### Key Figures

- Land area, thousands of km²: 753
- Population, thousands (2007): 11,922
- GDP per capita, USD at constant 2000 prices (2007): 385
- Life expectancy (2007): 42.4
- Illiteracy rate (2007): 16.5
In 2007, the economy grew just 5.8 per cent in Zambia, down from 6.2 per cent in 2006, primarily due to slower growth in the volume of copper production. The construction sector remained buoyant however, with growth remaining stable in 2007. In 2008 and 2009, the economy is expected to recover to just above 6 per cent growth with a strong increase in copper exports following huge investments in 2006 and 2007. This expansion in volume is expected to offset declining world market prices. On the negative side, adverse weather and increasing power outages at the beginning of 2008 will limit growth in agriculture and manufacturing.

The trend towards macroeconomic stability continued in 2007 with single digit inflation in December, a less volatile exchange rate and a low fiscal deficit. The progress of key reforms in areas such as public sector management and private sector development have been slower than anticipated.

![Real GDP Growth and Per Capita GDP](image-url)

**Figure 1 - Real GDP Growth and Per Capita GDP**

(USD at constant 2000 prices)

Source: IMF and local authorities’ data; estimates (e) and projections (p) based on authors’ calculations.

StatiLink: [http://dx.doi.org/10.1787/317152144276](http://dx.doi.org/10.1787/317152144276)
Recent Economic Developments

With favourable weather conditions, the 2006/07 harvest was quite good, especially for maize and cassava, resulting in a food surplus for the second year in a row. There has also been an increase of the area under cultivation, partly due to the immigration of farmers from Zimbabwe. However, some flooding and problems with livestock diseases caused agricultural growth to slow to 2.8 per cent in 2007 as compared to 3.0 per cent in 2006. For the 2007/08 harvest only a small increase in agricultural output is expected due to widespread flooding, the effect of which can only partly be offset by improvements in the distribution of subsidised fertiliser. Agriculture is one of the priority sectors of the Fifth National Development Plan (FNDP), which details the government’s development agenda and its poverty reduction programme for the 2006-10 period.

In 2007, mining production was stagnant, mainly due to flooding of some mines and labour disputes in the first half of the year. With mining companies having invested heavily, production is expected to increase in the coming years. While the mining sector only employs 63,000 people it contributes around 70 per cent of exports and 4 per cent of GDP. Mining companies are also engaged in development projects in the area of health and agriculture.

Growth in the manufacturing sector in 2007 was only 3.4 per cent partly due to electricity shortages and increased transportation costs arising from increasing oil prices. In some sub-sectors such as food, beverages and tobacco however, growth accelerated in 2007.

The construction sector performed well in 2007, posting robust growth of 13.3 per cent. Both housing and commercial building expanded, with hotel construction particularly being driven by the expectation that Zambia’s tourism sector will benefit from the 2010 FIFA World Cup in South Africa. The construction demands of South Africa has led to capacity constraints however, as a number of Zambian firms are engaged there. With many construction inputs ranging from cement to crushed stones being produced locally, shortages have also been noted. Cement shortages in particular are expected to be alleviated in 2008 due to new investments in production.

Growth in services was mainly driven by wholesale and retail trade, which contributed 17 per cent to GDP in 2006. Tourism also performed better in 2007 with an increase in passenger arrivals of 6.4 per cent. In 2008 and 2009, a further increase in tourism is expected due to an improvement in facilities and the generally stable political conditions.

Government expenditure in 2007 was lower than budgeted, especially with respect to capital expenditure. However, since budget execution had been very poor in 2006, there was a large increase in public investment of 41 per cent, mainly in road construction. Private investment also increased especially in mining, leading to a surge in imported investment goods. Demand has

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**Figure 2 - GDP by Sector in 2006 (percentage)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Agriculture, forestry and fisheries</td>
<td>20.7%</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>5.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.5%</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>3.1%</td>
</tr>
<tr>
<td>Construction</td>
<td>12.9%</td>
</tr>
<tr>
<td>Restaurants, bars and hotels</td>
<td>17.7%</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>12.9%</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>2.8%</td>
</tr>
<tr>
<td>Finance institutions and insurance</td>
<td>1.2%</td>
</tr>
<tr>
<td>Real estate and business services</td>
<td>6%</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

Source: Authors’ estimates based on Central Statistical Office data.

