Health Care Facilities of 1.1 visits per person per year remained below the agreed target of 1.3, and (ii) the budget allocation to districts was only 11% of the total health budget (excluding personnel emoluments) and hence below the FA-target of a 13% allocation (iii) Full immunization coverage increased from 85% in 2007 to 94 % in 2010 but appear to have dropped again to 80% in 2011.

The commitment of the new Government to the improvement of health services is evident. The budgetary allocation for health increased from 1,294 billion ZMK in 2007 to 1,773 in 2011. For 2012 the new Government foresees a further increase by 45%. In spite of increasing health spending and positive trends of certain health indicators, additional efforts will be required to achieve the MDGs in the areas of Nutrition, Maternal and Child Health.

## **Projects and Programmes and focal and non-focal sectors**

### **Focal sector 1: Regional Integration - Transport infrastructure**

*National*

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In coordination with other Cooperating Partners, the EU responded to the call from the Road Development Agency (RDA) for capacity building support. **Two short-term civil engineering and financial management experts were seconded to the RDA** to support the implementation of the recommendations of the Public Accounts Committee. The outcome of these assignments was a provisional list of 934 contracts which were open in the period running from 2008 to 30 June 2011. A final consolidated list of contracts was not possible as the necessary information was not made available by the road agencies. The list therefore gives only an estimate of financial obligations as to contracted amount, claims for additional sums and interest on late payments to contractors. Consolidation of this list will be one of the most important outputs expected in 2012 to have a clear picture of the financial situation of the road projects managed by RDA.

The Financing Agreements for the **Aviation Sector Support Programme (EUR 3 million) and the Rehabilitation of the Great East Road (EUR 38 million)** were signed in 2011. The Technical Assistance component of the Aviation Sector Support Programme was immediately launched; this is to contribute to strengthening the institutional capacity of the Civil Aviation regulator in Zambia and to help ensure a safe and secure aviation environment through good governance, implementation of international civil aviation standards and harmonisation with EU standards.

As expected, the **EDF funding for the Great East Road** attracted other sources of funding - i.e. EIB (which signed its loan agreement of EUR 80 million in December 2011), the Agence Française pour le Développement (loan agreement of EUR 53 million) and the African Development Bank.

### *Regional*

Within the financing envelope of EUR 10 million to COMESA for infrastructure projects under the EDF Regional Indicative Programme, two projects of direct relevance to Zambia were selected for funding: the feasibility study and design of the **Serenje-Nakonde road rehabilitation project** (part of the North-South corridor) and the establishment of a **Project Implementation Unit for the Zambia-Tanzania-Kenya Interconnector**.

### **Focal sector 2: Health**

The continuing Sector Budget Support was complemented by targeted Technical Assistance which notably supported the Ministry of Health in developing a *Human Resource Strategy*, which was approved in November 2011 and the Health Professionals Council of Zambia was supported in developing new *Health Care Standards*, which were approved in July 2011 and launched in February 2012.

In the context of strengthening national statistics systems, EDF 10 supported the Ministry of Health in building its *Health Management Information System* (HMIS) which will be evaluated in 2012.

### **Non Focal Sectors**

#### **Governance**

The project in **support to the 2009-2012 Zambian Electoral Cycle (EU contribution: EUR 7.4 million)** continued to be co-funded with EU Member States (DfID, Netherlands, Finland) through UNDP. It contributed to building capacity for voter registration, supported civil society organisations to



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carry out voter education activities, and strengthened women's participation as well as the dialogue between political parties. In the run-up to the 2011 elections, project activities also targeted media and provided training in ethical reporting. A tangible achievement was the high level of voter registration, achieved in the preparation of the national elections 2011. A total of more than 5 million individuals, equivalent to 85% of the eligible population were reported as registered. The work on making voter registration a continuous process on decentralising structures and on linking voter registration with a strengthened system for Civil Registration is continuing. Apart from administrative and management aspects of the election process the project also sustained work on strengthening the involvement of various subgroups of citizens e.g. of young people.

