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Country Analysis

Zambia

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Country Analysis – Zambia

Executive Summary and Conclusions

Zambia continues to be an island of peace in a conflict-ridden region. The peace process in Angola and the improved prospects for peace in the Democratic Republic of Congo are positive signs, while the deteriorating situation in Zimbabwe is a cause of concern. The region is likely to continue to suffer from political and economic instability during the coming five-year-period which will have an effect on the development prospects in Zambia.

Zambia is today ranked as one of the poorest nations of the world and it is estimated that an alarming 73% of the Zambians live in income poverty. Although poverty is more prevalent in rural than in urban areas, statistics show that poverty is rapidly urbanising. Women are poorer and experience more deplorable conditions than men. Child poverty has increased significantly during the past decade, mainly as a result of the HIV/AIDS pandemic. The causes of poverty are multifaceted but it may be concluded that a declining economy, coupled with poor political and economic governance and an increasingly negative impact of the HIV/AIDS pandemic, have contributed to the rising poverty levels and the decline in social indicators. Food insecurity, natural-resource depletion and environmental degradation are additional challenges in this respect.

HIV/AIDS poses a major threat to development in Zambia. Women are particularly affected. The epidemic has reached an advanced stage and will increasingly affect all parts of society. More than 20% of the economically active age group are infected. The impact of HIV/AIDS goes beyond the individual level and is increasing the burden on families and society at large through rising costs for health and social security systems, loss of production capacity and depletion of the human-capital and natural resource base. The pandemic will be on the increase during the coming years. This will affect the prospects for growth and development and the Zambian society will have to shoulder the burden of HIV/AIDS for many years to come.

In response to the challenges of poverty and development, Zambia has elaborated and approved a Poverty Reduction Strategy Paper (PRSP), covering the period 2002-2004. The PRSP identifies agriculture, tourism, transport and energy as key sectors for economic growth, and education, health and HIV/AIDS as key areas for increased social investment. Good

governance is recognised as an essential element of any strategy for economic growth and sustainable human development. Implementation of the rather ambitious development agenda will be challenging, both from a financial and a human resource perspective, not least in light of the HIV/AIDS pandemic. It is concluded that the PRSP and the broader medium-term strategic development framework, the Transitional National Development Plan, that is currently being developed and of which the PRSP forms part, might prove useful tools for improved donor co-ordination under Zambian leadership and for strengthened Zambian ownership of the overall development process.

The political scene is changing and indications are pointing to a more conducive environment for fighting poverty. Following the elections in 2001, a new political landscape has emerged which provides some opportunities for further democratisation. However, weak institutions and weak political parties are challenges to a rapid development in this respect. The economic scene is of key importance to Zambia's development prospects, as it is concluded that without macroeconomic stability and real growth, Zambia will not be able to sustain a level of public expenditure that will enable her to finance key social services and rights and, thereby, make a positive impact in terms of decreasing poverty levels and improved social indicators.

On the positive side, the Zambian economy has benefited from debt reduction through the HIPC initiative, and government has privatised the copper mines, which used to constitute a major drain on scarce resources. However, despite some encouraging developments in recent years, the Zambian economy continues to be plagued by uneven growth, high inflation levels, low savings rate and high real interest rates. The debt situation continues to be a challenge, both in terms of the external debt stock and in terms of domestic debt. The situation might be aggravated by Anglo American Corporation's pullout of the biggest mining company in Zambia. This could potentially lead to a significant decrease in GDP growth, diminishing export earnings and falling investment levels, at least in the short- to medium-term.

The impact of the HIV/AIDS pandemic further complicates the picture and is likely to frustrate government's efforts to increase growth during the coming five-year-period, and also in a longer-term perspective. Poor institutional and human capacity adds to this, and intensified public sector institutional and structural reforms will be required to improve both service delivery and the management of public finances. Effective utilisation of both aid and internally-generated resources calls for institutional and capacity building in general, and for strengthening in terms of budget execution, management and monitoring in particular.

Overall, it is recognised that government has limited capacity to fulfil its role in policy development and implementation. Although several government policies of good standard are in place, many are poorly implemented. Some of the main obstacles for implementation are weak institutions, limited capacity and poor governance. In other areas, relevant policies are not in place or need to be revised. For effective national policy development and implementation, it is important that also non-governmental actors have the capacity to fulfil their roles as service providers and as advocacy and watchdog organisations. Support to policy

development and institutional capacity building (both within and outside of the government sphere) will, therefore, continue to be vital elements of any development effort undertaken in Zambia.

There are thus several factors that undermine the attempts to reduce poverty and improve the living conditions of the rural and urban poor in Zambia. At the same time, however, there seems to be a renewed commitment from the government to fight poverty, primarily by stimulating the growth of the agriculture sector, promoting private sector participation in the economy, and by improving the efficiency of the public sector, including to fight corruption. The latter is of major importance, as it currently constitutes one of the greatest obstacles to democratic development, growth and poverty reduction. There are thus indications pointing to a more conducive environment for fighting poverty in Zambia during the coming five years.

1. Poverty in Zambia – a Remaining Challenge

Poverty Trends and Aspects of Poverty

The poverty situation in Zambia has reached alarming proportions. Despite taking over a strong economy at independence (1964), Zambia is today ranked as one of the poorest nations of the world. The main source of the historic wealth, generated in the mining industry, was not properly managed and invested. The wealth was used to create a new social and economic system, built on socialist principles and governed by a small elite controlling the national resources. In the mid 1980s, the Zambian economy was caught in a Dutch disease trap, plagued by an undiversified economic base, heavily dependant on the mining sector, an overvalued currency, deteriorating terms of trade and lack of investments, declining growth figures and massive interventions by the state in the economy, causing market distortions and disincentives for productive investments.

Concomitantly, a comprehensive social system was built up, financed by state incomes. As a result, education levels and health indicators improved. However, when the economic system started rocking, financing of the social sectors from internal resources became impossible. The government then resorted to external financing, including grants and loans, and, later, to Structural Adjustment Programmes in order to stabilise the economy. This, however, led to further cuts in public sector spending. At the same time, economic growth remained elusive.

Thirty five years after independence, Zambia was caught in a loan trap, had a crippling economy, limited capacity in both the public and private sectors, a weak and deteriorating social welfare system, and a dependency syndrome at both the individual and the national level. Limited controls and an unclear division of power between the arms of government nurtured a culture of corruption amongst politicians and in the civil service.

Using the 2002 Human Development Index (HDI) as a measure of poverty, Zambia today ranks 153rd out of the 173 listed countries. However, although still at the bottom of the ranking list, Zambia's HDI actually improved somewhat in 2002 in comparison with the previous year. Although the increase in the index is minor, it points in the right direction. However, a dramatically negative trend is shown in respect of life expectancy at birth, which had reached 54 years in the mid-1980s,

and which is now down to 37, indicating a deeply worrying development in national health status. The HIV/AIDS pandemic is a major contributor to the decline.

The negative developments in Zambia's economy during the past but three years are directly reflected in the worsened poverty and human development trends. Between 1975 and 1997, the average real income grew by around 1% annually while the population increased by approximately 3% per year. With these developments, an increasing number of the country's population (73%) now lives in income poverty. Out of these, close to 58% are classified as extremely poor.

Money-metric measures, however, do not capture all aspects of poverty. In addition to income deficiency, the poor lack access to one or more of the basic necessities of life, such as adequate food, health and educational facilities, safe water, clothing and shelter. This state of material and social deprivation makes the poor vulnerable to external events, such as natural calamities (e.g. droughts and floods), and economic shocks. They are also major victims of disease out-breaks, and lack access to medical services for preventable and curable diseases, which has resulted in particularly high mortality levels among the poor. In addition, the majority of the poor in Zambia are largely unable to exercise their basic human rights, resulting in discrimination, disempowerment and exclusion from participation in the life of the community and the decisions affecting their opportunities to take control of their own lives and to develop and contribute to the welfare and growth of the nation.

Access to safe water and sanitation facilities are key to good health and are important health determinants for both the urban and the rural poor. Access to safe water supplies vary greatly between urban and rural settings. It is estimated that 89% of the urban population have access to safe water supplies as compared to only 37% of the people living in rural areas. Although still skewed, sanitation facilities appear more evenly distributed; 73% living in urban areas have access to sanitation compared to 68% in rural areas. However, real coverage is much lower due to non-functioning facilities and poor usage. This applies to both rural and urban areas.

By the poor themselves, food insecurity is considered the single most important indicator of poverty. Sending children to school, good clothing, good health and health care are also considered important indicators of a good life in rural areas. Their urban counterparts consider having enough money, being employed, having good clothes and the ability to send children to school as key ingredients of a good life. Employment and cash-incomes are thus relatively more essential in an urban environment. Water and sanitation is considered a less important indicator of good life in both the rural and urban areas. This attitude, together with poor usage of sanitary facilities, indicates a lack of awareness of the links between good health and water and sanitation among poor people.

There is a direct link between poverty and environmental degradation. The poor are highly vulnerable to environmental risks, natural catastrophes and pollution, and are also the ones most affected by environmental destruction. At the same time, the poor are highly dependent on the natural resource base for their survival, especially the rural poor. They are also the ones least capable of protecting themselves

or escaping from environmental degradation. However, their poverty also makes them one of the major contributors to the depletion of the natural resource base, on which they depend for their survival. This, in turn, deepens poverty. Unsustainable agricultural activities – including deforestation and slash-and burn agriculture, which leads to soil fertility losses – are largely responsible for the current land degradation in the country. Zambia currently holds the highest deforestation record in the world, losing 850,000 hectares per annum. Poaching, over-fishing, use of inappropriate fishing methods and charcoal burning are other major environmental concerns.

Women and youth are the most affected by the interlinkages between poverty and environmental degradation, as they have limited access to land and other productive resources and less opportunities to engage in formal sector employment. The urban poor are mainly affected by poor environmental services, such as sub-standard housing, lack of sanitation and solid waste systems, outdoor and indoor air pollution and inadequate or polluted water. All of these are environmental health factors which, together with environmental degradation, affect the health situation of the poor and contribute to the burden of disease in the country.