StatLink: [http://dx.doi.org/10.1787/318262101134](http://dx.doi.org/10.1787/318262101134)
been mainly driven by investment facilitated by easier access to credit both for enterprises and households. The decline in government consumption was more than offset by an increase in private consumption.

The main downside risks for growth in 2008 and 2009 include a decrease in productivity due to the high prevalence of HIV/AIDS, shortage of energy, especially electricity, and further appreciation of the Zambian Kwacha (ZMK) due to the depreciation of the US dollar. Industrial action in the mining sector and floods at the beginning of 2008 might reduce production, especially in agriculture.

### Macroeconomic Policies

#### Fiscal Policy

In 2007, fiscal policy was contractionary with higher revenues and lower than expected spending. Revenues (excluding grants) amounted to 16.8 per cent of GDP, as income tax payments rose, primarily from mining companies, and higher tariff revenues due to a rapid increase in imports. Tax collection exceeded its target by 5 per cent. On the expenditure side, public investment was lower than planned, particularly in roads. This was the result partly of a delay in donor funds, the late approval of the budget and some insecurity of spending in ministries due to public sector reforms. The resulting budget deficit was 1.8 per cent. In the Medium Term Expenditure Framework (MTEF) the share of government wages in GDP is expected to increase to above 8 per cent with an increase in staff for education, health, agriculture, judiciary and the police. Government revenue is expected to rise further in 2008 and 2009, through improved revenue collection as well as better tax policy and administration. The scheduled increase in spending mainly reflects investment and arrears reduction.

At the beginning of 2008, after long negotiations, the government increased the corporate tax rate for mining firms from 25 to 30 per cent and the royalty rate from 0.6 to 3 per cent, the average in the copper mining industry worldwide. In addition, a variable profit tax and a windfall tax were introduced and the capital allowance was reduced from 100 per cent to 25 per cent annually. While the Zambian government only received USD 26 million from mining firms in 2007, additional revenues of USD 415 million are expected for 2008. However, the expected decline in copper prices will offset some of the gains from these rate increases. As well as financing higher spending, these additional revenues are to be used to reduce some taxes like VAT and income tax, both in order to support private demand and to make the tax system more pro-poor.

<table>
<thead>
<tr>
<th>Table 1 - Demand Composition</th>
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<tbody>
<tr>
<td>Percentage of GDP (current prices)</td>
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<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>1999</td>
</tr>
<tr>
<td>Gross capital formation</td>
</tr>
<tr>
<td>Public</td>
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<tr>
<td>Private</td>
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<tr>
<td>Consumption</td>
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<td>Public</td>
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<td>Private</td>
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<td>External demand</td>
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<tr>
<td>Exports</td>
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<tr>
<td>Imports</td>
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<tr>
<td>Real GDP growth</td>
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Source: Central Statistical Office data; estimates (e) and projections (p) based on authors’ calculations.
Monetary Policy

Inflation increased somewhat to 12.7 per cent in March 2007 due to excess liquidity that had built up towards the end of 2006. Thereafter it declined steadily towards an average rate of 10.7 per cent in 2007, mainly driven by non-food inflation, which declined from 22.1 to 11.9 per cent between February and December 2007. Food inflation was still much lower at 5.3 per cent on average but some prices like maize have been increasing in line with rapidly increasing world market prices.

In 2007, the Bank of Zambia (BoZ) sought to reduce inflationary pressure by slowing the rate of growth of the money supply. Another factor helping to reduce inflation was the appreciation of the Kwacha from ZMK 4 407 per USD at end 2006 to ZMK 3 850 at end 2007. This reduced the price of imports. In addition, the rise in fuel prices slowed after April 2007, and fiscal policy remained neutral. Some risks of higher inflation in 2008 arise from increased international fuel and food prices, higher electricity tariffs that will trigger an increase in water tariffs and translate into higher production costs, and the lagged effects of higher money supply growth in the second half of 2007. Expectations of increasing inflation are widespread in the business community.

Interest rates have been relatively stable in 2007 with an increase of BoZ rates from 11.1 per cent in January to 13.5 per cent in December. Government bond rates also increased over the first half of the year and then stabilised. In August the BoZ issued bonds with maturities of 7, 10 and 15 years. The BoZ aims to bring inflation down to 5 per cent by 2009. With a view to achieving this, it is working to expand the range of its policy instruments and to move from money supply towards interest rate targets. This includes the conversion of BoZ claims on the government into tradable securities at the end of 2006 and plans to establish a secondary market for government bonds. Lending rates of commercial banks also declined from a base rate of 21 to 18.2 per cent during 2007, in line with decreasing inflation.