The project in relation to the **fight against Human Trafficking (EU contribution: EUR 1.6 million)**, implemented in collaboration with UNICEF, IOM and ILO, continued. A protective environment against human trafficking is being built through partnerships with Government, employers and workers organisations. 'Labour networks' have been established, and endorsed by the Ministry of Labour and Social Security, which will facilitate provision of support to workers found to be victims of human trafficking or forced labour during routine labour inspections. For the same purpose, training workshops with trade unions were conducted throughout the year. Awareness raising activities implemented in 2011 comprised, among others, the National Break the Chain Communication Campaign, held in 10 districts of Zambia and the creation of 10 children's coalitions for the promotion of messages about human trafficking through school debates and other events. Recommendations were developed to improve the existing Zambia Police (ZP) crime statistics reporting system with a view to addressing trafficking issues and a concept was developed for moving from the current manual to an IT based system. A trafficking talk line has been established, which provides a country wide 7/7 24h toll free service, which is an easy to reach entry point for people seeking help and support on trafficking issues.

With a view to improving citizens' access to justice, the project for the **Strengthening of the Justice Sector in Zambia or Access to Justice (EU contribution: EUR 6 million)** continued to be implemented by Germany (Gesellschaft für Internationale Zusammenarbeit, GIZ). The implementation builds on the collaboration between the Government and Denmark, which has been supporting the justice sector for several years. The approach aims at strengthening the efficiency of the legal system (case flow management, more efficient court operations, reduction of time spent on remand) with a view to improving the access to justice for vulnerable groups. With a notion to better protection of human rights, it also aims at improving the conditions for prisoners. Working with a diversified strategy the project has a particular focus on improving coordination between five key institutions: Judiciary, Department of Public Prosecution, Prisons Service, Police Service, and Legal Aid Board. A large number of trainings were delivered to increase skills and knowledge of the staff of the 5 criminal justice institutions targeted by the programme. A baseline survey / human resources audit of the Director of Public Prosecutions (DPP) was carried out, which represents a crucial activity that paves the way for implementation of the National Prosecutions Authority (NPA) Act. Inter-institutional cooperation was enhanced to some extent within the Communication, Cooperation and Coordination Initiative that is instrumental in addressing problematic judicial cases and administrative issues that need joint interventions or measures. In the meantime, the Prisons service substantially reduced the number of inmates by releasing 680 prisoners with special needs and conducting 23 parole hearings, which led to the release of 226 prisoners. No progress has been achieved regarding the development of a Legal Aid policy, which will define the mandates and responsibilities in providing legal aid to poor people, who otherwise cannot afford legal support.



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**The 9th EDF Capacity Building for Private Sector Development (EU contribution: EUR 15 million)** came to an end in December 2010 and the final evaluation was completed in mid-2011. Some of the important findings included a weak project design and consensus regarding the needs and expectations of stakeholders. There was limited commitment from Ministry of Commerce, the main beneficiary, including limited absorption capacity and competences. There were expectations from some beneficiaries to have the project support some of their running costs which could not be covered by them due to lack of internal financial resources. However, there were a number of success stories with support to Private Sector Intermediate Organisations and some statutory bodies e.g. the Zambia Bureau of Standards. At broader sector level there has been an improvement with regard to policy and regulatory review for entry into the business sector, as evidenced by the WB Doing Business Reports. PSD is key to economic growth and will always be the key engine for development.

### **Food security and agricultural diversification**

The institution related **Performance Enhancement Programme (PEP) (EU contribution: EUR 8.9 million)**, for the formerly separated and now re-joint Ministry for Agriculture and Livestock, was launched at the end of the year. It has its foundation on a participatory performance self assessment carried out in early 2009. The programme is supporting change management and improving service delivery, sector policy, planning, financial management, human resources management as well as monitoring and evaluation. To facilitate the inception of the programme, short term technical assistance has been provided to assist the Ministry in formulating the first activities to be funded under the programme and prepare for a smooth arrival of the long term TA team. The agriculture sector is key to the economic and social development in Zambia and thus this programme is well placed to impact much needed change. The election year 2011 was proven to be a challenging period for embarking on an ambitious and forward looking programme, such as the PEP. The dialogue around agricultural policies has intensified and is continuing into 2012. Also the re-unification of the two ministries and the new leadership needing some time to settle into their new roles have somewhat delayed implementation, which is however expected to pick up in 2012.

The 9<sup>th</sup> EDF project on **Food Security and Agricultural Diversification in Western and North Western Provinces (EU contribution: EUR 15 million)** came to an end in December 2010 but evaluation, closure activities and audits of the PE 2 and 3 as well as the NSA grants continued in 2011. Overall, it enhanced both the capacity of the Ministry of Agriculture and Co-operatives (MACO) to develop food security action plans in Western and North Western Provinces and extension services in targeted districts. The project also supported Non State Actors interventions, which successfully explored ways to link farmers to market and improve value chains. During implementation it appeared that MACO's capacity to analyse the needs of the sector and translate them into coordinated interventions was a limitation to the project. These limitations are to be addressed under the new EU supported PEP.