The HIV/AIDS pandemic has worsened the poverty situation in Zambia. Women are particularly affected. The epidemic has reached an advanced stage and is will increasingly affect all parts of society. Recent statistics show that one million (10%) of the Zambian population are living with the HIV/AIDS virus. More than 20% of the economically active age group (15 – 49 years) are infected with the disease. According to the National Aids Council, AIDS related deaths are estimated to account for 99 000 deaths annually and are expected to peak around 2005. The impact is seen e.g. through the increasing number of orphans, most of whom are found in areas where the incidence of poverty is highest.

HIV/AIDS is posing a major threat to development. The impact of the epidemic goes beyond the individual level and is increasing the burden on families and society at large through rising costs for health and social security systems, loss of production capacity and depletion of the human capital base. Despite the gravity of the situation, the commitment of the government and society at large to fight HIV/AIDS has not been sufficiently forceful in the past. Although some positive signs in terms of reduction of new infections are noted in younger age groups, the Zambian society will have to shoulder the burden of HIV/AIDS for many years to come.

The combined effects of poverty and HIV/AIDS leave Zambia with a large population at risk in case of a period of food shortage. Base line malnutrition levels for children under five are high, and the majority of Zambian children, therefore, have a narrow margin of tolerance for any disruption in the supply of food and water. Considering that Zambia has experienced several years of successive drought and occasional isolated flooding, many communities today have a limited capacity to withstand new or repeated natural or environmental shocks.

Who are the poor?

Poverty is more prevalent in rural (83%) than in urban areas (56%) with

Western, Northern and Luapula Provinces ranked as the poorest areas. However, statistics show that poverty is rapidly urbanising; between 1996 and 1998 urban poverty rose by 10 percentage points, and there are few signs of future improvements in living standards. Land tenure, sanitation and garbage disposal in sub-urban residential areas, where most of the urban poor reside, are serious problems. To a large extent, poor sanitary conditions are responsible for high incidences of cholera and diarrhoea out-breaks in urban areas during the rainy season.

The majority of the rural and urban poor earn their livelihoods from small-scale agriculture and a variety of informal income-generating activities that tend to be short-term, seasonal and poorly rewarding. This situation has resulted in a severe state of food insecurity and high prevalence levels of malnutrition amongst men, women and children, especially in small-scale farmer families in rural areas. The high incidence of poverty in this group is largely attributable to low agricultural productivity due to the use of basic implements, low utilisation of agriculture inputs and poorly functioning markets for agricultural output.

Child poverty has increased significantly in the last ten years, mainly as a result of the HIV/AIDS pandemic. Close to 75,000 children have turned into street beggars to raise money for their own survival and for supporting their siblings. Recent reports show that the number of child-headed households stands at 11,500. Children and youth in the 6-24 years age category survive under extremely harsh conditions, which include physical abuse, child labour, stone crashing and child prostitution.

Most of the socio-economic indicators clearly show that women in Zambia are poorer (65%) and experience more deplorable conditions than their male counterparts (52%). Poor women in Zambia generally lack economic opportunities and the struggle for survival has forced them into activities which expose them to high health risks. Prostitution as an economic activity among the poor in the female category is common. Maternal mortality is exceptionally high for Zambian women. Gender roles, combined with some traditional and cultural norms, reinforce the disadvantaged position of women. The situation has worsened in recent years in the advent of HIV/AIDS. The lower position of women in society coupled with various physical and cultural factors, such as sexual cleansing, expose them to higher risks of contracting HIV/AIDS.

In Zambia today, an increasing number of people, including government officials, civil society organisations and the donor community, are placing the blame for the country's increasing poverty levels largely on poor political and economic governance. Appropriate targeting of the poor and the vulnerable has not taken a centre stage in the last ten years of the Chiluba administration. Budget analysis over the same period show that resource allocation patterns have not been directed to the poor. Many people also contend that the earnings resulting from the privatisation programme and other national incomes have not been equitably shared. A shared conclusion is that if all resources were properly targeted and accounted for, poverty would not have reached such alarming levels. There is also a consensus around the fact that although economic growth is not in itself a sufficient condition for poverty alleviation, Zambia cannot successfully fight poverty under a stagnant economy.

2. The PRSP – An Attempted Response

The national agenda for how to tackle the challenge of poverty is set forth in Zambia's Poverty Reduction Strategy Paper (PRSP), which was approved by Cabinet and endorsed by the Boards of the IMF and the World Bank in May 2002. The document was generally endorsed by the larger donor community in the July 2002 CG-meeting. The PRSP, which covers the 2002–2004 period, recognises that the current poverty levels are the result of weak economic growth, inadequate targeting of the poor and vulnerable people and the resultant insufficient budgetary allocations for pro-poor interventions; absence of well-conceived livelihood approaches that addresses rural and urban poverty; poor people's weak access to real assets; unsupportive tenure systems that have worsened labour and land productivity; and bad governance in both its economic and political dimensions. HIV/AIDS is identified as a major threat to human and economic development during the coming years.

It is further recognised that the volume and composition of government expenditure in past budgets have not resulted in progressive poverty-reducing interventions. It has, therefore, been concluded that the approach to poverty alleviation through growth stimulation should be complemented by measures that target the poor against any adverse impact of economic reforms and other internal or external factors. By way of strategy, the focus of the PRSP is on achieving a sustained economic growth that creates employment and generates tax revenues, which, in turn, can be used to improve the provision of basic social services. It is concluded that the growth should as much as possible be broad based and promote income generation and equity. The PRSP also emphasise that any strategy for economic growth and sustainable human development must encompass good governance in both its technical and representational forms, of which the latter involves participation, transparency and accountability.

To support the growth agenda, the PRSP emphasises continued macroeconomic stability, increased spending in the social sectors, private sector investments, improved fiscal control, and completion of the privatisation programme. Increased efforts will also be made to combat the spread of HIV/AIDS and limit its impact on the economy at large. Enhanced agricultural productivity is being given the highest priority under the PRSP. There is also a renewed commitment to democratise

decision-making, ensure efficient, equitable and transparent management of public resources and guarantee justice for all. The PRSP assumes a real GDP growth of 4 % per year. Initial assumptions indicated a growth rate of between 5% and 8%, but this was later revised in light of the challenges currently facing the Zambian economy e.g. in terms of a weak mining industry and the severe impact of HIV/AIDS on the economy as a whole.

The PRSP drafting process was accomplished in a highly participatory manner. A first draft of the document was prepared and discussed at a national summit in October 2001 with input from a large number of stakeholders. A network of civil society organisations had their own parallel process resulting in a comprehensive shadow report produced as an input to the formal process. Notwithstanding this participatory drafting process, issues of implementation, monitoring and evaluation of the PRSP continue to be an area of concern that will need attention by both government, civil society and the donor community.

The PRSP is considered a good basis for analysing the poverty situation in Zambia. It applies a multi-dimensional perspective on poverty, and explores the avenues for combating poverty in this context. Most of the policy statements are sound and the review of health, education, HIV/AIDS interventions, good governance, infrastructure, private sector and agricultural development as the essential means to poverty reduction and growth is well founded and reasonable.

Government is currently in the process of developing a broader medium-term strategic development framework, the Transitional National Development Plan (TNDP), of which the PRSP forms part. It is concluded that the PRSP/TNDP might prove a useful tool for improved donor co-ordination under Zambian leadership and strengthened Zambian owner-ship of the overall development process. It might also lead to more poverty-oriented resource allocations and constitute a basis on which a process for improved poverty monitoring and expenditure tracking could be built during the coming years.

Implementation of the rather ambitious development agenda will, however, be a challenging task, both from a financial perspective and from a human resource perspective, not least in light of the HIV/AIDS pandemic. The macroeconomic assumptions underlying the PRSP may also be challenged given the uncertain economic conditions facing Zambia. In addition, the political commitment to implement a pro-poor development agenda remains uncertain, although indications are pointing to more promising conditions today, considering the new political landscape that has developed following the recent elections.

3. Politics, Democracy and Human Rights

A New Political Landscape

The aftermath of the December 2001 elections has opened up for political change in Zambia. In spite of the government's efforts to control the December 2001 elections, these effectively broke the political stronghold of the ruling MMD party and, for the first time since the country reverted to plural politics, presented an opportunity for change for the majority of the Zambian people. However, although more than 70% of the voters voted for other parties and candidates than MMD and their presidential candidate, Levy Mwanawasa, MMD managed to maintain the presidential post. The electoral maladministration resulted in many Zambians not thinking the elections were free and fair, and several election monitoring groups also shared this view. The EU Observation Mission concluded that they could not feel confident that the declared results represented the views of the Zambian voters on polling day. They further concluded that the Electoral Commission of Zambia had failed to fulfil its mandate. Both presidential and parliamentary election petitions have since been lodged by opposition parties.

The court procedures on the parliamentary election petitions have led to the nullification of the election results in some constituencies. As long as there is no final decision on the presidential election petitions, however, the legitimacy of the Mwanawasa government may be debated. At the same time, the number of people questioning the government's legitimacy is now decreasing, mainly as a result of the actions taken by the new government against corruption in general, and Chiluba's possible involvement in particular.

The conclusions from the 2001 general elections are thus ambiguous: on the one hand Zambia is governed by a President and a government whose legitimacy can be questioned; on the other hand, there is undoubtedly a new political landscape which presents some opportunities for democratisation. For the first time in Zambian history the ruling party did not win a majority in Parliament. This has already had some implications for Zambian politics. In facing the new challenges, the ruling party is trying to entice opposition representatives on both national and local level into crossing over to the government side. As a consequence, a large number of by-elections have been and will be held, since an elected representative who formally leaves his/her party also loses his/her seat.

Currently, the balance in Parliament has shifted in the favour of MMD as a result of the by-elections held in 2002.