The BoZ pursues policies to smooth fluctuations in the exchange rate but not to influence its general level. In 2007 fluctuations in the exchange rate were less than 2005 and 2006. As the dollar has depreciated against all major currencies the Kwacha appreciated against the dollar but remained relatively stable against other currencies like the Euro or the Rand. The real effective appreciation of 5.5 per cent has helped to contain inflationary pressure.

The financial system is gradually improving as the Financial Sector Development Plan (FSDP) is
implemented. In October 2007 the BoZ reduced reserve requirements from 14 to 8 per cent, which has led to a reduction in lending rates. Interest rates on savings and deposits have been stable which, combined with lower inflation, has increased incentives to save. However, the spread between lending and saving rates is still high at around 13 per cent. Barclays Bank Zambia increased its number of branches from 17 to 55 in 2007, mainly in areas previously not serviced by commercial banks. In general, the banking sector is healthy, showing an improvement in capital adequacy, asset quality and liquidity in 2007. Bank profits also increased in 2007 but there is some discussion about fees and service charges being too high.

The reduction in government domestic borrowing and falling interest rates have led to an increase in lending to the private sector. In 2007 loans by commercial banks to the private sector increased by more than 50 per cent. The banking sector also developed new products, including 20-year mortgages, and the national payment system has been modernised. The first credit reference bureau will also become fully operational in 2008. Thus far only defaulting loans are reported by law, and consumer consent is required for other information to be shared. Despite these reforms financial intermediation is still low by regional standards and lending rates are high.

**External Position**

Zambian exports are still highly concentrated towards copper and copper products, which accounted for around 70 per cent of exports in 2007. Other export products are sugar, maize, cotton, tobacco, flowers and vegetables. Non-traditional exports increased by around 26 per cent in 2007. Investment goods (machinery and mechanical equipment), accounted for 24 per cent of imports, followed by mineral fuels (12 per cent) and vehicles (10 per cent). Other imports consist of electrical machinery, iron and steel, plastic products, fertilisers and inputs for the mining industry. The greater than 30 per cent increase in imports in 2007 was driven by increased investment in the mining sector in previous years.

For both exports and imports the SADC is Zambia’s main trading partner, followed by Asia, which has increased its share significantly over the past decade. COMESA accounts for around 10 per cent of trade. Trade with the EU is imbalanced with 18 per cent of imports but only 10 per cent of exports. There is also

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**Box 1 - SADC, COMESA and other Trading Partners**

The SADC free trade area will be fully implemented in 2008 so that 85 per cent of goods from the region enter duty free. Tariffs on the remaining sensitive goods will be phased out by 2012. COMESA has reached an agreement on common external tariffs, although some issues with the classification of products as raw materials or processed products remain. In both regions it is not clear how customs revenue will be shared among members. For Zambia, as a landlocked country, this is of some concern as most of its imports enter through neighbouring countries.

There is a perception that negotiations for free trade agreements with the EU have delayed progress towards regional integration. Zambia did not submit a market access offer for EU products, as the list of products it regards as sensitive covers 24 per cent of imports from the EU, whereas the maximum share is 20 per cent. As a result, it no longer benefits from trade preferences under the Cotonou Agreement. Substantial revenue losses are anticipated although these will only occur over an implementation period of approximately 20 years. As Zambia is a Least Developed Country (LDC), its access to the EU market is now solely governed by the Everything but Arms (EBA) preferences, which also cover most of its exports to the EU but have more restrictive rules of origin.
significant informal trade, for example with DRC, especially in agriculture but also in small-scale mining.

As SADC and COMESA are both moving towards customs unions, Zambia’s double membership may become difficult to maintain. Zambia trades more with SADC and hosted the SADC summit in 2007 but progress towards a customs union is more advanced within COMESA. The government also considers the benefits from hosting the COMESA Secretariat in its decision about membership.

As the negotiations between the EU and most ACP (African Caribbean Pacific) countries of the Economic Partnership Agreements under the Cotonou Agreement could not be completed, Zambia signed an interim EPA at the end of 2007 without submitting a market access offer (see Box 1).