### **EDF implementing structures**

Support to the NAO continued through the Technical Cooperation Facility. An agreement was reached with the Ministry of Finance and National Planning for the Government to fund from its own resources most of the NAO Support Unit activities in 2012.

## **Other actions**

### **Energy Facility**

The EU is contributing **EUR 9.98 million to the Rural Electricity Infrastructure and Small Scale Projects** for the construction of a Two Grid Extension in Kaoma (Western Province) and Mumbwa (Central Province) Districts. The population of the target areas will have increased access to electricity. In the Kaoma area the target is to supply electricity to a total of 231 new service connectors and about 2,000 households are targeted to be connected in the Mumbwa area. The low capacity of the Rural Electrification Authority and ZESCO to implement energy projects has caused serious delays.

The EU is also co-financing with **EUR 10 million the Increased Access to Electricity Services Programme**, supported by the World Bank and mainly implemented by ZESCO and the Rural Electrification Authority. The slow implementation of the project reported in 2010 continued also in 2011 and EDF disbursement was not possible. There are no visible achievements by the project to date and the lack of capacity at the Rural Electrification Authority and ZESCO combined with delays in the reporting including lack of quality of reports submitted to the World Bank are of major concern.

### **Water Facility**

In a new call for proposals under the 10<sup>th</sup> EDF ACP-EU Water Facility one project was selected for Zambia. EU will contribute **EUR 989,200 to the Copperbelt Water Operator Partnership – Developing Capacity for Replicating Best practices on serving Low-Income Communities and Reducing Non-Revenue Water in the Zambian Water Sector**. The project will start in the first half of 2012 and aims to improve service provision to 10,000 inhabitants of Low-Income Communities and to achieve a significant reduction of Non-Revenue Water from average 43% to 35% in the Copperbelt.

The Basket Fund managed by the Devolution Trust Fund (DTF) (EU project "**Improving Water Supply and Sanitation for the Urban Poor**") and co financed by GRZ, Germany, Denmark and Australia, continued to be effectively supported by the EDF in 2011 with a new release of **EUR 1 million**. The Basket Fund is using national procurement procedures. A project Mid-Term Review and a DTF institutional review were carried out during the first semester for which findings and conclusions were globally positive. The last EDF release is planned for end 2012. So far, this project is showing good results and big positive impact in the living conditions of the urban poor population who benefited from the activities financed by the Basket Fund all over Zambia. At the end of 2010 more than 800,000 people (16% of the urban population, 6% of total Zambian population) are now, thanks to the projects financed by the Basket Fund, benefiting from access to Water Kiosks using at least 7 litres of safe water per capita/day (target was 5litres/capita/day). The milestones of 800 toilets facilities constructed, targeting 15,000 beneficiaries, should be achieved by mid-2012. This is equally in line with the SNDP which targets to raise population with access to water from 53% to 75% in rural areas and 74 % to 80 % in urban areas.

In the **Water Resource Action Programme, WRAP (EUR 3.75 million)** an important achievement was the enactment of the *Water Resources Management Act 2011*. As defined in the *Water Resources Management Act (Commencement) Order 2012*, which was published on 16<sup>th</sup> March 2012, the act shall come into operation on 1<sup>st</sup> October 2012.

## **Rapid Response Food Facility (FF)**

Zambia was initially allocated a total of EUR 18.5 million through General Budget Support (EUR 5.8 million), FAO (EUR 7.47 million) and four NGOs (EUR 5.2million) from the programme aiming at responding to the soaring food prices and to cushion the impact of the food prices on developing countries such as Zambia. This amount was increased by EUR 3.6million for the FAO implemented project (reprogrammed from Comoros GBS EU Food Facility allocation) thereby recognising the successful implementation.

