Republic of Zambia

ECONOMIC REPORT 2000

Ministry of Finance and Economic Development
Box 50062 Lusaka

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FOREWORD

I am pleased to present the annual Economic Report for the year 2000. This report evaluates the performance of the economy during the year 2000. On 27th January 2000, the Minister of Finance and Economic Development, Honourable Dr. Katele Kalumba, M.P., presented the 2000 National Budget to Parliament. The Budget highlighted the objectives and programmes of the Government for the year under review.

Although the country experienced macroeconomic instability in the year 2000, it showed resilience by registering a positive growth rate of 3.5 percent compared to 2.0 percent in 1999. Positive developments in manufacturing, real estate and transport and communication sectors contributed to the growth. The growth was, however, against the backdrop of rising inflation and rapid depreciation of the Kwacha. Furthermore, higher growth in the economy was inhibited by developments in the external sector. The prices of crude oil on the world market increased significantly in 2000 thereby worsening Zambia's terms of trade and widening the current account deficit.

Similarly, the earnings from non-traditional exports were below expectation. This was mainly attributed to low prices on the international market and domestic supply constraints of some of our major agricultural export commodities such as cotton, sugar and tobacco. On the other hand, metal prices on the international market increased in 2000, driven mainly by strong demand in Asia and North America.

In addition, the country achieved important milestones during the year under review. These were the successful privatisation of the major assets of the Zambia Consolidated Copper Mines (ZCCM), the successful hosting of the 12th Consultative Group meeting for Zambia in Lusaka in July and the accession to the Enhanced HIPC Initiative in December 2000.

Zambia's accession to the Enhanced HIPC Initiative is expected to release considerable amounts of resources to be channelled towards economic growth and poverty reduction including programmes to fight the HIV/AIDS pandemic.

I, therefore, would like to extend my sincere thanks and gratitude to our co-operating partners and the people of Zambia for the support rendered to the Government of the Republic of Zambia during the year under review.

Finally, I also wish to extend my special thanks to the staff in the Ministry of Finance and Economic Development and line ministries who worked diligently in steering the country's economic and social programmes in 2000.

J M Mtonga

SECRETARY TO THE TREASURY
MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

CHAPTER 1

DEVELOPMENTS IN THE GLOBAL ECONOMY

1.1 Overview

1. The global economy continued to expand during the year 2000. Global Gross Domestic Product (GDP) increased from 3.4 percent in 1999 to 4.7 percent in the review period. This continued expansion in the world economy was led by the unrelenting growth in the United States of America (USA) economy; the robust upswing in Europe; the consolidation of the recovery in Asia; and a rebound from last year's slowdowns in emerging markets in Latin America and the Middle East. Economic activity in Africa continued to be buoyant with economic consolidation and integration underpinning the economic landscape. Economic gains in Russia were responsible for the positive outturn in the transition economies during the year under review.

2. The expansion in the global economy was accompanied by an increase in the volume of trade, which grew by 10 percent in 2000 compared to 5.1 percent in 1999. World commodity prices also recovered during the year under review. Crude oil spot prices per barrel increased by an average of 47.5 percent in 2000 compared to an average increase of 37.5 percent during 1999. Non-fuel prices also recovered with an average increase of 3.2 percent in 2000 compared to a decline of 7.1 percent in 1999.

1.2 Performance of the Global Economy

1.2.1 Global Output and Policies

3. The world economy continued to register solid gains in global output in 2000. Growth was estimated at 4.7 percent in 2000 compared to the 3.4 percent in 1999. Output in the advanced economies increased by 4.2 percent in 2000 compared to 3.2 percent in 1999. Developing countries' output also grew from 3.8 percent in 1999 to 5.6 percent in 2000. Countries in transition, on the strength of the Russian economic rebound, grew from 2.4 percent in 1999 to 4.9 percent in 2000. The continued growth in North America, especially the United States, and the consolidation of the recovery in Asia accounted for much of the expansion in world output in 2000. Other regions such as Europe and the Middle East shared a stake in the robust global output during 2000 (see Table 1.1).

4. Further, the rebound in the world economy owed much to the consistent application of growth-oriented policies worldwide. The strong expansion in the USA is phenomenal among the advanced industrial countries. This strength was largely due to the exceptionally buoyant growth in private domestic consumer demand, which was bolstered by subdued inflation that allowed the Federal Reserve to maintain an accommodating monetary policy stance. The strong pulse of the U.S.A economy supported global activity. Among the countries hit by the financial crisis in 1997-98, determined adjustment efforts pursued by policymakers contributed to an early exit from the

recessionary trap to restore macroeconomic stability. Prudent economic management in other developing countries further prevented the spread in the global crisis.