Currently Zambia applies very few non-tariff trade barriers. On the whole, imports are restricted solely for health reasons and exports of maize must be authorised due to concerns for food security. An export tax also exists on scrap metal, which is considered an important input for manufacturing.

Over the last five years, services have only accounted for approximately 10 per cent of exports. In contrast, service imports account for nearly 25 per cent of all imports, half of which is attributable to freight and insurance. The services account deficit roughly doubled between 2006 and 2007 due to the high share of transport services in mining investment and exports. Zambia is in the process of developing a strategy for trade in services, including the telecommunications and financial sectors.

After stagnating between 2004 and 2006, foreign direct investment (FDI) nearly doubled in 2007, specifically in mining where it is estimated at USD 1.2 billion. Employment in the mining sector increased from around 20 000 people in 2000 to around 62 600 in 2007, including contractors. The government indirectly holds stakes of 10 to 20 per cent in all traditional mines through ZCCM Investment Holdings. There has been considerable investment in new copper and cobalt mines. In addition, uranium and nickel mining is being developed in new regions that have very low levels of industrial activity. For example, the largest copper project in the world — at Lumwana — is being developed by Equinox Minerals in the northwest and is scheduled to begin operating in June 2008. The project also provides for an infrastructure upgrade, especially roads, that will benefit the entire region. In the construction phase Lumwana employed approximately 15 000 people but this will fall to just 1 000 during operation. Another project of note is the USD 375 million Konkola Copper Mines smelter project. This will come on line in mid-2008, creating more than 800 jobs and producing more than 250 000 tonnes of refined copper annually, making it the third largest smelter in the world.

The positive trade balance of 2006 was reduced in 2007, mainly owing to the increase in imports. Together with the increase in outflows of factor income, this resulted in a negative current account balance. The accumulation of external reserves however, reached

<table>
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<tr>
<th>Table 3 - Current Account (percentage of GDP)</th>
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<tbody>
<tr>
<td>1999</td>
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<tr>
<td>Trade balance</td>
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<tr>
<td>Exports of goods (f.o.b.)</td>
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<tr>
<td>Imports of goods (f.o.b.)</td>
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<tr>
<td>Services</td>
</tr>
<tr>
<td>Factor Income</td>
</tr>
<tr>
<td>Current transfers</td>
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<tr>
<td>Current account balance</td>
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</tbody>
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Source: Bank of Zambia; estimates (e) and projections (p) based on authors’ calculations.

StatLink: http://dx.doi.org/10.1787/323374154137
USD 1.1 billion in December 2007, an increase of more than 50 per cent over 2006.

After the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) relief granted in 2005 and 2006 Zambia’s debt has remained very low. In 2007 the net present value of external public debt as a share of exports was only 14 per cent, down from 176 per cent in 2004. The government is very reluctant to take up non-concessional loans and has announced its intention to limit its external borrowing solely to financing growth-enhancing projects. External debt increased by less than 10 per cent in 2007.

Total aid flows to Zambia in 2007 were USD 556 million, or 4.9 per cent of GDP. Between 20 and 30 per cent of this aid is disbursed in the form of budget support from the EU, World Bank, AfDB and other bilateral donors. A joint monitoring framework with a common set of indicators is in place reducing administrative costs for both sides. In 2007, an aid review concluded that 70 per cent of the agreed performance indicators had been met.

All major donors agreed on a Joint Assistance Strategy for Zambia (JASZ) that was signed in April 2007. The JASZ sets priorities for support and aims to better align donor strategies with the FNDP priorities, targets and country systems. In line with the Paris Declaration it aims to simplify aid management, improve aid predictability and reduce transaction costs for the government. However only 5 of the 16 signatories will replace their country strategies with the JASZ. Others will use it as a reference for their strategies. Although donors recognise recipients’ need to have three-year projections of funds in line with the MTEF process, only a few are able to provide these.

Zambia also receives grants and credits from China, funding projects such as a new stadium. In addition, considerable resources are channelled to NGOs from abroad, partly from official donors. In order to increase transparency and to avoid duplication of activities, the...
government plans to introduce mandatory disclosure of such flows and to enforce a measure of corporate responsibility onto NGOs. This plan has met with some resistance, especially since advocacy NGOs fear it may lead to politically motivated interference.