Three Farmer Input Support Response Initiative (FISRI) projects have been implemented as follows:

- **FISRI I – EUR 7.472 million** was granted through FAO for the **Farmer Input Support Response Initiative (FISRI)** to increase production and productivity among small scale farmers by practicing Conservation Agriculture. Conservation Agriculture is a farming approach that has three pillars namely minimum soil disturbance, permanent soil cover, and crop associations/rotations aimed at increasing productivity/production while improving the environment. The immediate outcomes were increased yields from 1.3 metric tonnes per hectare at the start of the project to 2.6 metric tonnes after the first year of implementation, the capacity of the Ministry of Agriculture & Cooperatives to deliver quality extension was improved, and participation of private input suppliers has improved through their involvement in input provision using the e-voucher scheme.
- **FISRI II – EUR 3.6 million** was further allocated to FAO due to the successful implementation of FISRI I. This project continues with FISRI I activities and piloting conservation agriculture mechanization as a solution to the land preparation and weed control challenges experienced during FISRI I implementation. Conservation agriculture mechanization pilot has shown good promise as the 10 farmers who accessed loans for the purchase of tractors have already paid back more than 50% of the loan amount in the first of the three year loan period through provision of land preparation and weed control services to conservation agriculture farmers in their localities.
- **FISRI III – EUR 5.8 million** was re-programmed to FAO as FISRI III from the Zambia allocation of the EU Food Facility GBS after the Government failed to meet the conditions of the tranche releases. This project was started in July 2011 and will run until May 2012. The aim of FISRI III is to consolidate the achievements made under FISRI I and II. An evaluation of the three FISRI projects is planned for early 2012 to consolidate the lessons learned during the implementation of these 3 projects and to feed these into the process of finalising the modalities for the Conservation Agriculture-CASU project (see project pipeline).

**Four Non State Actors** continued to implement projects until October 2011 totalling **EUR 5.2 million**. These projects focussed on increased seed production and marketing by small scale farmers, improved storage through construction/rehabilitation of storage sheds, construction of two Agriculture Service Centres for agro-services provision, and income earning activities like market gardening and aquaculture. These projects increased the quality declared seed production by small scale farmers by 30 % from the baseline; improved seed testing through acquisition of seed testing equipment; successfully piloted the e-voucher scheme for input provision to farmers; and improved storage capacity through the construction of 9 storage sheds that are used to hold the produce until favourable market prices are attained.

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All the EU Food Facility projects in Zambia, except for the one implemented by Plan International, were subjected to Results Oriented Monitoring (ROM) in 2011. The reports reiterated the conclusions of 2010, that all had good potential for sustainability. Furthermore, a final evaluation of the EU Food Facility was conducted in November/December 2011 which also re-enforced the ROM findings and considered the overall implementation to be highly successful.

**Urban Food Vouchers Programme:** Project implementation ran until September 2011, as per extension of the implementation period. WFP launched a final evaluation of the project and a specific study on the benefit of using the electronic vouchers for food aid delivery. Project implementation was very successful and made a strong case for the utilisation of the electronic vouchers since it allowed increasing the number of food aid beneficiaries from 23,000 to 60,000. The final evaluation confirmed the overall savings allowed by this delivery method compared to centralized management.

### **Sugar Accompanying Measures**

The Magobbo out grower scheme, which completed at the end of 2010 the infrastructure development and cane establishment, had a first harvest of 21,596 tonnes in September 2011. Sugar cane had been planted on 434 ha benefiting some 820 people. Revenue per family was estimated at ZMK 6 million in 2011 (900 EUR), and will reach ZMK 20 to 25 million in 2012. The formulation and detailed design study for the Chipata dry port (as part of the Nacala and North-South regional corridors) was launched in July 2011 and will be completed in June 2012. There is a possibility of EIB financing the construction if the project is deemed economically viable. The Luena farm block roads formulation and detailed design study was also launched in July 2011 and will be achieved in April 2012. In preparation for the MIP 2011-2013, a formulation study was carried out in consultation with various stakeholders, including private sector and GoZ. It was recommended to fund the enhancement and expansion of the Kaleya Outgrower Scheme, a civic and social education programme in 3 outgrower schemes in the Mazabuka area, and a social and civic education pilot programme at Kalungwishi Estates. However, after thorough analysis, the EU Delegation concluded that the first activity should be taken up by private sector while the civic and social interventions could not be supported in isolation of a broader national programme. The cost-effectiveness of the proposed action was also questioned as well as its restricted impact on poverty reduction. The GoZ was asked to identify new proposals for funding. **In the absence of better proposals and a full-fledged PIF by June 2012, Zambia will lose the 4.45 million tentatively allocated to the country from the Sugar funds**

### **Non State Actors and Local Authorities**

In support of NSAs and LAs there are currently **30 ongoing grants for a total approximate amount of EUR 31 million**, financed mainly from the Thematic Programmes and Instruments 'NSAs and LAs in Development', 'Food Security', 'Sugar' and EIDHR. Supported NSA/LA-actions in Zambia mainly focused on service delivery and advocacy in the areas of education, gender, food security, good governance - including decentralisation, media, water and sanitation, and human rights. Reflecting the continued high priority given to the work with civil society and local actors, the preparation of two Calls for Proposals under the Thematic Programme "Non State Actors and Local Authorities in Development" has been undertaken towards the end of the year. Continuing guidance, as provided by the EU delegation resulted in grant beneficiaries showing improved performance in terms of project management and reporting.