Table 1.1: Global Macroeconomic Indicators[1]

	1998	1999	2000[2]
World Output	**2.6**	**3.4**	**4.7**
Advanced economies	2.4	3.2	4.2
Major industrial countries	2.5	2.9	3.9
United States	4.4	4.2	5.2
Japan	(2.5)	0.2	1.4
Germany	2.1	1.6	2.9
France	3.2	2.9	3.5
Italy	1.5	1.4	3.1
United Kingdom	2.6	2.1	3.1
Canada	3.3	4.5	4.7
Other advanced economies	2.0	4.7	5.1
Memorandum			
Industrial countries	2.7	3.0	3.9
Euro area	2.7	2.4	3.5
Newly industrialized Asia economies	(2.3)	7.8	7.9
World trade volume (goods and services)	**4.3**	**5.1**	**10.0**
Imports			
Advanced economies	5.7	7.6	10.3
Developing countries	0.3	-	10.0
Countries in transition	2.5	(2.9)	12.4
Exports			
Advanced economies	3.9	4.8	9.9
Developing countries	3.7	3.5	8.8
Countries in transition	6.5	5.0	10.1
Commodity prices			
Oil[3]			
In SDRs	(31.2)	36.5	52.0
In U.S. dollars	(32.1)	37.5	47.5
Non-fuel (average based on world commodity trade weights)			
In SDRs	(13.5)	(7.8)	6.4
In U.S. dollars	(14.7)	(7.1)	3.2
Consumer prices			
Advanced economies	1.5	1.4	2.3
Developing countries	10.1	6.6	6.2
Countries in transition	21.8	43.8	18.3
Six-month London interbank offered rate (LIBOR, percent)			
On U.S. dollar deposits	5.6	5.5	6.8
On Japanese yen deposits	0.7	0.2	0.3
On euro deposits	3.7	3.0	4.6

Source: IMF World Economic Outlook, September 2000
[1] Annual percent change unless otherwise noted
[2] Projections
[3] Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S dollars a barrel was $17.98 in 1999; the assumed price was $26.53 in 2000

5. The economic expansion in Europe was aided by the resurgence in export growth mostly on account of strengthening global recovery and a highly competitive currency. High consumer and

business confidence, boosted in part by a fall in unemployment and rising stock and property prices, sustained the recovery during 2000. Price pressures were also muted as a result of some slack still remaining in labour and product markets.

6. The Asian recovery from the 1997-98 crisis continued to strengthen. The rapid recovery of Asia was fuelled by continuing monetary and fiscal stimulus firmed up by external demand especially for consumer and industrial electronics. The increased demand for information technology goods propelled much of the growth in the region. The rapid return of confidence and recovery of activity in Asia demonstrated the efficiency of the stabilisation strategies that have been pursued since the crisis years. Additionally, the faster than expected growth in the volume and value of exports recorded in 2000 was in part supported by devaluations and export market growth largely on the strength of the U.S.A. economy along with recoveries in Europe.

7. In Africa, economic prospects improved significantly during the year 2000. Growth rose to 3.4 percent in 2000 from 2.2 percent in 1999. The rebound of activity in three of Africa's largest economies, Algeria, Nigeria and South Africa led the recovery in 2000. The continued strong recoveries in some of the smaller economies such as Ghana, Tunisia, Tanzania and Uganda also contributed to the expansion in growth. The stronger growth in the world economy, especially that of Europe, which is the major market for most African countries, supported the increase in volume and prices of African exports.

8. Oil producing states such as Algeria and Nigeria particularly benefited from higher oil prices, while generally rising non-fuel prices also helped reduce imbalances in a number of African countries. However, not all commodity prices were increasing. For example prices of coffee, tea and cotton remained relatively low thus limiting export earnings and growth in some countries. The improved economic prospects in Africa were to a large extent aided by the progress made with macroeconomic stabilisation, structural adjustment and political reforms in many of the countries. As a result, many African countries, except the conflict-affected countries, had notable success in lowering inflation and improving public finances.