**Structural Issues**

**Recent Developments**

Ambitious reform programmes were begun over the last few years in several areas ranging from public sector management and decentralisation to private sector and financial sector development. The constitution is also under revision and the government’s capacity to implement these reforms is being tested.

The aim of public sector management reforms is to achieve results-based budgeting with increased transparency and accountability and to improve the efficiency of spending. For example the Treasury is unifying accounts to improve cash management. This will bypass the need to deposit disbursements intended for line ministries in commercial banks during the procurement phase. At the same time, the Ministry of Finance and National Development (MoFNP) has to obtain credit at higher rates to cover current expenditure. On another front, the budget cycle is being pushed forward. The 2008 budget was presented one week before the end of January, more than a month earlier than in 2007. It has been made clear that preparations for investment projects by ministries should start immediately. In order to co-ordinate and implement these changes a suite of Public Expenditure Management and Financial Accountability (PEMFA) reforms have been designed but their implementation has been slow (see Box 2).

Although a new decentralisation policy was launched in 2004, the Decentralisation Implementation Plan (DIP) presented to cabinet in March 2007 had not been approved by the end of that year. The DIP provides for the devolution of functions and prescribes the financial and human resources at different levels of government. It is thus politically sensitive as it reduces the political control of the central ministries. The government appears to be pursuing a strategy aimed at building capacity at the country’s 72 district councils before implementing the devolution of functions.1 Because of

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**Box 2 – Implementing the PEMFA Reforms**

PEMFA is a comprehensive reform programme targeting areas from debt and aid management to public procurement. Although PEMFA was launched in June 2005 it began operating only in mid-2006 and progress has been slow. Activity in 2007 focused primarily on training and procurement indicating a need to speed up implementation.

An important component of PEMFA is the Integrated Financial Management Information System (IFMIS). It aims at enhancing accountability, transparency and cost-effective delivery of public services by providing timely and accurate information on financial management, improving centralised control and monitoring expenditure at all levels. Further, it seeks to strengthen internal controls and increase the capacity to assess the effectiveness of spending. The system is expected to be operational in eight pilot sites in the first half of 2008.

The PEMFA programme faces a number of challenges, including an inadequate incentive structure for staff with additional duties, high staff turnover, and difficulties with measuring performance.

1. District councils are corporate bodies with perpetual succession and a common seal. They consist of members of parliament in the district, two representatives of chiefs appointed by all the chiefs in the district and all elected councillors from political parties in the district.
Inadequate infrastructure is seen as one of the main obstacles to increasing growth and development by both the government and the private sector. This applies to almost all areas of infrastructure: transport, energy, water and sanitation and information and telecommunications. Some road rehabilitation projects are underway mainly financed by aid. However road density in Zambia remains very low and the main export corridors suffer from overloaded trucks and heavy traffic. This is a cause for public concern as a household survey carried out by the Central Statistical Office (CSO) in 2006 indicated. Fuel prices are the highest in the region, due to a combination of high taxes and high production costs. Also, the Indeni Oil Refinery is subject to intermittent interruptions in production. In response to such problems, the government is planning to build a strategic oil reserve.

Electricity prices are very low, well below the levels needed for cost recovery. The sole electricity producer is the parastatal Zambia Electricity Supply Corporation (ZESCO). In 2007, electricity production increased only marginally with the rehabilitation of power stations ongoing. As a result, there was frequent load shedding for non-mining businesses and residential users. Regional supply shortages at the beginning of 2008, led to heavy power outages, affecting production in mining and manufacturing. ZESCO requested a 60 per cent tariff increase for 2008 to cover maintenance expenditure. At the end of 2007, the Energy Regulation Board approved tariff increases of 26.8 per cent for residential consumers and 1.3 per cent for commercial consumers. For 2009 and 2010, further increases have been approved but they are conditional on meeting performance benchmarks, such as reducing the wage bill from 49 to 30 per cent of the total budget by 2010. ZESCO has also begun to cut down on non-payment of bills through the introduction of 20 000 pre-paid meters, with an additional 125 000 to be installed in 2008. These meters also make it easier to collect arrears, as a share of the deposited money is automatically deducted for repayments. Collection rates have increased dramatically as a result, from 65 per cent to near 100 per cent in only a few months. Almost all electricity in Zambia is generated from abundant hydropower resources. However, electricity generation capacity has not increased significantly over the past 30 years. An expansion of the capacity of existing power plants by around 30 per cent is expected in the next 3 to 5 years. To increase capacity further public-private partnership (PPP) projects with Chinese and Indian firms have also been initiated in the same timeframe.