With regard to the presidential petitions, President Mwanawasa has declared that he will respect the rulings by the court. Should the result be nullified, new elections are thus likely to be held. Would such elections be held within the nearest future, Mwanawasa stands a good chance of remaining in power provided there is no split within the MMD movement and that the opposition remains divided. In view of the almost non-existent differences between the programmes and manifestos of the major political parties, it is not considered likely that a shift in government would have any major impact in terms of policy changes.

Democratic Development

Government Policies and Action

The first ten years under the multi-party system, which was reintroduced in 1990-91, were characterised by an extremely skewed distribution of power between the branches of government, frequent violations of civil and political rights, the lack of an accountable and transparent state, and a political culture that cannot be defined as truly democratic. Though the formal political institutions are in place, Zambia, thus, has a long way to go before it can be defined as a full democracy.

Although the new political landscape presents some opportunities for democratisation, it remains unclear whether the new government will take advantage of these opportunities. It did not meet the challenge of being a minority government by opening up for the opposition to share some political power and, thus, did not take the opportunity to embrace some principles and values that are fundamental for a working democracy, namely tolerance, power-sharing and a willingness to compromise. However, the picture is again ambiguous, as illustrated by the many statements made, and also some actions taken, by the President and the government in direction towards democratic reform. Promising indications in this regard are the initiatives taken to start implementing the National Capacity Building Programme for Good Governance, adopted in 2000, as well as the inclusion of a “governance programme for poverty reduction” in the PRSP, comprising of a number of proposed institutional and legal reforms.

The government’s first progress report on the Good Governance Programme shows that the lack of institutional capacity to implement the programme is considerable. Nevertheless, and in line with the PRSP, some initial steps have been taken by the new government towards parliamentary, electoral and constitutional reform. These reforms are crucial for moving the system of government in a democratic direction. The current extremely strong presidential system, combined with a Westminster model of elections and Parliament, lends itself more readily to the abuse of executive authority, where extensive discretionary powers are vested in the president and Parliament is dominated by representatives of the Cabinet (all Ministers have seats in the National Assembly).

It appears as if President Mwanawasa is committed to take action against corruption, which undoubtedly is one of the greatest obstacles to democratic development and growth in Zambia. Signs of this are the decisions to lift Chiluba's immunity, to set up an anti-money laundering authority and to form a task force for investigation of some of the major corruption scandals. It is too early to assess whether these measures really are the first signs of a genuine programme towards more openness, accountability and accessibility of the public sector. If so, this is one of the factors that bodes well for democracy in Zambia.

Political Participation and Influence

The operation of government in Zambia has not provided broad participation in decision-making, neither during the Kaunda years nor during the multi-party system under Chiluba. Poor people lack a strong voice and the political system continues to serve the interests of the urban elite. The deep structures of personal power in Zambian society seem to have been unaffected by the change of political system in 1990/1991. Business and political interests are often difficult to separate, with financial power in the hands of a small number of individuals, families and companies.

In a Southern African perspective, however, Zambians are comparatively active in civic associational life. The local character of political life is strong: people, particularly men, often participate by attending community meetings and having face-to-face contact with political representatives or other influential individuals. During the past ten years, however, political participation tended to decrease, both with regard to voting and other forms of participation. Somewhat paradoxically, this declining trend came together with a strong and stable support of democratic principles and increasing political knowledge and interest.

The last year under the Chiluba administration may have seen a change in this downward trend in participation. The anti-third term movement in 2001 was an impressive example of political mobilisation for democracy and a good illustration of the potential for participation that exists in Zambia. Another example of a new trend may have been the comparatively high voter turnout in the December 2001 elections in spite of the poor election administration (70% of the registered voters, 39% of the eligible voters).

The central structures have done little to strengthen or facilitate the local character of Zambian political life. On the contrary, it seems as if government policy has been either to control or neglect the local level. Chiluba's introduction of the District Administrators was one example of the efforts aimed at controlling local structures. The badly managed and administered 1998 and 2001 local elections are two clear examples of the negligence. Local election reform is one important step towards increased and more meaningful political participation at local level. Such reform, however, has to go hand in hand with measures to provide local councils and administration with more responsibility, resources and capacity. The statement in the PRSP that a decentralisation policy will be developed and implemented as a matter of top priority is a promising indication that the new government is prepared to leave the policy of the past behind.

At community level women in Zambia prefer indirect participation rather than face-to-face contact as a way of taking part in political decision making (i.e. through elections). An indication of this is that voter turnout for women is usually higher than for men. In terms of effective political participation in decision-making bodies, however, women are highly under-represented. Out of the 22 full cabinet ministers in Mwanawasa's first cabinet only 3 are women. In the National Assembly only 19 of the 150 elected MPs are women (compared to 16 before the elections). The situation is worse on local level: out of more than 1,200 local councillors only 91 women candidates won seats in the December 2001 local elections. The Zambian government has committed itself to ensure 30% female occupation of higher decision-making positions in the public service by the year 2005. It seems unlikely that this goal will be reached by the target year.

Political Parties and NGOs

Although the opposition parties have gained some strength, at least in terms of the number of seats in parliament and local councils, they still cannot fulfil their democratic function as representatives of citizen interests and effective channels for citizen participation in political decision making. The weakness of the Zambian political parties has in fact contributed to voter disillusionment. They are characterised by dominant personalities, poorly articulated agendas, centralised decision making procedures, few opportunities for advancement within the party and little outreach to the public, particularly to women.

The weak party system is one significant reason behind the emergence of a fairly politicised NGO community. The failure of the parties to play their role as the citizens' voice has forced civil society organisations to take the lead in advocating for democratic reforms, free and fair elections and respect for human rights. This, in turn, has led the government to attack some NGOs (and donors supporting the NGOs) and accuse them of being disguised political parties. If the present political situation is to become an opportunity for change, the political parties need to be strengthened. The political party factor is thus crucial for the development of democracy in Zambia.

The Human Rights Situation

Human Rights and Poverty

Poverty affects the Zambian people's access to economic and social rights, such as food, shelter, health services and education. It also affects their ability to effectively demand these rights, both at central and local level. In the education sector, for instance, poverty is manifested e.g. by low enrolment rates and high drop-out rates, poor performance and poor attendance due to engagement in income-generating activities to supplement family income, tending to sick family members, etc and long distances to schools. These are but some of the factors that affect the poor's ability to access education and, thereby, their chances to lay the foundation for a better life.

The poverty, stigmatisation and discrimination experienced by many HIV/AIDS victims have robbed them of their self-esteem and personal integrity, and their human rights are being continuously violated. There are occasional reports of HIV/AIDS patients losing their jobs and being evicted from rented houses.

Poverty also affects access to the civil and political rights. The poor lack the power and opportunities to make independent decisions and take part in the governance of their country. Material distribution by the candidates in exchange for votes, as reported by NGOs in the 2001 Presidential and Parliamentary elections, is a clear indication of how the poor can be taken advantage of. Despite vigorous campaigns mounted by the civil society to enlighten people about their rights to make independent choices during elections, a large number of the rural population still sacrifice their vote for material gain.

The Legal Framework

Zambia is party to all of the six core international human rights instruments, as well as the African Charter on Human and People's Rights. The reports to the UN committees on the implementation of these conventions conclude that the Zambian constitution and other legislation largely comply with the international conventions. However, the extremely weak monitoring and enforcement mechanisms and the practice of customary law create a huge gap between the written laws and the situation on the ground. Moreover, some constitutional clauses and statutory laws that violate the conventional rights still remain. In addition, Zambian law permits the death penalty, which is frequently inflicted and executed. More than 200 people are on death row in Zambia.

With regard to institutional capacity to fulfil the human rights obligations, one of the most serious problems is the lack of basic resources within the Police and the Judiciary, such as transport, decent cells, courtrooms, etc. To this should be added the questionable independence of the Judiciary. The power of the President to appoint all high court judges seems at times to have been used as an instrument for controlling opponents and covering up corrupt behaviour.

Promotion of human rights in Zambia thus still needs to include advocacy for, and implementation of, constitutional and legal reforms. Parallel to this, measures need to be taken to strengthen institutions and mechanisms of enforcement and monitoring, such as the Human Rights Commission, the Judiciary and the Police Service. Effective action, in turn, presupposes that the government is committed to fulfilling its obligations to observe and protect human rights. It remains to be seen whether the Mwanawasa government has such a commitment.

Women's Human Rights

Regarding the rights of women and gender equality, the government took an important step in 1996 in establishing the Gender in Development Division (GIDD) within the Office of the President, and subsequently formulated a National Gender Policy in consultation with all stakeholders. Some actions have since been taken to narrow the gender gaps and promote non-discrimination in social areas, such as education

and health. At the same time, however, not much has happened in terms of women's participation in decision-making bodies. As long as this pattern remains, it is unlikely that much will be seen during the coming five-year period in terms of radical reform aimed at protecting and fulfilling women's rights.

The Rights of the Child

The precarious situation for children in Zambia clearly shows that the government has no capacity to guarantee the Zambian children their conventional rights. There is some political will to tackle these problems, however, such as the development and adoption of specific government policy instruments to promote child and youth welfare and respect for children's rights. These have been in force since 1994. A large part of the work in this field is being done by NGOs and an umbrella body for these NGOs, the Children in Need Network (CHIN). In 2002, Zambia reported to the UN on the implementation of the Convention on the Rights of the Child.

The Civil and Political Rights

Despite the formal institutions and legal framework of democracy being in place, civil and political rights continue to be curtailed in Zambia. The most urgent need in order to uphold the accepted international standards for democratic elections in the future is to make the responsible body, the Electoral Commission of Zambia, one that acts independently and with integrity.

The freedoms of association and assembly have not been fully respected by former Zambian governments. The most common tools employed to curtail these rights have been harassment of opposition and NGO leaders and the use of the police to unlawfully deny political parties the chance to hold public meetings and demonstrations. There was a large number of such incidents during the third term debate and the election campaign in 2001.