1.3 Developments in Global Commodity Market

9. In 2000, global commodity prices strengthened considerably. Oil prices rebounded following losses from the Asian crisis. The recovery in oil prices substantially worsened the position of most non-fuel commodity exporters. While fuel prices have increased sharply during the review period, prices of non-fuel commodities also staged modest recoveries. This was particularly the case for agricultural prices.

1.3.1 Oil Market Activity

10. The sharp rise of oil prices that started in the first half of 1999 gathered pace during 2000 with spot prices going at more than US$ 33 a barrel. This was the highest level of spot prices in 15 years (excluding the Gulf war period) in both real and nominal terms. The upsurge in oil prices was a reflection of international oligopolistic pricing by Oil Producing and Exporting Countries (OPEC) on

the one hand and market fundamentals operating on the demand side on the other. The decision by OPEC members to hold oil prices in a range of US$ 22 to US$ 28 a barrel was also responsible for upward pressure exerted on oil prices during 2000. Supply side constraints were further compounded by an increase in demand partly as a result of the cold weather in North America and the strengthening of global economic activity. The oil market environment during 2000 was characterized by strengthening global demand and low oil inventories that consequently placed pressure on prices. The oil price level in 2000 was higher than in the period 1995–97 (see Table 1.2).

Table 1.2: Selected Primary Commodities: Recent Price Movements[1]

	1998	1999	2000 1st half
Commodities with prices in 2000 much higher than in 1995-97			
Crude petroleum	(31)	(4)	41
Tea	24	21	26
Commodities with prices in 2000 much lower than in 1995-97			
Agricultural Commodities			
Wheat	(30)	(38)	(40)
Rice	(5)	(22)	(31)
Soyabeans	(14)	(30)	(24)
Sugar (free market)	(27)	(49)	(49)
Cotton	(24)	(38)	(35)
Metals			
Copper	(34)	(37)	(29)
Cobalt	(17)	(35)	(26)

Source: IMF World Economic Outlook, September 2000

[1] Percentage change from 1995-1997 levels

1.3.2 Non-Fuel Commodity Prices

11. Most non-fuel commodity markets registered weaker than expected prices during 2000 despite strong world aggregate demand. The favourable economic conditions that prevailed during the period under review increased supplies of many commodities and as such kept price pressures in check. Agricultural commodity prices remained subdued during 2000 owing partly to slow adjustment of production to the slump in demand during 1998-99. Products such as sugar, coffee and cocoa carry high fixed costs (tree and cane planting) and as such cannot readily adjust to demand slumps. Therefore, farmers tended to maintain high production levels even if prices were low (see Table 1.2).

12. For industrial metals, the upturn in industrial production cycle since the summer of 1999 continued to push metal prices up, as in the case of copper. Nickel prices, in addition to the effects of the upturn in industrial production, were also pushed up by supply disruptions. Despite the increase in metal prices during 2000, they were still below 1995-97 averages. For instance, the price of copper remained about 30 percent below its 1995-97 average, partly as a result of high stock levels.

1.4 World Trade

13. The volume of world trade increased by 10 percent in 2000 compared to 5.1 percent in 1999 mainly because of increased global economic activity especially in advanced economies. Exports by the advanced economies increased by 9.9 percent in 2000 compared to 4.8 percent in 1999. This increase was largely due to increased demand among the advanced economies themselves as a result of a surge in consumer confidence. Countries in transition witnessed a much higher increase in trade volumes, in terms of both exports and imports. Developing countries' exports and imports continued to increase during 2000. The increase in exports was driven mostly by increased demand by the major industrial countries for raw materials from developing countries.

1.5 Economic Situation in Developed Market Economies

14. The developed market economies continued to experience strong growth in 2000. Consumer prices took an upward trend while unemployment declined. The U. S.A. economy grew by 5.2 percent in 2000 compared to 4.2 in 1999. The U.S.A. expansion's remarkable strength and record longevity owed much to the consistent pursuit of macroeconomic policies, as well as the flexibility of the country's product and labour markets. The Canadian economy rebounded strongly following the Asian crisis with growth in 2000 reaching 4.7 percent as compared to 4.5 percent in 1999. The Euro area grew at a steady pace of 3.5 percent in 2000 compared to 2.4 percent in 1999. The continued recovery in Germany and Italy helped boost Euro area growth in 2000. The United Kingdom's economy grew by 3.1 percent in 2000 as compared to 2.1 percent in 1999. This growth is in part a reflection of the deterioration in the trade balance and strong domestic demand growth bolstered by planned expansion in government consumption. France's economy also grew by 3.5 percent compared to 2.9 percent in 1999. The Japanese economy continued with recovery efforts mainly supported by strengthening corporate profitability and investment, particularly in the high technology sector (see Table 1.3).