The private sector in Zambia consists of a few large firms, mostly in the mining sector, and a large number of small firms and micro firms in the informal sector. The share of the informal sector in economic activity and employment has been growing. The main obstacles facing the business community are lack of demand, limited access to finance and its high cost, shortage of raw materials, and the high costs of intermediate inputs.

In 2007, the agencies responsible for private sector support merged into the Zambia Development Agency (ZDA). ZDA now covers export and investment promotion, privatisation and SME development. As this involved substantial restructuring and a change in management, the new agency became fully operational only towards the end of 2007, so that impact of this reform will only become apparent in the course of 2008. The board of directors consists of ministries, relevant institutions and representatives from the private sector. ZDA focuses on high value-added activities. In 2007, new investment concentrated on agro-processing, copper products, processing of gem stones and tourism (primarily around Lusaka, the Copperbelt and Livingstone). Economic zones are granted special incentives by government but are developed by private companies. At the end of 2007, many private enterprises expected an increase in capacity utilisation and were planning to increase investment. ZDA also launched a programme to promote joint venture partnerships resulting, for example, in a memorandum of
understanding between a local partner and a Korean mining company.

A small enterprise support project was established in 2007 in co-operation with a number of big mining firms and the International Finance Corporate (IFC) aimed at helping upgrade established firms that supply the mining industry. The mines currently import most of their consumable inputs, even boots and protective clothing. Support ranges from quality assurance to development of bankable business plans. The project also aims to stabilise demand while reducing input costs for the mines; as transport is expensive and unreliable, mine operators are forced to keep large stocks.

In 2008, the Citizens Economic Empowerment (CEE) loan programme is due to become operational. The seed money of ZMK 70 billion will be leveraged through co-operation with financial institutions. There is also a plan to establish preferences in government procurement for enterprises that benefit from the CEE initiative.

In 2007 and early 2008, with the inclusion of the Development Bank of Zambia, the Investrust Bank and the Copperbelt Energy Corporation (CEC) the number of listed companies on the Lusaka Stock Exchange (LuSE) rose to 17. Most stocks experienced capital gains, leading to an increase in market capitalisation by 41 per cent in dollar terms in the first half of 2007. LuSE has announced plans to introduce an alternative trading market for smaller companies.

Environmental issues are addressed in the FNDP but in practice they have not received much attention. Less than 1 per cent of government expenditure is allocated for environmental protection. Air and water pollution from mining has caused major environmental disruption in the Copperbelt. Under the privatisation process new investors were protected from the environmental liabilities of past mining activities. The newer technologies used by most transnational corporations reduced sulphur dioxide emissions and lowered the concentration of metals in waste dumps. However, occasional pollution of water by the mining industry persists.

Kabwe, a former lead and zinc mining and processing town, is considered one of the world’s most polluted sites. Mining activities ended in 1994, but concentrations of lead dust and other metals in the water are extremely high, exposing residents to toxic levels of lead. Currently, donors are financing a rehabilitation and resettlement project for the area.

Technical and Vocational Skills Development

In 1996 a Technical Education, Vocational and Entrepreneurship Training (TEVET) policy was developed by the Ministry of Science, Technology and Vocational Training (MSTVT). The ministry funds a number of public training institutions at the same time as acknowledging the role of their privately run counterparts. The refurbishment of a number of government-owned institutions was largely achieved with donor support. The creation of management boards give training institutions a degree of independence enabling them to take decisions more rapidly than before. The presence of representatives from the private sector on these boards has helped to align the training programmes with their needs. At the same time, new private training providers have been established.

TEVET is the joint responsibility of the Ministry of Education and MSTVT. Since 2002 an investment programme has been underway to further rehabilitate training institutions and upgrade their equipment and human resources. Regular meetings are held between enterprises and the ministry, allowing the private sector to communicate its forecasted need for graduates in specific areas. Technical skills and vocational training is one of the priorities of the FNDP. Goals for TEVET include: the development of appropriate training, assessment and qualification systems to meet current and future demands of the labour market; improving the quality of training; strengthening the regulatory capacity; enhancing skills and qualification levels of lecturing personnel; increasing the participation of women and the disabled in training and lecturing; and, promoting distance learning.
There are 268 registered vocational training institutions in Zambia, of which only 37 are rated as very good in terms of management, staff and facilities by the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA). The level of training ranges from crafts to technical grades and diplomas. Many institutes are accredited by international standards organisation but the quality of the institutions varies widely with some having state-of-the-art equipment and low teacher-student ratios and others struggling to maintain quality with low fees. In consequence some of the higher quality institutions are oversubscribed while others offering the same subjects find it difficult to attract enough students.