## **AID EFFECTIVENESS**

In line with the Division of Labour principles, the EU continued to play a very active role in the **Cooperating Partners Group whilst at the same time ensuring adequate local EU coordination**. The EU continued to lead the **Transport CP Group**, became co-lead of the **Elections Sub-Group**, and joined the **Agriculture Group** Troika. It was also instrumental in the **Mutual Accountability Group**, the **PFM/PEMFA** one as well as the **PRBS Group**.

No High Level Policy dialogue could be held in 2011 and meetings of Sector Advisory Groups, bringing together CPs, Government and Non State Actors, were limited in scope. The September general elections limited the scope for policy dialogue overall as the previous Government was more geared to securing re-election. The election of the opposition sent positive messages in relation to a renewed partnership between Government and CPs. This will be articulated in the coming years notably around the Joint Assistance Strategy for Zambia II which was launched in December 2011, together with the corresponding Division of Labour.

In relation to Budget Support, CPs and Government continued to be actively involved in the PRBS dynamics. Under the chairmanship of Germany, dialogue with the Government of Zambia remained regular – though with limited substantial discussions - and PRBS review meetings were held in May and November.

The EU Delegation led the CP PFM Group which continued to engage with Government on the PEMFA implementation, the design of a new PFM strategy facilitated by a DFID-funded expert and the planned PEFA assessment. The Delegation, as lead of the CP Transport Group, encouraged dialogue with the relevant Ministries with a focus on the ROADSIP II revision process and the continued implementation of the corrective actions designed following the Auditor General report of 2010. The Delegation continued to participate in the CP Health Group and was actively involved in the Health Sector Advisory Group meetings. As member of the CP Troika for the Agriculture sector, the Delegation engaged both the Ministry of Agriculture and Cooperatives and that of Livestock and Fisheries on policy related issues, notably on the occasion of the launch of the CAADP process. Finally, the Delegation was involved in the Governance CP Group, in particular in relation to the elections through the corresponding sub-group which it co-leads with UNDP.

**NAO-EUD coordination** continued, though at a slower pace in particular in the first part of the year, with meetings at both technical (Head of Cooperation and Director) and political (Head of Delegation and Minister of Finance/Secretary to the Treasury) levels.

## **IV PROGRAMMING PERSPECTIVES FOR THE YEARS 2012-2013**

### **IV.1 Pipeline and absorption capacity for 2012-2013**

#### **Macroeconomic support, including General Budget Support:**

Given the undisbursed portions of the variable tranche from years 2010 to 2012 and the difference between the original maximum value of the MDG tranche and the level of this tranche as set in the mid contract review finalised in 2011, the programme has **EUR 21.91 million currently available for de-commitment**, which would in accordance with the Financing Agreement be returned to the NIP.



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However, it is proposed that a rider to the programme would be processed to add an **additional tranche for 2015 which would consist of the currently available undisbursed funds and those that may remain undisbursed in the remaining years**. The disbursement trigger for this tranche need to be defined but could be linked to the MDG indicators or to concrete policy measures in key areas.

### **Focal sector 1: Transport Infrastructure**

The release of the **10<sup>th</sup> EDF Sector Budget Support tranches of EUR 69.3 million will most likely not be possible in full, or even not at all**. Government is considering different options including a possible rescheduling of the calendar to have the release of tranches in 2012 and 2013 with the remaining funds reallocated to a project approach with a regional dimension. This would only be possible if an acceptable revised ROADSIP II is compiled and the sector PFM is sound. Another option will be to reallocate one part of this allocation to finance infrastructure projects.

**The 10<sup>th</sup> EDF Mid Term Review concluded that EUR 10 million should be reallocated from food security and agriculture diversification to transport infrastructure**. The funds will be used as: (i) **Rider to FA Rehabilitation of Great East Road EUR 7.5 million**; and (ii) **Rider to FA Technical Cooperation Facility III EUR 2.5 million** for preparatory studies for 11<sup>th</sup> EDF infrastructure pipeline projects.