15. The general pick up in economic activity has kept unemployment at bay in most of the advanced economies. At the same time, inevitable price pressures continued to be experienced in almost all advanced economies during the year under review (see Table 1.3).

Table 1.3: Selected Advanced Economies: Real GDP, Consumer Prices, and Unemployment

	Real GDP			Consumer Prices[1]			Unemployment[2]		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Advance economies	**2.4**	**3.2**	**4.2**	**1.5**	**1.4**	**2.3**	**6.7**	**6.3**	**5.9**
Major industrial countries	2.5	2.9	3.9	1.3	1.4	2.2	6.2	6.0	5.7
United States	4.4	4.2	5.2	1.6	2.2	3.2	4.5	4.2	4.1
Japan	(2.5)	0.2	1.4	0.6	(0.3)	(0.2)	4.1	4.7	5.0
Germany	2.1	1.6	2.9	0.6	0.7	1.7	9.0	8.3	7.9
France	3.2	2.9	3.5	0.7	0.6	1.5	11.7	11.3	9.8
Italy	1.5	1.4	3.1	1.7	1.7	2.5	11.8	11.4	10.7
United Kingdom	2.6	2.1	3.1	2.7	2.3	2.0	4.7	4.3	3.9
Canada	3.3	4.5	4.7	1.0	1.7	2.3	8.3	7.6	6.6
Memorandum									
European Union	2.7	2.4	3.4	1.4	1.4	2.1	9.5	8.8	8.0
Euro area	2.7	2.4	3.5	1.1	1.2	2.1	10.8	9.9	9.0

Source: IMF World Economic Outlook
[1]Consumer prices based on the retail price index excluding mortgage interest.
[2]Unemployment rate on a claimant count basis.

1.6 Economic Situation in Economies in Transition

16. The economic experiences of countries in transition during the year 2000 continued to show the difficulties with the movement from central planning to market economics. Collectively, transition economies grew by 4.9 percent in 2000 compared to 2.4 percent in 1999. This growth is bolstered by the strong growth of 7.0 percent experienced in Russia during 2000 compared to 3.2 percent in 1999. Modest recoveries in Central and Eastern Europe were also experienced during 2000 (see Table 1.4). Favourable terms of trade shocks, rising prices of energy exports and import compression due to the crisis-induced real exchange rate depreciation accounted for the robust performance of the Russian economy in 2000. Despite the resurgence of growth in transition economies, the institutional fundamentals of a market economy such as law and order and regulatory systems remain as risks to economic activity in the medium term.

Table 1.4: Output in Transition Economies (Annual Percent Change)

	1998	1999	2000*
Countries in transition	(0.8)	2.4	4.9
Central and Eastern Europe	2.0	1.3	3.1
Excluding Belarus and Ukraine	2.0	1.8	3.8
Russia	(4.9)	3.2	7.0
Transcaucasus and Central Asia	2.5	4.6	5.3

Source: IMF World Economic Outlook, September, 2000
**** Projections***

1.7 Developments in Developing Countries

17. Developing economies continued to show signs of robust growth during the year under review. Output increased from 3.8 percent in 1999 to 5.6 percent in 2000. The major economies accounting for this growth were China and India that registered growth rates of 7.5 percent and 6.7 percent in 2000 as compared to 7.1 percent and 6.4 percent in 1999, respectively. The growth in domestic demand in developed markets and the favourable investment climate in China and India contributed to the growth. Output in the Middle East increased from 2.8 percent in 1999 to 4.8 percent in 2000. The drive in economic activity was spurred by the rebound in oil prices, as well as recent increases in OPEC oil production quotas for oil producing countries. Growth in export markets also contributed the increase in Middle East output.

18. The African continent registered a growth rate of 3.4 percent in 2000 compared to a modest 2.2 percent in 1999. The growth in the African economy was spurred by the rebound of the South African economy, which was strongly supported by strengthening public finances, improvements in external competitiveness and the expansion in global demand. The oil exporting economies of Algeria and Nigeria experienced stronger fiscal and external sector positions coupled with robust output growth. Other smaller economies such as Cameroon, Ghana, Mozambique, Tanzania, Uganda and Zambia remained resilient despite the fallout from global commodity and oil price shocks.