According to a recent survey by the MSTVT, training was provided to nearly 33 000 students in 2004. Women outnumbered men in all categories except engineering construction, agriculture and horticulture. Engineering and construction were the most popular subjects followed by business and law and information technology. The survey also indicates that most students were enrolled in private training institutions (43 per cent), followed by government institutions (33.5 per cent) and NGO-run institutions (18 per cent). In 2005 TEVETA was established as a regulator for the training sector. Private training institutions are required to register with the authority, which is leading the development of TEVET curricula and examinations (see Box 3).

Some institutions especially those offering higher levels of skills have established close relationships with the private sector. Firms often approach them and in some areas, competition for graduates is high. Graduates of lower quality institutions on the other hand, often have difficulty finding formal employment. However, the entrepreneurship component included in almost all curricula has helped many students to start their own business.

Government funding of TVET has been increasing, in line with the overall budget. Public funding is provided for public training institutes but students also pay fees. Stipends are available for students in specific disciplines coming from vulnerable groups. A tracking study in 2004 showed that most of graduates find a job after six months. Since funding from governments and donors

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**Box 3 - TEVETA**

The creation of TEVETA has reinforced the government’s commitment to work closely with the private sector in the area of skills developments. It has a board of governors in which all stakeholders including trade unions, private sector associations, research institutions, religious organisations and the government are represented.

One function of TEVETA is the development of curricula based on occupational profiles. Another important function is quality assurance with respect to training standards. Providers are regularly audited for compliance with minimum standards.

The third main function is the management of a training fund. In 2006 this fund was endowed with ZMK 8.2 billion and in 2007, it increased to ZMK 14 billion. The fund supports training in priority areas on a competitive basis. Funds are also available for pre-employment training for new skills like ICT and employee training where the employer and training provider co-operate closely. Another focus is on training for SMEs and informal sector enterprises. In these providers identify needs and design short, flexible courses to improve skills that have immediate application, such as business skills for handicraft producers and small-scale farmers. Thus far, less than half of the providers have made proposals to access the fund, partly due to the strict selection criteria requiring providers to submit proposals that clearly state the outcome of the training.
is limited and fees only partly cover costs, some institutions have begun offering tailor-made short courses for private enterprises or individuals. These generate profit for the institutions that can be ploughed back into investments in equipment.

Many of the TVET activities and the TEVETA fund in particular have been financed by donors. A training levy is being discussed as a means to secure more sustainable funding for TVET and 60 per cent of enterprises (especially larger ones) appear to support this initiative.

Beyond the question of financing, a number of challenges for the future exist. There is still a major shortage of technical skills in Zambia. Specialised engineering skills are needed, particularly in the mining sector and there is also a shortage of adequately trained tradesmen including bricklayers and plumbers. Graduates of business studies, such as accounting, are starting to have difficulty in finding jobs. The Chamber of Mines plans to establish a centre of excellence for the mining sector. Thus far, mines and some large firms provide in-house training and scholarships for tertiary education in subjects with acute shortages such as engineering and geology.

Another challenge relates to the quality of training staff. On average more than 50 per cent of staff in the training institutions lecture and there is a shortage of qualified teachers. Many public sector employees in government or training institutions leave to join the private sector, especially mining companies, where salaries are much higher.

**Political Context**

A national constitutional conference was held in December 2007, despite planned boycotts by some civil society organisations and the main opposition party, the Patriotic Front (PF). Delegates to the conference hailed from parliament, civil society groups, traditional leaders and religious organisations. However, key women’s organisations, trade unions and church groups stayed away, arguing that the majority of delegates were biased towards the ruling party. The PF was divided over the issue with some members participating in the conference and others siding with the boycott. The subjects under review range from presidential power, which is currently rather high, to the voting system, the budget cycle, and the death penalty. The conference is expected to sit for one year, after which a draft constitution would be subjected to a national referendum. The fact that the budget for the constitutional review process was doubled for 2009 indicates a measured approach to completing the process.