### **Focal sector 2: Health**

Concerning the **Health Sector Budget support**, from preliminary discussions through health sector programme performance reviews and policy dialogue, **it is expected that the agreed sector performance indicators for both the fixed tranche (EUR 7.5 million) and the variable (EUR 4.5 million) will be met for disbursement in 2012**.

An amount of **EUR 24 million included in the 10<sup>th</sup> EDF NIP remains to be committed in 2012**. The preparation process launched in 2010 continued in 2011 with three possible areas: (i) improving the availability and quality of essential medicines, in public and private health care, (ii) strengthening information and management systems in Ministry of Health and regulatory bodies, and (iii) securing the financial basis for health financing. The launch of a new National Health Strategic Plan 2011-15 in February 2012, has created a sound basis for a programme that should be developed in collaboration between the Ministry of Health and the Ministry for Community Development, Mother and Child Health. In order to secure the envisaged funding, an Identification Fiche is to be submitted in June 2012 and a final, detailed implementation plan and an Action Fiche in November 2012. Considering the tight timeline and the many challenges in the sector, there is a **risk that the funds will not be committed in due time**.

If the planning process is completed in time, the programme is expected to be supported by a strong sector framework on Governance and Management Capacity Development that was adopted jointly by all Sector Cooperating Partners including Civil Society Organisations. The Governance and Management Capacity Development Plan is an important agreed milestone under the joint Governance Plan of July 2009 and includes measures, which are required to restore confidence in the financial management procedures of the Ministry of Health. The full implementation of the agreed measures is expected to create the prerequisite conditions, which could allow using Government channels in the context of new commitments.

## **MDG Initiative**

**To accelerate progress on MDGs 1, 4 and 5**, Zambia has been allocated **EUR 44 million** from the EU MDG-Initiative. The decision was based on a **concept note**, developed by the Ministry of Health with the support of the UN and submitted by the National Authorising Officer on 14<sup>th</sup> June 2011. A **detailed proposal** has been in preparation since November 2011. However, the process has been extremely delayed: first drafts received in January 2012 were not of adequate quality and no significant progress has been made since then. In March 2012, the lead responsibility for the project was transferred to the Ministry of Community Development, Maternal and Child Health. **The preparation process now is to be finalised against an extremely tight deadline and is therefore at high risk.**

## **Non focal sectors**

**Conservation Agriculture Scaling Up (CASU):** Preparation of the **10<sup>th</sup> EDF EUR 11.1 million programme** aimed at extending the activities of the Food Facility support to Conservation Agriculture was completed in 2011. This is a follow-up project to the three EU Food Facility projects (Farmer Input Support Response Initiative) implemented by the FAO and Ministry of Agriculture and Livestock from May 2009 to May 2012. The project will facilitate improved access to markets, quality agricultural inputs and adoption of Conservation Agriculture and Best Agricultural Practices by smallholder farmers so that the farmers run their farming enterprises profitably. The project will increase the number of farmers Conservation Agriculture from the current 250,000 to 360,000 and increased coverage from 30 to 42 districts in Zambia respectively. Furthermore, the area cultivated by each farmer will increase from the current average of 0.5 to 1.5 hectares.

**A programme in support of Public Finance Management and Statistics** is under formulation, building of the foundation of earlier identification processes. The programme will be developed combining the two areas for support under a comprehensive programme for a total of EUR 13 Million. Whilst the awaited Government PFM strategy, expected to be adopted in mid 2012, and the forthcoming PEMFA assessment will need to inform the final formulation, a broad consultation process is under way to identify those areas where EU could offer value added. **Formulation is expected to be completed in 2012, for the programme to become part of the 2013 AAP for Zambia.**

## **Non State Actors**

A project proposal of **EUR 5.5 million for strengthening capacity of Non-State-Actors (NSA)** was developed in 2011 for which a Financing Agreement will be signed in 2012. The support activities will focus on NSAs working in the technical areas 'Media' and 'Access to Justice'.

## **IV.2 Proposal for revision of the CSP/NIP for 2012-2013 as a result of the ETR**

*To be drafted by the EU services in Brussels*

## **V. CONCLUSIONS**

*To be drafted by the EU services in Brussels*



**Annexes:**

**1. Country at a Glance**

**2. Donor Matrix**

**3. Country Portfolio**

**4. Decisions forecast table for 2012-2013**