19. The rise in oil prices and output led to stronger fiscal and external balances for oil exporting countries (especially in the Middle East) while non-oil producing countries suffered terms of trade losses owing to the twin effects of rising import bills and less than buoyant world commodity prices (see Table 1.5).

Table 1.5: Output in Developing Countries (Annual Percent Change)

	1998	1999	2000*
Developing countries	3.5	3.8	5.6
Africa	3.1	2.2	3.4
Asia	4.1	5.9	6.7
China	7.8	7.1	7.5
India	6.3	6.4	6.7
ASEAN-4[1]	(9.3)	2.6	4.5
Middle East and Europe	3.1	0.8	4.7
Western hemisphere	2.2	0.3	4.3
Brazil	(0.1)	1.0	4.0

Source: IMF World Economic Outlook, September, 2000

[1] Indonesia, Malaysia, the Philippines, and Thailand

**** Projections***

1.8 Developments in Southern Africa

20. The Southern African economy registered strong growth in 2000 compared to 1999. Preliminary figures point to a weighted average growth rate of 3.5 percent in 2000 compared to 1.4 percent in 1999. The South African economy continued to dominate economic activity in the sub-region with an increase in growth of 3.5 percent in 2000 compared to 1.0 percent in 1999. Fiscal prudence and a buoyant revenue base, sound external sector performance and the expansion in world output fostered the recovery of the South African economy in 2000. Mozambique, Angola and Botswana clearly surpassed the sub-regional growth rate in 2000 by registering 8.0, 7.0 and 6.5 percent respectively. Zambia also registered a positive growth outturn in 2000 of 3.8 percent compared to 2.0 percent in 1999. Most of the growth was accounted for by increased activities in the manufacturing, real estate and transport and communications. Only Zimbabwe registered a negative growth of 3.0 percent in 2000 compared to a modest positive gain of 0.5 percent in 1999 (see Table 1.6). Despite the remarkable recovery of the Southern African economy in 2000, the sub-region continues to lag behind other sub-regions on the continent.

Table 1.6: Gross Domestic Product (Real Growth Rates in SADC)

	1990 weight	1981-1990	1997	1998	1999	2000*
Angola	6.5	2.1	5.9	1.7	4.0	7.0
Botswana	2.5	16.9	6.9	8.3	4.2	6.5
Democratic Republic of Congo	6.6	0.7	(6.4)	(3.5)	(5.0)	5.0
Lesotho	0.4	3.9	3.5	(5.8)	2.0	4.0
Malawi	1.3	2.2	5.3	6.2	4.2	3.0
Mauritius	1.9	4.9	5.2	5.6	5.4	5.0
Mozambique	1.4	0.1	6.0	9.9	9.0	8.0
Namibia	1.7	(0.6)	2.4	2.6	2.4	2.5
Seychelles	0.3	3.6	7.9	3.0	1.2	2.0
South Africa	67.7	1.5	1.7	0.6	1.2	3.5
Swaziland	0.6	6.6	3.8	2.5	2.0	3.0
Tanzania	2.6	3.3	3.3	4.0	4.8	5.5
Zambia	2.6	1.0	3.5	(1.8)	2.0	3.8
Zimbabwe	3.9	4.2	2.0	1.6	0.5	(3.0)
SADC	100.0	1.6	2.2	0.9	1.4	3.5
Sub Saharan Africa		2.3	3.9	2.7	2.2	4.2
Africa		2.5	3.1	3.1	2.2	3.4
Advanced Economies		2.4	3.2	2.2	3.2	4.2

Source: Data from SADC Secretariat, IMF World Economic Outlook and SADC member states.
**** Preliminary***

21. The first quarter of 2000 was unfavourable for the sub-region. Floods ravaged parts of Mozambique, Botswana, South Africa, Swaziland and Zimbabwe causing massive damage to crops and livestock. Livelihood systems among most populations were disrupted and infrastructural investments such as roads were confined to a state of disrepair. The sub-region continued to experience unfavourable developments such as the war in the Democratic Republic of Congo (DRC). Furthermore, Rising oil prices and sluggish global non-oil commodity prices affected most economies in the sub-region.

22. Trade arrangements took a step further during 2000 with the launching of the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area (FTA) on 31st October, 2000 by the COMESA Authority. Trade negotiations continued during 2000 under the SADC Trade Protocol with a view to harmonizing outstanding issues. Only South Africa and Mauritius were trading under the Protocol, as they were the only countries that had submitted their Instruments of Ratification and Implementation with the SADC Secretariat.