Though guaranteed under the Zambian constitution, the freedoms of expression and the media are curtailed by a number of other laws and statutes. Both the State Security Act and the Penal Code can be, and have been, used to limit press freedom. Moreover, the President can declare a publication to be prohibited if, in his opinion, such a publication is contrary to public interest. The government's grip on the media is illustrated by harassment of independent newspapers and radio stations, particularly during election years. There are also more subtle ways of control, such as giving undue advantages to the state-owned broadcasting corporation, ZNBC, which in turn pays back by systematic bias in favour of the government and the ruling party.

It is yet too early to determine whether the new government will be more tolerant towards the independent media and more committed regarding the freedom of the press. There have been some worrying indications that MMD will continue violent actions in order to stop the spread of opposition views. At the same time, there exist proposals on important legal reform within the sector, most notably an amendment of the ZNBC Act opening up the sector for an independent broadcasting authority and the introduction of a Freedom of Information Act.

In conclusion, the elections and change of government have definitely formed a new political landscape. Mwanawasa and his government seem committed to pursue the principles of good governance and has, through this “new deal” policy, gained acceptance among the Zambian public. It is too early, however, to assess whether this policy will have any impact on fundamental dimensions of democracy such as the human rights situation, the people’s participation in decision making and the balance of power between the arms of government.

4. Development in Social Sectors

The 2001 elections brought the need for a government commitment to the realisation of economic, social and cultural rights to the fore. Both MMD and the opposition parties recognised the importance of creating jobs and increasing availability, quality and access to social services for the majority of the people. As one of the first steps after coming into power, the new government also decreed to extend the provision of free basic education to all. However, the government has still not taken steps towards domestication of the international covenants related to economic, social and cultural rights to which Zambia is a signatory.

The 1990s were the era of structural adjustment reforms in Zambia. Albeit important in order to ensure macroeconomic stability and soundness of the overall economic framework, the reform programme led to cuts in public sector spending, which affected the government's ability to provide the population with basic social services and rights. Zambia has since made serious efforts to increase the shares of social expenditure in the domestically financed budget. The combined share of social expenditure increased from 22% in 1991 to 36% in 2000/01. Despite these efforts, Zambia has not been able to provide access for all to basic social services. In fact, the infrastructure of economic, social and cultural rights has deteriorated in the past years, due to an increased burden on the system, resulting from i.a. the HIV/AIDS pandemic and a lack of sufficient funding to keep the current systems working, let alone expand them in tandem with increasing needs.

Education – a Human Right

A number of the international human rights instruments, to which Zambia is a signatory, stipulate that education is a human right and, in particular, that elementary education should be free and compulsory. This credo is echoed in the UN Millennium Declaration, where one of the goals is basic education for all by 2015.

In 1996, Zambia developed the National Policy on Education, which outlines the basic principles for the education sector. The government has also set specific goals for the education sector, e.g. to achieve 80% net enrolment rates for grades 1–7 by 2007, as well as increased access to nine years of good quality basic education. Goals have also been set in

relation to an improved school infrastructure, upgrading of all primary schools to full basic schools by 2015 and the provision of adequate financial resources for basic education. Government has further developed, along with the co-operating partners, a sector programme, the Basic Education Sub-sector Support Programme (BESSIP), which specifically focuses on the provision of basic education. BESSIP is funded through a SWAp mechanism and has a decentralised focus for planning and implementation.

Despite the efforts, the education situation in Zambia is still in a distressing state. BESSIP caters for grades 1–7 only, which means that the average Zambian pupil is denied a comprehensive education. Although enrolment rates at primary level have increased slightly since 1996 (1,555,707 pupils in 1999), in 2001 it was estimated that about 620,000 school-aged children were not in school. Out of the enrolled students in primary education, about 48% are girls. As from grade 5, however, the girls start dropping out, and the gap between male and female students widens. Overall, the literacy level for the population-aged 15 years and above has increased during the 1990s (from 55% to 67%). However, the rural/urban and female/male gaps are still wide, and the literacy levels are generally to be considered low. Estimates of 1998 showed that 29% of the women population in Zambia had no education of any kind compared to 24% of the men. Consequently, universal basic education has not been achieved in Zambia.

The education sector in Zambia has been under-funded since the 1980s. This under-funding has led to insufficient provision of essential educational inputs, a deteriorating infrastructure and a lack of improvement in the teaching and learning environment at all levels of the system. The pupil/teacher ratio in primary education has worsened in recent years, dropping from 1:38 in 1996 to 1:49 in 2001 for both lower and upper basic levels. Urban provinces have worse ratios than rural ones, due to overcrowding. On the other hand, in the rural areas a single teacher sometimes has to teach all the grades. This situation has a serious effect on the quality of the education provided. The reasons for this are partly financial, as poor conditions of service drive teachers out of the education sector. However, the HIV/AIDS pandemic also poses a serious threat to the education sector, as the teachers are among the four most infected groups in the country. The year 1999 alone saw the loss of more than 1,600 Zambian teachers. Zambia must now plan to train two teachers for each one who will actually teach. In addition, as a result of HIV/AIDS, many children have become orphans, which contributes to the high dropout rates.

The secondary school level has received less attention than the primary level. It has been largely neglected in terms of expansion, rehabilitation, educational material support and curriculum review. This has affected both the quality of learning and teaching. In 2001 the progression rate from grade 7 to 8 was 48.6% while that from grade 9 to 10 was 25.9%. Out of the secondary school leavers, few can be accommodated at the tertiary level, due to a limited number of institutions, located mostly in the Lusaka and Copperbelt Provinces. As to vocational training, the existing institutions can only cater for part of the demand. Distance education is still limited and the use of Information

Communication Technology (ICT) as a tool for the education sector has not been exploited.

Education is recognised as a human right in the PRSP, and six specific programmes, aimed at enhancing service delivery and effectiveness, are identified for support. To be able to implement the programmes, the government needs to increase the funding for the education sector. Efforts in this direction have already been made, and in 2000 the education sector share of public spending rose to 19,5% from 6% in the previous year. However, given the dilapidated infrastructure, the pressure on the sector in terms of unmet demand and the devastating effects of HIV/AIDS, more funds are needed. It is not likely that the government will be able to meet more than a fraction of the costs from internally generated revenue in the short- to medium-term. The relationship with the donors will thus be critical for Zambia in the coming years in order for her to better comply with the international conventions in respect of the right to education by her citizens.

Health – A Human Right

The International Covenant on Economic, Social and Cultural Rights (CESCR) recognises the right of everyone to the enjoyment of the highest possible standard of physical and mental health. Article 12 (2) specifies that this includes the right to maternal, child and reproductive health, the right to healthy natural and work environments, the right to prevention, treatment and control of diseases and the right to health facilities, goods and services. Three of the Millennium Goals are directly related to health – to reduce child mortality by two thirds by 2015, to reduce maternal mortality by three-quarters by 2015, and to reduce the spread of HIV/AIDS and the prevalence of malaria and other major diseases by 2015.

Zambia has been trying to reform its health system since 1992, when the National Health Policies and Strategies were launched. The overall vision of the reform programme is to provide Zambians with equity of access to cost effective, quality health care as close to the family as possible. This vision of the reforms is elaborated in National Health Strategic Plans (NHSP) every 4–5 years and operationalised in annual action plans at both central and district levels. The present strategic plan, NHSP 2001-2005, recognises the right to maternal, child and reproductive health, the right to prevention, treatment and control of diseases and the right to health facilities, goods and services as key in the reforms.

A cornerstone of the reform programme is the development of district health systems for the provision of basic health services in all parts of the country. This has led to steps being taken towards decentralising financial and administrative powers to the health sector at district level. The Zambian health sector was one of the first sectors in which a Sector Wide Approach (SWAp) was applied, and one of the major achievements of the reform has been the pooling of government and donor funds to support the running costs of the districts. The aim of the government is to expand this mechanism of budget support to the entire sector.

Despite sound health sector reforms and the relative success of the SWAp as a funding mechanism, the health situation in Zambia has deteriorated over the past decade. Life expectancy has plummeted to 37 years in 1999/2000. Tuberculosis (TB) incidence has increased and infant mortality rate stands as high as 109 per 1000 live births, at the same time as the under-five mortality rate has gone up to 197 per 1000. Maternal mortality figures range from 649 to 1000 per 100 000, all of which are unacceptably high. In the period 1991–1998, 53% of the children between three months and five years were stunted. The main reasons for these negative trends are insufficient investments in health broadly defined, including health clinics, water supply and sanitation and environmental management of air pollution, coupled with the serious effects of the HIV/AIDS pandemic.

A number of obstacles prevent the population from accessing health services. These obstacles are partly geographical; i.e. health facilities are not available in many areas, and partly financial; linked to user fees, cost of transport, etc. Moreover, the quality of the services are sometimes questionable, due i.a. to a lack of both trained staff and drugs. In addition, the system is not adequately responsive to the particular health needs of women, children and, not least, adolescents. There is a policy that states that poor and vulnerable groups should not pay for services, but studies show that such exemptions are not always provided to the needy. Another issue in some districts is refugee arrivals, which can have a significant impact on the resources available, given the extra demands that are being generated from the refugee population.

The advent of HIV/AIDS in Zambia's already unfavourable national health situation has put the whole health sector into a serious crisis. Statistics in selected hospitals show that, at present, over 50% of the hospital beds are occupied by people with HIV/AIDS-related diseases. Even though the HIV/AIDS epidemic seems to have stabilised at a national average prevalence of about 20% in the 15–49 age group (with 15% prevalence in rural areas and almost 30% in urban settings), the impact of the disease makes it difficult to improve many of the health indicators, at least in the short run.

Migrant labour and seasonal workers make up an important factor in the spread of HIV/AIDS in Zambia. Other vulnerable groups are the youths due to unclear perceptions about risky behaviour, insufficient knowledge and incorrect information about sex and sexuality as well as a lack of access to youth friendly sexual and reproductive health services. Two thirds of all youths in Zambia are sexually active by the time they are 19 years old and these trends are higher among the out of school youths than in their in-school counterparts.