There is still widespread perception that efforts at tackling corruption have been insufficient. In the Transparency International 2007 report Zambia ranked 123rd out of 179 countries, with a score of 2.6. Likewise the 2007 African Competitiveness Report of the African Development Bank and the World Bank cites corruption as the most problematic constraint on doing business. The report of the Auditor General revealed that more than 1.5 per cent of total government expenditure in 2006 showed irregularities in management from misapplication of funds and unaccounted expenditure and stores to over-payments, misappropriation and unconstitutional expenditure.

The efforts of the Anti-Corruption Commission and the Task Force on Corruption have led to the conviction of only a few individuals and then only following public pressure. In this respect the improvement in freedom of the press in recent years has had a positive impact. There is also a perception that the Anti-Corruption Commission focuses its actions on the previous government and that the president is selective in his anti-graft crusade. However, in February 2007 the president dismissed the Lands Minister and other high officials in the Ministry of Lands for allegedly corrupt activities. The government has made some progress toward participation in the Extractive Industries Transparency Initiative but is not yet a full member.

**Social Context and Human Resources Development**

Poverty rates have fallen from 68 per cent in 2004 to 64 per cent in 2006. However, it is estimated that
at least 10 per cent of the population have very little or no productive capacity and are thus trapped in long-term chronic poverty. These include the disabled and households affected by HIV/AIDS. An estimated 75,000 children are living on the streets.

Primary education is the area in which Zambia is most likely to meet the MDGs with net enrolment in primary education of more than 90 per cent and gender parity achieved. This arrests the previous long decline in education which has had the effect that Zambian men in their 40s are currently better educated than men in their 20s. Also in secondary education achievement rates increased in 2007, especially for girls. In the MTEF government expenditure on education is projected to increase from 15 per cent of total government expenditure to 15.30 per cent and an average of 5,000 teachers will be recruited each year.

The HIV prevalence rate among adults seems to have reached a plateau at around 17 per cent of the population. Women and especially young girls have much higher infection rates. Prevalence rates are also higher in urban areas, but while they seem to have stabilised there, they are increasing in rural areas. In contrast the prevalence rate for girls aged 15-19 seems to be declining although from a very high level, indicating some behavioural changes. The number of people receiving anti-retroviral therapy has increased from 10,000 in 2004 to 137,000 in 2007. However for women it remains difficult to ask their husbands to be tested, but they often have to hide their medication to avoid being ostracised. The spread of HIV/AIDS is partly driven by domestic violence, which is closely related to the poor empowerment and low economic status of women. Despite general awareness of the HIV/AIDS pandemic, it does not figure very prominently in public debate. Recent attempts to streamline it into all sector policies such as the recent drafting of a sector-wide HIV/AIDS policy for financial institutions are steps in the right direction.

The high prevalence of HIV/AIDS has huge social and economic costs. The number of orphans in Zambia is above 1 million, with two-thirds of them are due to HIV/AIDS. By 2010, HIV is projected to reduce life expectancy by eight years. It also puts a heavy strain on the general health system and child and infant mortality rates, which had begun to improve, are now worsening. The reduction in agricultural extension workers is expected to have a negative effect on smallholder productivity even on those farms that are not directly affected by HIV/AIDS.

The FNDP states that the rights and needs of people with disabilities must be protected in all legislation and the development agenda at all levels of society. However, people with disabilities are rarely represented in decision-making and there is only one underfunded vocational rehabilitation centre with a total of 150 students. They also often do not have access to support programmes by ministries other than the Ministry of Community Development and Social Services. It is necessary then for all ministries to include a disability perspective in their portfolios.

The highest-growth sectors — mining, construction, financial services and tourism — only employ approximately 1 to 2 per cent of the population each. The vast majority of the workforce is self-employed (55 per cent) or employed as an unpaid family worker (26 per cent). Formal private sector employees only account for 9 per cent of the working population of around 4 million people and government employees for 6 per cent. There is some indication that formal sector employment declined slightly between 2004 and 2006, and even in urban areas informal employment accounts for 75 per cent of all employment. However, in Lusaka and the Copperbelt it is less, at around 50 per cent.

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2. The latest survey data dates from 2002, thus estimates of current rates differ somewhat by source. Just 14 per cent of the population has been tested.