1.9 Impact of Global Economic Developments on the Zambian Economy

23. Developments in the global economy had both positive and negative impacts on the domestic economy. The increase in the price of copper and cobalt as a result of increased global economic activity led to an increase in earnings from metal exports. The weakening of the price of most agricultural commodities on the other hand affected earnings from non traditional export items.

The rise in global oil prices increased the import bill and also fuelled inflation in the domestic economy.

CHAPTER 2

DEVELOPMENTS IN THE ZAMBIAN ECONOMY

2.1 Overview

1. In 2000, Government's broad macroeconomic goals were to achieve high and sustained economic growth and a reduction in the incidence of poverty among the people of Zambia. These goals were to be achieved through continued implementation of policy measures that are directed at the restoration and maintenance of macroeconomic stability, structural reform measures that were meant to strengthen the foundation for a more diversified, market based, and outward oriented economy, and social sector policies that are aimed at poverty reduction and human resource development.

2. Specifically, the Government targeted to achieve; real gross domestic product (GDP) growth of 4 percent; reduce end of year inflation to 15 percent (later adjusted upwards to 19 percent due to higher energy prices); rebuild official international gross reserves, equivalent to 1.5 months of imports cover; limit the domestic fiscal deficit, on a cash basis, to 2.3 percent of nominal GDP; limit growth in broad money to 25.2 percent; and to increase domestic credit to the private sector by, at least, 33.8 percent.

3. Achievement of macroeconomic objectives in 2000 was premised on receipt of additional assistance from the co-operating partners; a strong recovery of mining output following completion of the privatisation of ZCCM; a re-emergence of growth in real estate and manufacturing activities on the Copperbelt to service the privatised mines; and continued increase of output in agriculture due to favourable weather conditions. Other major expectations included a further reduction in inflation, arising from improved economic conditions, especially food supply; debt relief; steady disbursements of balance of payments support; relative stability in the exchange rate; and continued implementation of appropriate monetary and fiscal policies.

4. In addition, it was expected that the external sector position would improve. Improvement in the external sector position was to come from an increase in export receipts, emanating from a pick-up of prices and increase in volumes of export commodities as well as balance of payments support and net private capital inflows.

5. In order to reduce poverty and protect social sector expenditures, Government committed itself to allocate at least 36 percent of domestically financed discretionary expenditures to the social sectors.

6. Preliminary data on GDP show that the economy grew by 3.5 percent; end-December annual inflation was 30.1 percent; build up of gross international reserves was within the targeted level; and the domestic fiscal deficit was contained within the limit set. However, broad money supply and supply of domestic credit to the private sector grew by 44.6 percent and 37.3 percent, respectively.

2.2 Aggregate Domestic Output

7. Preliminary estimates, based on partially available national accounts data, indicate that economic activity in 2000 was strong. Real Gross Domestic Product (GDP) increased by 3.47 percent as compared to 2.0 percent recorded in 1999. In value terms, real GDP grew from K2,408.5 billion in 1999 to K2,492.1 billion in 2000 (see Tables 2.1 and 2.2). Accounting for this growth in value added were agriculture, which rose by 1.8 percent, manufacturing 13.5 percent, transport, storage and communications 10.4 percent, financial intermediaries and insurance 10.0 percent and real estate and business services 14.2 percent. Other sectors that contributed positively to real GDP growth were electricity, gas and water 1.2 percent, construction 1.2 percent, and wholesale and retail trade 2.3 percent.

8. Output in the agriculture, forestry and fishing sector grew by 1.8 percent, from K411.0 billion in 1999 to K418.2 billion in 2000. The increase in the value added in the agricultural sector was largely attributed to the normal rainfall situation in most parts of the country during the 1999/2000 agricultural season. Increased crop output was recorded for maize, sorghum and sunflower. However, its share of aggregate domestic output declined from 17.1 percent in 1999 to 16.8 percent during the year under review.