The role of gender relations in the spread of HIV cannot be over-emphasised. The low social and economic status of women as well as some cultural factors often make it difficult for women to negotiate for safer sex even when they know their partner is unfaithful. Additionally, because of their low economic standing, women may exchange sex for gifts and/or money.

The present government has shown some political will and commitment towards the fight against HIV/AIDS. In particular, the area of treatment has been highlighted, where the government has changed

from a policy of not providing Anti-Retro Virals (ARVs), due to lack of funds, to a position where it is committed to seeing that ARVs are made available through the public health sector. This change has largely come about as a result of a stage in the epidemic where ARVs are seen as a way to prolong the productivity of scarce human resources in both the public and private sectors, coupled with an international commitment to cheaper drugs and support from the Global Fund to facilitate access and affordability of ARVs.

Through the National HIV/AIDS/STI/TB Council (NAC), the government has come up with a Strategic Framework 2001-2003 defining the national response in terms of the fundamental principles, broad strategies and the institutional framework. The government is currently trying to mobilise funds to implement and step-up HIV/AIDS interventions. However, financial, management and implementation mechanisms still need to be developed and articulated.

The PRSP does not specifically refer to health and good health care as a right to be provided to the citizens of Zambia. However, several references are made to the NHSP, which, in turn, recognises the rights as laid down in the International Covenant on Economic, Social and Cultural Rights. In line with the NHSP, the PRSP identifies a number of priorities for the health sector during the coming three-year-period. Firstly, support to a basic health care package will be provided. Efforts will also be made to improve access to health care in under-served areas, as well as to vulnerable groups. Within the framework of an integrated approach to health care, malaria will be given special priority, together with HIV/AIDS, TB and Sexually Transmitted Infections (STI). The latter will be implemented through the National HIV/AIDS Strategic Framework. Nutrition is yet another area that is envisaged to receive special attention under the PRSP. Environmental health will be addressed through strategies for improved services, institutional capacity building and, most importantly, through health education.

Similar to the situation in the education sector, the realisation of increased access and more efficient service delivery in the health sector will require additional funding. Zambia currently spends 3% of GDP on health, which is higher than the Sub-Saharan Africa average of 1.5, but lower than some of the neighbouring countries. In 1999, the government allocated 14% of the national budget to health. This is a relatively high figure, and may be seen as a sign of Zambia's commitment to health provision. The total resource envelope for the public health sector and for implementation of the NHSP, government and co-operating partners included, amount to between USD 12–15 per capita for the period 2001–2005. However, recent research from WHO shows that a minimum of USD 34 per capita is needed on an annual basis in order to provide basic and good quality health services in a cost-effective manner. Zambia is thus facing a challenge in terms of being able to provide services in accordance with the rights as stipulated in the CESC.

The Urban Drift – a Social Challenge

The UN millennium declaration has adopted a specific goal related to the reduction of urban poverty. The ambition is to achieve a significant improvement in the lives of at least 100 million slum dwellers by the year 2020. Agenda 21, adopted in Rio 1992, also contains several recommendations relevant to urban development. In addition, the Habitat agenda, adopted in 1996 and amended in 2001, contains a number of internationally agreed actions to improve the living conditions for the urban poor. The challenges of urbanisation calls for a sustainable development strategy focusing on the improvement of urban management and the development of an economically conducive environment for the urban poor.

Zambia is one of the most urbanised countries in Africa. More than 50% of the population is living in urban areas. This is largely due to the concentration of mining activity on the Copperbelt, but also to the construction of the line of rail from Livingstone to the Copperbelt and further into the Democratic Republic of Congo. Large population shifts have taken place from the rural hinterland to the place of industry and its related infrastructure. Lusaka's role as the nation's capital has contributed to these rapid population movements. For many years, Lusaka has been among the fastest growing cities in Africa, with growth rates exceeding 7% per annum. In recent years, the growth rate has slowed down marginally.

Currently, 75% of Lusaka's population live in squatter areas. Squatters are defined as occupants living in unplanned and, thus, illegal settlements. People living in these areas do not have any form of legal document to prove that they are entitled to live there. The settlements are spontaneously built which means they do not follow any planned layout. Houses are being built close together, leading to overcrowding. It is difficult to find space for providing a feeder road or other public services such as schools, health clinics or public open space.

Unplanned settlements lack the normal provision of municipal services. As a result, these areas do not have proper roads, intermittent water supply reaches only a few public standpipes, and sewer services are almost non-existent. Several households often share a pit latrine. There is no garbage collection and heaps of waste can be seen behind buildings and along major thoroughfares. Poor sanitation in combination with industrial and domestic wastes are major causes of water pollution in urban areas. Access to productive assets is a key constraint to the urban poor, who are mostly engaged in informal sector activities. As many of them reside in illegal slum areas, they do not have a formal title deed to their dwellings. In addition, restrictive regulations limit their possibilities of being engaged in income generating activities that could improve their livelihoods. This situation further deepens poverty.

5. The Economic Scene and Prospects for Growth

The Macroeconomic Scene and Structural Reforms

In the 1990s, Zambia initiated fundamental changes of its economic policies. Exchange rates were liberalised, trade reforms turned Zambia into one of the most outward-oriented countries in the region, and the country embarked on a wide-ranging privatisation programme. As a consequence, Zambia has made significant progress in the area of structural reforms during the past decade. Major market distortions have been eliminated, the role of the government in commercial activities has been reduced, prices are largely market determined, and some of the previously state-owned enterprises have been restructured and privatised. However, despite these efforts, full macroeconomic stability and sustainable growth have not been achieved.

Zambia's economy is still undiversified and the heavy dependence on mineral resources for exports, in particular copper, remains. However, although the copper industry still generates some 50% of the foreign exchange earnings, some positive changes are now being seen. The respective shares of agriculture, manufacturing, services and energy in the economy have all increased during the past years. As of 2000, almost 50% of the Gross Domestic Product (GDP) came from services, about 27% from agriculture and 13% from manufacturing. Meanwhile, the contribution of mining had decreased from about 24% in the 1970s to about 3% in the late 1990s.

In terms of real economic growth, Zambia's overall track record is, however, disappointing. The GDP growth rate fell from an average of 1.6% in the 1970s to 0.3% in the 1990s. At the same time, inflation rates increased, domestic savings continued to be low, the current account deficit increased and the exchange rate was unstable and overvalued. This, in combination with a population growth above the GDP growth rate, has resulted in a decline in the per capita income over the past decades. In addition to the macroeconomic instability – which also acts as a deterrent to private sector investments – the poor performance of the copper industry and the slow pace of the privatisation programme in regard to some inefficient but key public enterprises, have been identified as main contributors to the meagre growth in Zambia. Taken together, this has contributed to the poverty of the country and of its people.

However, macroeconomic performance since 2000 has been slightly more encouraging. The economy picked up following the privatisation of the state-owned copper mines, ZCCM, in March 2000. The ensuing strong performance of the mining, manufacturing and service sectors led to a real GDP growth rate of 3.5% in 2000 and 5.2% in 2001. At the same time, fiscal and monetary performance was satisfactory. Inflation, which stood at 30% towards the end of 2000, came down to below 20% in year-end 2001.

Debt Relief

In December 2000, Zambia qualified for accessing the debt reduction benefits available under the Enhanced HIPC Initiative. This is expected to assist in reducing the country's external debt position, which amounted to about USD 6.5 bn in 1999/2000. Over the years, debt service has averaged 10% of GDP, while the spending on social sectors together have accounted for 5%. This has negatively affected the growth of the human and economic capital and, thus, negatively affected the prospects for overall economic growth.

During the PRSP period, Zambia's debt service will be reduced from USD 600 m to about USD 165 m per year. Overall, Zambia is scheduled to receive debt relief totalling USD 3.8 bn over the next 22 years, starting from January 2001. In practical terms, the debt relief arrangements under HIPC mean avoidance of sharply increased debt repayments by Zambia. The "savings" thus made are to be spent on initiatives that benefit the poor, both socially and economically, and a special tracking and monitoring system has been put in place to ensure proper utilisation of the HIPC funds. Zambia is expected to reach the HIPC Completion point in December 2003.

On the domestic front, the fiscal deficit of the government stood at about 5.4% in 2000, while the overall public sector deficit amounted to 17%. The high overall public sector deficit has in part continued to provide the structural basis for high inflation. A domestic debt management strategy is expected to be developed by the government with a view to reduce the deficit by cutting non-essential spending. This, in turn, would reduce the need for government borrowing on the domestic market, which would bring interest rates down; a development that would be welcomed by the private sector, which has for a long time been complaining about prohibitive real interest rates in the economy (around 29% in mid-2002).

In terms of the macroeconomic framework, the PRSP identifies the following main targets for the period 2002–2004: an average annual real growth rate of 4.1%, reduction of the deficit in the external current account and the overall balance of payments, narrowing of the financing gap – either through increased supply of external resources or through demand management – and a reduction of inflation to 5% by the year 2004. However, for Zambia to be able to achieve the poverty reduction targets by 2015, as set forth in the Millennium Goals, a growth rate of between 6–8% annually would be required. During the implementation of the current PRSP, these growth rates are not considered feasible, partly because of the difficulties faced by the mining industry and partly because of capacity and financial constraints in combination with the

challenges posed by the HIV/AIDS pandemic.

Thus, despite some encouraging developments in recent years, the Zambian economy continues to exhibit weak and uneven growth, high inflation levels, low savings rate, high real interest rates, and a weak trade-balance position. The situation may be aggravated by Anglo American Corporation's pullout of the biggest mining company in Zambia. This could potentially lead to a significant decrease in GDP growth, diminishing export earnings and falling investment levels, at least in the short- to medium-term, as it will take time for the alternative growth sectors to fill the gap in export revenue and employment expected to result from declining mining activities. The budget deficit and high food prices as a result of the drought and a possible upcoming El Niño scenario will make it difficult to come to grips with inflation, and the rates are thus likely to remain high during the coming two to three years.

