



Millennium Challenge Corporation

Reducing Poverty Through Growth

We wish to provide a courtesy notification that the Millennium Challenge Corporation's Board of Directors has approved Threshold Program assistance for Zambia of up to \$24.33 million in FY 2005 MCC program funds, including \$1.59 million to USAID to administer the program.

MCC's Threshold Program is designed to assist Millennium Challenge Account (MCA) candidate countries that are committed to undertaking the reforms necessary to improve their policy performance and potentially qualify as countries eligible for MCA Compact assistance.

Threshold Program assistance will be used to help fund Zambia's three specific initiatives aimed at preventing corruption, improving public service delivery to the private sector and improving border management of trade.

The attached summary outlines the Zambia Threshold Program. Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Mackenzie Coon at (202) 521-3719. The attached summary is being sent to the Congress on April 14, 2006.

Sincerely,

Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure:
As stated

GOVERNMENT OF ZAMBIA
Threshold Program Executive Summary

Background:

Since his election by a narrow margin in December 2001, President Mwanawasa's demonstrated commitment to the war against corruption has generated increased support for his Administration. The President has established and continues to implement a policy of "Zero Tolerance for Corruption" in Zambia. The Government recognizes that both the reality and public perception of corruption continue to be major impediments to the country's transition to a stable democracy with a market-driven economy. President Mwanawasa is committed to reducing corruption in Zambia and creating a climate conducive to foreign investment.

Summary of Program:

The principal objectives of the Zambia Threshold Program are to reduce corruption and improve government effectiveness. The Zambia Threshold Program will fund three program components aimed at preventing corruption, improving public service delivery to the private sector and improving border management of trade. The Program will enable Zambia to tackle administrative barriers that stall trade and investment and will lead to more transparent, effective and accountable governance.

Description of Program:

Promoting Greater Transparency and Reducing Corruption in Three Pilot Agencies

This component aims to reduce administrative corruption in the Ministry of Lands, the Immigration Department of the Ministry of Home Affairs, and the Zambia Revenue Authority. Proposed activities include:

- Building the capacity of the Anti-Corruption Commission, the main body in Zambia tasked to combat corruption in the country;
- Implementing institutionally-tailored regulatory reforms to simplify processes and reduce opportunities for corruption in the three pilot agencies;
- Establishing internal watchdog units, an internationally recognized best practice aimed at strengthening the anti-corruption environment within public service, and
- Creating efficient public monitoring and reporting mechanisms to expose corruption such as establishing telephone hotlines to report incidents of corruption, setting up locked comment boxes at service-delivery points, posting quarterly reports on complaints received and actions undertaken on relevant websites, and providing related training for journalists.

Establishing the Zambian Development Agency (ZDA) and Patents and Companies Registration Offices (PACROs) This component will create the operating framework for the ZDA and provincial PACROs to remove administrative barriers to business and investment entry and operation outside the capital. Proposed activities include:

- Establishing the Zambian Development Agency as a one-stop-shop for investors and business people by drafting an institutional framework based upon its domestic and international mandate; designing an organizational structure that ensures streamlined functionality; and assisting the ministry as it establishes a personnel system;
- Rationalizing and simplifying the economic regulatory framework to decrease the cost of doing business, identify and eliminate administrative barriers to investor licensing and start-up, and establish automation of business and investor start-up procedures;
- Establishing PACROs in 3 provincial capitals to facilitate greater business and investment creation in the Zambian market outside the capital; and
- Building the capacity of the Project Coordinating Unit, which is responsible for integrating the private sector into the nation’s economic growth strategy.

Improving Border Management of Trade. This component will remove barriers to trade and investment in the Zambian market by establishing a “Comprehensive Integrated Tariff System” that will unify all border-related fees and procedures. Proposed activities include:

- Building capacity in modern customs techniques and integrated border control and management. Border upgrades will be implemented in two pilot locations;
- Strengthening the capacity of sanitary and phyto-sanitary units to provide efficient and expedited services for local and export trade;
- Strengthening the standardization, certification and inspection units of the Zambia Bureau of Standards by training border staff in import and export management; establishing an information management system with a network linking all satellite stations, and training staff in auditing of quality, environmental and food safety management systems.

Highlights of Expected Program Results:

- Reduce the number of days to register property at the Ministry of Lands from 70 to 35;
- Decrease the percentage of households reporting payment of a bribe to the Customs Division of the Zambia Revenue Authority from 14 to 7;
- Increase the percentage of households and businesses reporting quality service regarding business registration from 41 to 60;
- Reduce the number of days to export products from 60 to 30;
- Reduce the number of days to import products from 62 to 30.

<u>Budget:</u> Program Cost	\$22,735,000
USAID Administrative Fee (7% of Program Cost)	\$1,591,450

TOTAL COST	\$24,326,450

Implementation:

USAID will oversee implementation of the Zambia Threshold Program on behalf of MCC. USAID will use an existing contracting mechanism that has the same programmatic focus as the Zambia Threshold Program to acquire goods and services as necessary. The Ministry of Finance and National Planning will assume overall responsibility for coordinating the Zambia Threshold Program on behalf of the Government of Zambia. However, other ministries, public-private partnerships and civil society, notably the Anti-Corruption Commission, Zambia Business Forum, and Transparency International, will have supervisory and implementation roles as well.