Table 2.1: Gross Domestic Production by Kind of Economic Activity at Constant 1994 prices (K'billion)

Kind of Economic Activity	1997	1998	1999	2000*	% Change
Agriculture, Forestry and Fishing	379.9	384.5	411.0	418.2	1.76
Agriculture	189.7	189.3	210.4	212.2	0.8
Forestry	119.8	124.5	129.5	134.7	4.0
Fishing	70.4	70.7	71.0	71.4	0.5
Mining and Quarrying	284.5	213.0	160.2	152.0	-5.1
Metal Mining	279.8	208.5	155.7	147.6	-5.2
Other Mining and Quarrying	4.7	4.6	4.5	4.4	-2.3
Manufacturing	242.8	247.2	254.2	297.4	16.9
Food, Beverages and Tobacco	138.6	146.0	154.8	193.8	25.2
Textile and leather industries	39.1	42.4	44.8	46.6	4.2
Wood and wood products	19.6	19.2	19.3	19.1	-1.1
Paper and paper products	7.2	7.3	7.6	7.5	-1.5
Chemicals, Rubber and Plastic products	22.5	18.7	15.5	16.8	8.0
Non-metallic mineral products	4.1	4.5	4.4	4.9	11.7
Basic metal products	3.3	1.3	1.3	1.6	21.6
Fabricated metal products	8.0	7.3	5.9	6.4	9.3
Other manufacturing n.e.c.	0.5	0.5	0.6	0.6	-0.1
Electricity, Gas and Water	69.9	70.3	72.1	72.9	1.2
Construction	123.7	112.4	123.9	125.4	1.2
Wholesale and Retail trade	412.9	427.3	452.4	462.9	2.3
Restaurants, Bars and Hotels	44.1	45.8	48.4	51.9	7.2
Transport, Storage and communications	134.2	145.7	154.0	170.1	10.4
Rail Transport	10.0	11.4	10.0	8.5	-15.0
Road Transport	59.5	67.7	75.4	90.8	20.4
Other Transport and Allied Services	23.1	24.6	26.2	27.8	6.3
Communications	41.6	42.0	42.5	42.9	1.1
Financial Intermediaries and Insurance	200.7	201.6	221.7	243.9	10.0
Real Estate and Business Services	158.9	179.1	206.1	235.4	14.2
Community, Social and Personal Services	183.1	178.8	177.5	176.4	-0.6
Public Admin. & Defence; Public & Sanitary Service	104.3	101.4	101.4	101.4	0.0
Education	47.9	46.5	45.2	44.0	-2.8
Health	12.0	11.7	11.3	10.9	-3.5
Recreation, Religious, Culture	7.6	7.4	7.1	6.9	-3.2
Personal Services	11.4	11.8	12.5	13.2	5.8
Less: FISIM	-115.4	-115.8	-127.4	-140.2	10.0
TOTAL GROSS VALUE ADDED	2,119.2	2,089.6	2,154.1	2,266.2	5.2
Taxes on Products	286.4	271.1	254.4	234.9	-7.7
TOTAL G.D.P AT MARKET PRICES	2,405.6	2,360.8	2,408.5	2,501.0	3.8
Real growth rates (in percent)	3.3	-1.9	2.02	3.84	
Real GDP per capita (1994 prices)	245,974	233,702	230,910	232,186	
Nominal GDP	5,141.0	6,028.6	7,411.5	9,087.0	

Source: Central Statistical Office
**** Preliminary***

Table 2.2: Gross Domestic Production by kind of Economic Activity at Current Prices (K' Billion)