Despite the relief received through HIPC, the debt situation continues to be a challenge, both in terms of the external debt stock and in terms of domestic debt. The impact of the HIV/AIDS pandemic further complicates the picture and is likely to frustrate government's efforts to increase growth during the coming five-year-period, and also in a longer-term perspective. Poor institutional and human capacity adds to this, and intensified public sector institutional and structural reforms will be required to improve both service delivery and the systems for financial planning, management and control.

Public Expenditure Management

Zambia has initiated several reform processes in the area of public financial management and control in recent years. The main objectives of the reforms are to increase the effectiveness of the budget process and, in particular, to improve overall fiscal management. The systems that determine resource allocations and the accounting systems have historically received less attention. As a result, fiscal performance has been relatively more successful than budget execution.

The PRSP recognises that the present budgeting and financial management system does not function as a tool for effective and transparent implementation of government policy. There is also evidence that budget allocations differ substantially from actual disbursements. Currently, the system is thus unable to provide a reliable link to the targets and outcomes as set forth in the PRSP. This is a serious shortcoming, as the strategy cannot be effectively implemented in an environment where planned poverty related interventions are not matched by resources in a predictable and reliable way.

The new government has indicated a commitment to continued reform in the area of public financial management, which is also manifested in the PRSP. Several initiatives are also being undertaken, among them the preparation for a Medium-Term Expenditure Framework (MTEF) and the introduction of an Integrated Financial Management and Information System (IFMIS). Underlying these efforts is the government's renewed commitment towards greater transparency, efficiency and accountability in the public sector.

Public expenditure may be seen as the link between macroeconomic stability and growth on the one hand and improvements in social

development and poverty indicators on the other. Without macro-economic stability and sustainable real growth, Zambia will not be able to sustain a level of public expenditure that will enable her to finance key social services and rights. In addition to macroeconomic instability and low growth rates, the poor public expenditure management and financial accountability, low public sector remuneration and efficiency and poor quality of services have contributed to the worsening trends in social indicators and poverty. Improved budget preparation, allocation and execution, together with improved accountability and proper incentive systems in the civil service are necessary in order to make a positive impact on poverty levels in Zambia.

Public Procurement

Zambia has made several attempts to reform her public procurement system in the past decade. A Public Procurement Action Plan, aimed at developing the human resource base involved in public procurement, decentralising procurement systems and strengthening the audit and oversight functions, was adopted in 1996. However, despite some positive steps, the main objectives and overall intentions of the 1996 Action Plan have not been realised.

During 2002, a thorough assessment of the public procurement system was made, and, as a result, recommendations as to how to improve the economy, efficiency, predictability and transparency of the same were put forward. The current government appears to be more committed than the previous administration to implement the required changes. This reform process will however take time. It is, therefore, concluded that in a short- to medium-term perspective, the Zambian public procurement system will continue to be characterised by poor legislation and procurement practices, in combination with untrained procurement staff.

Prospects for Growth

Private Sector Development and Investments

The PRSP concludes that increased investments are key to revitalise economic growth, and that both the level and quality of investments are vital in this respect. It is recognised that, in the past, the quality of investments was undermined by too strong an involvement by the government in commercial activities. In addition to privatisation, the government has, therefore, intensified its efforts to encourage private investments, both national and foreign. The latter is particularly important, given Zambia's low national savings levels. Local investments are envisaged to be encouraged by promotion of partnerships among and between local and foreign investors.

Supportive measures to increase investment levels, and private sector development in general, have included the establishment of capital markets institutions, such as a stock exchange and the Securities and Exchange Commission. Efforts are also being articulated in respect of promoting a more diversified and responsive financial system, providing financial services also to the poor, and to strengthen financial sector

supervision in order to support such developments. The Zambia Investment Centre promotes Zambia as an investment destination within the framework of a relatively attractive investment legislation.

However, the private sector continues to face several difficulties in the Zambian environment. Access to capital, particularly medium- and long-term loans, for new investments and expansion of existing business ventures is limited. In addition, short-term capital is expensive, and mostly not accessible for small-scale entrepreneurs. The informal sector does not have access to the formal financial system. However, some specialised institutions serving this segment of the market, where the majority of the poor is found, have begun to emerge, although their outreach and the range of products provided are still limited. Other bottlenecks include the limited provision of support services in the form of training, business information, export assistance etc. Such services are particularly important to small-scale entrepreneurs, both in the formal and the informal sectors. As to foreign investors, it is recognised that the perception of Africa as such, and also Zambia's reputation in the region, is important. Good governance, the rule of law and predictability are key words in this respect.

The HIV/AIDS pandemic constitutes yet another challenge for the Zambian private sector. Production activities in both urban and rural areas have been severely affected by HIV/AIDS-related losses of working days. Illness and death resulting from HIV/AIDS has led to decreased productivity, loss of profit, increased health bills and funeral expenses in both the private and public sectors.

Trade Policies and Practices

Zambia has a small domestic market and is, thus, dependent on trade for the economy to develop and grow. During the past decade, Zambia has liberalised its external trade in line with the reform programmes agreed upon with the World Bank and the IMF. The trade perspective is highlighted in the PRSP, which establishes that a liberal trade policy and export promotion are key to the expansion of markets for domestically manufactured goods and for ensuring international competitiveness of local production, thereby contributing to increasing incomes and raising the standard of living. The need for a fair domestic and foreign trade regime, which facilitates trading under a set of commonly agreed and respected rules, is underlined.

Zambia maintains a relatively liberalised trade regime. Tariffs are the main trade-policy instrument. The simple average MFN (most-favoured-nation) rate is relatively low at 13.4%, and comprises four bands (zero, 5, 15 and 25%). Import controls are maintained only for environmental, sanitary, phytosanitary, moral, health, and security reasons. Zambia's trade to GDP ratio - an index of openness - has declined in recent years, despite the liberalisation of the trade regime. The share of merchandise trade to GDP dropped from 62% in 1995 to 54% in 2000, although an increase to 59% was estimated for 2001. The decline in the trade to GDP ratio is partly explained by the poor performance of the mining sector.

The mining industry is still the most important export earner, but the significance of non-traditional exports to Zambia's economy is increasing. Their contribution to total exports stood at almost 35% in 2001

(compared to 20% during the 1980s and 1990s). The most important non-traditional exports are primary agriculture products (mainly cotton, coffee and tobacco), horticulture products, gemstones and processed food (sugar). In 2001, the EU was the major destination for Zambian non-traditional exports (34%), followed by South Africa (26%) and the COMESA region (24%), where the Democratic Republic of Congo is the single largest market.

In order to promote trade and expand markets for domestic products, Zambia actively seeks bilateral, regional and multilateral trading arrangements. As a member of the WTO, Zambia has pursued a wide range of reforms in the area of tariffs and non-tariff barriers, such as technical regulations and standards, sanitary and phytosanitary measures and intellectual property rights. Zambia is, as other UN-designated least-developed countries, allowed to make exceptions to the rules or to apply longer periods for implementation of her commitments. However, Zambia's capacity to take advantage of its participation in the WTO has been constrained by difficulties in the implementation of the agreements. Particular areas of concern include implementation of legislation, notification requirements, training of officials, and limited negotiating skills. In light of the difficulties encountered, Zambia has reservations against an increased agenda of the WTO.

Zambia participates in a number of preferential arrangements and is a signatory to both the SADC Trade Protocol and the COMESA Free Trade Area. The secretariat of the latter is located to Lusaka. Zambia is also a member of the Regional Integration Facilitation Forum – formerly known as the Cross-Border Initiative – and the African Union. The membership in overlapping preferential arrangements makes Zambia's trade regime complex and difficult to manage as the arrangements have different geographical coverage, trade liberalisation agenda, trade policy instruments and goals. Notwithstanding the above, Zambia's membership in COMESA and SADC has to some extent expanded the economic opportunities for domestic producers. However, it also poses challenges in terms of the competitiveness of local production. Dumping and subsidised exports from some regional countries are of concern to the Zambian industry.

Zambian exports also receive non-reciprocal preferential market access in a number of markets. Examples of these arrangements include the U.S. African Growth and Opportunity Act, the EU Everything But Arms, the Cotonou Agreement and the Generalized System of Preferences offered by several industrial countries. However, the utilisation of the preferential market access is hampered by strict rules of origin and conditions related to pest risk assessment for agricultural products.

Infrastructure

The PRSP concludes that availability of energy services is a condition for growth and poverty reduction. Energy, sustainable use of natural resources and poverty are directly related. Poor households tend to rely on traditional energy sources, such as firewood, dung and charcoal, which impact negatively on their health, due mainly to in-door pollution, and their productivity. It also contributes to natural resource depletion and

environmental degradation. Less than 20% of the population have got access to electricity. In the rural areas the figure is as low as 2%. For this part of the population, biomass is the main source of energy, and it currently constitutes 70% of the country's total energy consumption.

Zambia has a fairly solid policy environment for the energy sector. However, several challenges exist if the government is to be able to fulfil the targets as set forth in the PRSP, which include an increase in the electricity access rates to 35% by the year 2010. An ambitious target is also set in terms of increasing electricity exports to neighbouring countries. The outreach targets are envisaged to be achieved e.g. by new power generation projects and power inter-connections between Zambia and Tanzania and between Zambia and the Democratic Republic of Congo. In addition, increased attention will be given to promote the ongoing rural electrification programme, which covers promotion of use of new techniques and renewable sources of energy, grid extension, as well as promotion of the construction of mini- and micro-power stations.

Little is said in the PRSP about the need to reform the government-owned electricity supply company, ZESCO, which continues to count among the key but inefficient parastatals in the economy. Although the privatisation of ZESCO is a condition for Zambia to reach the HIPC completion point, there appears to be a reluctance to implement a more far-reaching reform process with respect to the company itself. The establishment of the independent Energy Regulatory Board is however a positive step in line with government's policy towards deregulation and reform of the sector. Initiatives to elaborate a strategy for rural electrification have also been taken, e.g. by forming a working group for this purpose, but the process has experienced several delays. The challenges posed by increased outreach and reforms will thus continue to characterise the energy sector during the coming five-year-period.

The key role played by transport and communications in the economy is recognised in the PRSP. The sector contributes to facilitate growth in value-added of agriculture produce, trade and commerce, mining, tourism as well as the delivery of social services, notably health and education. It is concluded that transport and communications are critical to poverty reduction, but also that, if inappropriately designed and managed, it can worsen the conditions of the poor, increase the financial burden on public finances and contribute to environmental degradation.

The main transport modes consist of rail, road, air and waterways. At present, more than 60% of the cargo is hauled by road, partly due to deficient services provided by the two railroads, Zambia Railways Ltd and the Tanzania Zambia Railways Authority (TAZARA). To come to grips with the railways, government has initiated a process of privatisation through concessioning, in combination with legal and institutional reforms to support the process. The air transport industry has already gone through a reform process, and is today largely private-sector driven.

Regarding roads, the state of the infrastructure has deteriorated over the years as a result of an inadequate institutional framework to co-ordinate management, maintenance and financing of the road network. The interventions undertaken through the sector programme RoadSIP may, however, contribute to some improvements in this respect. Transport

systems in rural areas are poor and the quality of rural feeder roads in general is unsatisfactory. This, in turn, inhibits mobility and accessibility, resulting in limited access to farm inputs and social necessities, and makes marketing of farm produce difficult, thus deepening poverty in the areas dependant only on the road network.

Telecommunication systems in Zambia remain largely undeveloped. Teledensity is low, with 2 phones per 100 persons. Mobile telephones are comparatively widely used, and the total number of mobile phone subscribers almost equals that of traditional telephones installed (around 90,000). The use of new technologies, such as ICT, is limited. By the year 2001, only 5,000 users of the internet were registered. Access to postal services is more wide-spread, however, although it is recognised that the efficiency of the system needs to be improved.

Despite some positive trends in regard to ongoing reforms in the rail and air transport sectors, Zambia still faces challenges in terms of improving access to transport and communication facilities, particularly in the rural areas and for the majority of the poor. Transportation costs still amount to some 60–70% of the cost of production in Zambia, which reduces the country's overall competitiveness and the possibilities for increasing growth and alleviating poverty. The challenges of reform and outreach are valid also for the transport and communications sector, and are likely to continue being so during the coming five-year-period.

Environmental Considerations

There is a clear link between the prospects for sustainable growth and responsibility and care for the environment. Zambia does not as yet have a coherent policy on the environment. However, there is a National Environmental Action Plan (NEAP) of 1994, on the basis of which environmental programmes are implemented. NEAP identifies five main environmental issues; viz. soil degradation, water pollution and inadequate sanitation, deforestation, wildlife depletion and air pollution. The mining industry is of significant environmental concern, particularly in terms of water pollution.

Growth in Sectors

Agriculture

The PRSP identifies agricultural productivity, mining, manufacturing and tourism as the key sectors for economic growth. Agriculture is given the most prominent role as it is perceived to combine the virtues of growth and equity in the Zambian case. The majority of the population depend on agriculture-related activities for its livelihood. However, agriculture production and productivity is low, mainly because of high production costs, extensive cultivation methods, lack of farm implements, limited market access and poor support services. Most Zambians, therefore, hardly manage to get their subsistence from farming activities. Support to small-scale agriculture, thus, is vital for both poverty reduction and food security. In addition, agriculture is considered to have the best potential for diversifying the Zambian economy away from the mining sector and, thereby, to contribute to achieve the much needed economic growth in the future.

The PRSP recognises that the current policy of liberalisation is a sound one, and that the past massive involvement of government in marketing and pricing created disincentives and discouraged private sector investments. In addition, the bias towards maize, supported by policies and subsidies, has resulted in un-diversified agriculture production and in increased vulnerability of the poor due to the low resistance against drought of this crop. To change this, the government policy on agriculture, as set forth in the Agriculture Commercial Programme (ACP), and as echoed in the PRSP, focuses i.a. on continued liberalisation of agricultural markets, diversification of crop production, expanding economic opportunities for outlying areas, improving the economic status of women and fully utilise land suitable for agriculture, coupled with an emphasis on sustainable agriculture.

By way of strategy, the PRSP focuses on both small-scale producers and on commercial agriculture; the latter with reference to poverty reducing links such as job-creation and contract farming. Improved extension service, access to financial facilities, enhanced access to markets and sustainable farming methods, such as soil conservation, are identified as priority interventions for support to the small-scale farmers. In terms of commercial agriculture, the need for an export oriented agriculture sector is emphasised in order to get access to a larger market than the domestic one.

Three of the international environmental conventions, to which Zambia is a party, have direct links to poverty and the agriculture sector in Zambia; viz. the Convention to Combat Desertification, the Convention on Biodiversity and the Wetlands (Ramsar) Convention. The application and understanding of these conventions are, therefore, of particular importance to poverty reduction and the promotion of environmentally sustainable agriculture in Zambia.

Trends over the years indicate that the agricultural sector has slightly accelerated its diversification, mainly through the increasing number of outgrower schemes in the country. The value and variety of export commodities have also increased. However, the effect on the poor has so far been fairly limited. Private sector activities have been confined to a few areas, and there are still few links between the commercial farming and subsistence farming sectors. High interest and inflation rates, liquidity constraints and lack of access to credit facilities count among the factors that have contributed to limit the impact of the liberalisation policies. This, in combination with reoccurring droughts interspersed with isolated flooding, have contributed to make the Zambian agriculture sector unable to feed the population and significantly contribute to economic growth.

Despite some positive developments, further policy and institutional reforms are required with respect to the Zambian agricultural sector. During the coming five-year-period, Zambia will continue to face the challenge of improving agricultural production as a means to enhance economic growth, strengthen food security and reduce poverty.

Manufacturing and Mining

Mining continues to be a key sector in the Zambian economy, although the performance of the industry has worsened over the years, particularly

in terms of copper production. The withdrawal by Anglo American from the largest post-privatisation copper mine in Zambia, the Konkola Copper Mines Limited (KCM), has further contributed to the unstable position of the mining industry. Apart from its effect on the macroeconomic indicators, this may negatively affect the survival of the suppliers that are dependent on the mining sector.

The government is trying to solve the issue, and has managed to negotiate a deal with Anglo American, whereby KCM's continued operations are secured up till mid-2003. Meanwhile, the government is actively pursuing the search of another strategic investor who would be willing to move in and take KCM over. Whether this attempt will be successful remains to be seen and will largely depend on the development of the copper prices on the world market. However, some positive signs are being noted. Copper production has in actual fact picked up during 2002, and there is evidence that some of the smaller mines are doing well on the Copperbelt. This might positively influence any decision on new or further investments in the mining sector in Zambia.

The decline in the mining industry and the rapid liberalisation of the economy during the 1990s have negatively affected the Zambian manufacturing industry. Low levels of industrial skills, high cost of inputs and relatively low quality of output makes it uncompetitive in an open market economy. However, the export-based manufacturing industry has performed rather well in the recent past. The food, tobacco and beverage sub-sectors are performing well, and together they count for over 60% of the total output in manufacturing. The virtues of the manufacturing industry in terms of poverty reduction are its potential for contributing to value-added of local primary products, employment creation, an increasing tax base, growth of household incomes and, by exporting, increasing foreign exchange revenues. Due to the overall sluggish growth of the industry, however, the potential for linking up the formal sector with the informal sector producers has not been realised.

Measures to promote the growth of the sector, as set forth in the PRSP, include i.a. investment and export promotion, development of capital markets and micro, small and medium enterprise development – e.g. through training in entrepreneur skills, improved financial service provision, and by changing legal practices and attitudes that impede women and youth from being engaged in productive activities. The legal and regulatory framework governing commercial activities will also be strengthened.

Tourism

The tourism industry is seen as a major potential growth sector in Zambia. It has also developed positively over the years with the number of tourists increasing from 163,000 to 457,000 between 1995 and 2000. During the same period, the foreign exchange earnings from tourism activities doubled, as they rose from USD 46 m to USD 91 m. Considering that much of the tourism potential is natural-resource based and found in rural areas, the sector may play an important role in natural resource management and rural development, both in terms of infrastructure development, bio diversity conservation, job creation and community and entrepreneurial development. However, despite the

positive trend, the tourism sector is facing several challenges. These include i.a. the management of wildlife and natural habitats in a sustainable way, and the creation of a conducive environment for private sector investments and a growth pattern that is not harmful to the environment or to the culture and traditions prevailing in the prime tourist destination spots.

Employment

Formal sector employment currently stands at a mere 475,000 jobs. The informal sector, on the other hand, is a dynamic generator of employment and currently absorbs more than 70% of the labour force. Earning levels in this sector, however, tend to be lower than in the formal sector. The size of the informal sector also has an impact on the tax base. In response to this, the PRSP argues for an expansion of the formal sector, which is to be achieved through strong private sector-led economic growth. However, such a scenario is long-term, and for the coming years, most Zambians will continue to depend on the informal sector for their livelihoods. The main challenge in this respect is how to create and expand the poor's opportunities to earn a decent income in a sustainable way in order to enable them to finance the basic needs of life.

In respect of employment, differences exist between men and women. In agriculture, women are responsible for about 70% of the labour on small-scale farms. Comparatively, women's share in formal employment is generally low (12%). In contrast, more women are engaged in casual labour compared to their male counterparts. Considering that formal employment is more rewarding than informal sector activities, this in part explains the severe poverty experienced by many females.

HIV/AIDS also poses a challenge in respect of the labour force as such. The number of qualified Zambians able to continue in formal employment and in high civil service positions are likely to decrease. At the same time, the burden increases on poor families as a consequence of higher death rates. The cost to private companies and government institutions in terms of training and retraining of staff, loss of productivity and covering of cost for medical treatment is on the increase. In addition, the pandemic has resulted in the loss of parents for many children, who are consequently forced to raise money for their own survival. In 1998, it was estimated that children in the age group of 12–16 years supplied 16% of the total labour force in Zambia. Under normal circumstances, such children would be in primary or secondary schools.

6. The Regional Perspective

Prospects for Peace and the Implications for Zambia

Zambia continues to be an island of peace in a highly conflictive region. Moreover, no major conflicts exist between the different tribes, language or economic groups in the country. This peaceful internal environment is likely to prevail. The peace process in Angola and the improved prospects for peace in the Democratic Republic of Congo (DRC) might contribute to a more stable regional environment during the coming five-year-period. The development in Zimbabwe, however, points in the opposite direction.

The deteriorating political, environmental and economic situation in Zimbabwe has presented Southern African leaders with several difficult challenges and threats, particularly in terms of the political stability in the region. So far, the Mwanawasa government has taken up a wait-and-see attitude towards the situation. However, some effects of the same are already being felt in Zambia, e.g. by Zimbabwean traders flooding the Zambian market with cheaply priced products, thereby outcompeting the local business community. The Zambian government reacted in April 2002 by banning import of a range of Zimbabwean products. No retaliatory action has as yet been implemented by Zimbabwe.

Moreover, some Zimbabwean white farmers are now crossing the border to find new land in Zambia. The Zambian government has officially welcomed this move, and has stated that this will contribute to increased commercial farming in Zambia and, thereby, to job creation, export revenues and improved food production, which, in turn, will lead to increased economic growth and improved food security. However, critical voices are also being raised, the main fear being stated as “importation” of a possible future racial problem from Zimbabwe.

The wars in Angola and the DRC have affected Zambia, particularly in terms of increased inflows of refugees to the country. Zambia currently hosts about 300 000 refugees, the majority of which are Angolans. About 128 000 of these have arrived in Zambia spontaneously and are not under the UNHCR mandate. Furthermore, some of the refugees in older camps have been living in Zambia since the 1970s and their children are the second and sometimes even third generation born in Zambia. One immediate effect of the developments in Angola is already seen in the Western province, where Angolan

refugees are leaving the country spontaneously. If the stability continues, UNHCR has estimated that about 40 000 Angolans will return voluntarily in 2003 and another 20 000 in 2004, with the assistance of UNHCR. However, the UNHCR also estimates that a total of about 70 000 of the refugees may wish to stay even if peace prevails in Angola. This has caused a debate on the issue of rights and citizenship of the long-stayers. In response, the Zambian government is preparing for a Refugee Bill to be presented to Parliament, the content of which will enable refugees to apply for citizenship on an individual basis. This means that Zambia for many years to come will have to struggle to cope with the region's largest Angolan refugee population.

HIV/AIDS requires particular attention in respect in the refugee situation. As a result of physical displacement and loss of identity, the refugees are likely to engage in sexual behaviour not commonly sanctioned by cultural norms under normal circumstances. Refugees are also victims of coerced sex and sexual exploitation from fellow refugees and supervisors and many women find themselves in a destitute situation where the only way out is to exchange sex for economic rewards. Both the government and the international community are now trying to design interventions to mitigate against the spread of the epidemic within and through the refugee camps.

Access to water impacts on poor people's livelihoods and is an important factor for key economic activities in Zambia, such as agriculture, tourism and power generation. As Zambia shares watercourses with her neighbouring countries, regional co-operation to ensure sustainable management of this resource becomes important in order to ensure continued and non-conflictive access to the same.

The African Union and NEPAD

Despite Zambia's previous role as chair of the Organisation for African Unity (OAU), the Mwanawasa government has kept a relatively low profile towards the establishment of the African Union (AU). The same goes for the recently launched NEPAD initiative. Zambia is, for example, not represented in the Heads of State Implementing Committee of NEPAD. It seems as if the Zambian government sees the regional co-operation bodies – SADC and COMESA – as more important for the country's development, at least for the near future. However, the government has welcomed the AU and NEPAD, including the peer review mechanism featuring under the latter, and which should also be seen as the most radical of all of the new intentions and steps.

The implementation of NEPAD requires that it be reformulated into national policies and action plans, preferably in the national Poverty Reduction Strategies. Despite not explicitly referring to NEPAD, the Zambian PRSP is, however, considered to constitute a reasonable point of departure for the implementation of the NEPAD agenda, particularly through the pronounced and renewed focus on good governance.

7. Co-operation and Resources for Development

Aid Dependence and the Composition of Aid

Zambia has received significant levels of external assistance. Since the 1960s, aid to Zambia has shown a steady increase, particularly during the early 1990s. The volume and composition of external assistance has been conditioned principally by the country's willingness to reform its economy. With a few exceptions, the pattern of aid flow correlates closely with policy changes in the country.

An increase in aid dependence is noted from 1970 to 1983 when the aid/investment ratio exceeded 50 percent. Thereafter, there was an acceleration in the dependence ratios which shot up in the 1990s as a consequence of two factors: the rapid increase in aid, and the slower annual average growth. Investment levels dropped from USD 997 million in 1975 to USD 478 million in 1995, thus partly explaining the deterioration in the performance of the economy for the past decades. Between 1990 and 1994, aid jumped to an average of USD 951 million and reached a record high of USD 2,093 million in 1995. This was largely because of the international community's satisfaction with Zambia's transition to multiparty democracy in 1991 and a more intensive implementation of the Structural Adjustment Programmes thereafter. However, as from 1996 the volume of aid started to decline.

According to the Zambian government's most recent Economic Report, aid flow to Zambia declined between 2000 (USD 339 million) and 2001 (USD 271 million). Out of the total received in 2001, balance of payments support accounted for only 11.4 percent, compared to its share of over 50 percent during the 1992–1993 period. Project grants dominate, with a share of the 2001 external aid of around 72% of the total.

Bilateral aid has been more significant than multilateral assistance. Multilateral institutions, mainly the World Bank, the African Development Bank and the European Commission accounted for roughly 30 percent of aid to Zambia in 1998, mainly project related. Japan, with its focus in infrastructure development and agriculture-related support, remained the largest bilateral donor in the same year. A group of bilateral partners, disbursing similar levels of support, occupied the second place following Japan. These were Sweden, the United Kingdom, Denmark, Norway, and the United States. The share of the EU-

group in Zambia's aid flow, particularly with respect to balance of payments, has declined in the post-1997 period.

Zambia has been unable to service its debt from its own resources. Consequently, her debt is being serviced by cancellation and forgiveness; rescheduling (Paris Club debt); further borrowings from the soft window (IMF and the World Bank); and grants (multilateral and bilateral donors). As of 2001, the World Bank and the IMF combined accounted for 84.5% of Zambia's total multilateral debt and 46% of the total external debt stock. The increasing debt burden explains why, to a large extent, co-operating partners are increasingly more predisposed to providing grants rather than loans.

Domestic Resource Mobilisation

Zambia's ability to mobilise domestic revenue has, so far, been disappointing, although the country is doing fairly well in a regional comparison. Generally, tax revenue has continued to decline over the years as a percentage of GDP. Non-tax revenue for 1999, for example, performed poorly as government was only able to collect 55 per cent of projected revenue from this source. The revenue shortfalls in 1999, thus, severely undermined the government's capacity to finance domestic expenditure. In that year, domestically financed expenditure was 7.5 per cent below the budgeted; a phenomenon that was worsened by expenditure overruns on domestic arrears and domestic interest payments.

The low revenue generation is largely a function of two factors; the generally high tax rates which has reduced tax compliance; and weaknesses in enforcement. Zambia's tax base is still too narrow, thus raising the question of unfairness to the few that contribute to the state coffers intended for the common good. Only formal sector employees (about 25 percent of the total labour force) pay income tax. The Zambia Revenue Authority is attempting to address the problem and some progress has been registered.

To the extent that external resources cover roughly 40 percent of the government budget, it is increasingly being recognised that government policies should include a strategy that relies on long-lasting domestic sources of revenues if this dependence is to be minimised. The challenges reside in finding the critical 'right mix' of tools for financing public expenditures. This implies a balancing act between the objective of generating higher fiscal revenues and the sometimes competing goals of efficiency (stimulating economic activity), environmental sustainability (non-depleting natural-resource base) and equity and rights (promoting more equitable distribution of income and welfare, and empowering the poor, particularly women).

The role of the private sector resource base also needs to be taken into account in Zambia's effort to broaden its domestically generated development finance away from aid dependence. The main considerations here include the strengthening of the domestic financial sector with respect to capital markets, savings institutions, development banks, pension schemes (for social protection and as sources of savings), the insurance sector, and microfinance for small and medium-scale enterprises.

Budget and Expenditure Management

The expenditure side also has to be attended to if the domestically generated resources are to be prudently applied. The overall process of budget construction, with a particular emphasis on MTEF planning, is key in this respect. In Zambia, the budget process has hitherto been largely dominated by the demands of sectoral ministries, and little attempt has been made to prioritise within or among activities. The role of Parliament in the budget approval process is also insufficient to secure democratic participation in the process as well as the needed assurance of professionalism. Given the limited resources at hand, the capacity of the House to fulfil this function is presently an issue.

Given the current thrust of the PRSP, the challenge of creating effective pro-poor budgeting within MTEF becomes essential. Efficiency and effectiveness of public expenditures are critical not only to promote sustainable growth, but also to improve the distribution of opportunities and provision of economic and social rights. Large differences between approved budgets and executed budgets appear in Zambia, reflecting poor monitoring and excessive levels of discretion. Effective utilisation of both aid and internally-generated resources calls for institutional and capacity building in general, and for strengthening in terms of budget execution, management and monitoring in particular. There is also a need to recognise and support the strategic role of different institutions and agents (Parliament, Ministry of Finance and National Planning, line ministries, private contractors, civil society) in tracking and implementing public expenditure.

Fiscal ownership and the role of the donor community is another issue of importance, as it touches on the question of governance of the budget, a topic that is particularly relevant in Zambia where foreign financing (loans and grants) represents a high percentage of the total level of public resources.

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