Kind of Economic Activity	1996	1997	1998	1999	2000*	% Change
Agriculture, Forestry and Fishing	611.8	844.7	1,127.90	1,595.40	2,240.70	42.9
Agriculture	259	323.2	362.6	453.1	513.6	22.5
Forestry	250.1	424.7	662.3	1,032.80	1,610.50	55.9
Fishing	102.7	96.8	103	109.6	116.6	6.4
Mining and Quarrying	476.8	510.8	378.3	281.2	264.4	-18.9
Metal Mining	472	505.8	373.4	276.4	259.7	-19.2
Other mining and quarrying	4.8	5	4.9	4.8	4.7	-2.1
Manufacturing	465.9	598.1	692.6	808.5	1,038.40	28.44
Food, Beverages and Tobacco	321	364.4	424.7	497.8	658.4	18.7
Textile, and leather industries	44.5	91.2	114.1	139	167.3	13.3
Wood and wood products	29.8	48.1	50.3	53.7	56.5	2.2
Paper and Paper products	11.2	17.6	24	33.8	44.8	34
Chemicals, Rubber and Plastic products	35.5	46.4	48.5	50.8	67.8	33.46
Non-metallic mineral products	5.8	6.5	9.1	11.5	16.3	47
Basic metal products	4	4.9	2	2.1	2.6	14.3
Fabricated metal products	13.6	18.5	19.5	18	22.5	37.8
Other Manufacturing n.e.c.	0.5	0.5	0.4	1.8	2.2	27.8
Electricity, Gas and Water	128.6	214.5	220.1	246.5	264.5	7.3
Construction	139.1	226.5	267.8	342.1	406.1	18.7
Wholesale and Retail trade	691.6	854.3	1,049.00	1,399.40	1,594.20	13.2
Restaurants, Bars and Hotels	86.7	111	133.5	165.8	205.3	12.7
Transport, Storage and Communications	232.1	271.6	341.5	426.3	568.1	33.2
Rail Transport	24.1	22.3	31.9	35.8	60.7	69.6
Road Transport	94.4	112	138.5	174.1	225.7	29.6
Other Transport and Allied Services	36.5	44.7	53.1	64.3	80.2	24.7
Communications	77.1	92.6	118	152.1	201.4	32.4
Financial Intermediaries and Insurance	348.1	451.1	546.8	676.7	838.7	23.9
Real Estate and Business Services	220.3	294.1	381.8	506.4	637.2	25.7
Community, Social and Personal Services	281.4	411.7	511.4	569.2	626.1	10
Public Admin. & Defence, Public & Sanitary Service	128.7	216	268.7	281.6	296.5	5.3
Education	99.9	127.2	158.3	186	214.7	15.4
Health	24.4	29.3	36	42.6	49.4	16
Recreation, Religious, Culture	9.4	15.7	19.5	20.5	21.6	5.4
Personal Services	19	23.5	28.9	38.5	43.9	13.4
Less: FISIM	-200	-259.2	-314.2	-388.9	-482	23.9
TOTAL GROSS VALUE ADDED	3,482.20	4,529.00	5,336.40	6,629	8,201.70	23.73
Taxes on Products	468.8	612	692.2	782.9	853.3	9
TOTAL G.D.P. AT MARKET PRICES	3,951.00	5,141.00	6,028.60	7,411.50	9,055.00	20.7
Growth rates	31.7	30.1	17.3	23	23	
GDP per capita (Kwacha)	418,092	525,666	596,887	710,566	843,599	

Source: Central Statistical Office
**** Preliminary.***

9. The manufacturing sector continued to grow. Value added in the sector increased by 13.4 percent from K254.2 billion in 1999 to K288.4 billion in the review year. Most of the sub-sectors recorded impressive growth, with basic metal products recording 21.6 percent, non-metallic mineral products 11.7 percent, food, beverages and tobacco 19.6 percent, and chemicals, rubber and plastic products 6.1 percent. Others include fabricated metal products where value added grew by 9.3 percent and textiles and leather products 4.2 percent. Development of the private sector since 1992, coupled with fiscal incentives provided in recent years to most sectors in the economy contributed to the increase in value added in the manufacturing sector.

10. Value added in the electricity, gas and water sector increased by 1.2 percent, from K72.1 billion in 1999 to K72.9 billion in 2000. Improved provision of safe and clean water and a general expansion in economic activities explain the growth in the sector. However, electricity generation in the first ten months of the year declined by 0.3 percent, from 6,508,808 megawatts hour in 1999 to 6,488,568 megawatts hour in 2000.

11. The construction sector continued to expand. Value added increased by 1.2 percent, from K123.9 billion in 1999 to K125.4 billion in 2000. Expansion of residential construction activity, and rehabilitation and maintenance of roads contributed to the growth of the sector in the review year.

12. The wholesale and retail trade sector recorded an increase in value added of 2.3 percent, from K452.4 billion in 1999 to K462.9 billion in 2000. The opening of more retail outlets as well as cross-border trading contributed to the increase in value added in the sector. In addition, spillover effects of growth in the other sectors, supported by continued parastatal and privatisation reform, stimulated growth of value added in the wholesale and retail trade sector.

13. Activity in the transport, storage and communications sector continued to be generally buoyant during the year under review. Value added in the sector grew by 10.4 percent, from K154 billion in 1999 to K170.1 billion in 2000. With the exception of the rail transport sub-sector whose value added declined, road transport, other transport and allied services, and communications sub-sectors recorded positive growth rates. The private sector activity in the sector continued to grow, with telecommunication and courier service providers expanding their services.

14. Value added in the financial intermediaries and insurance and the real estate and business services sectors grew by 10.0 percent and 14.2 percent, respectively. Growth in the two sectors arose from a general economic expansion and the increase in the demand for services by the privatised mines.

15. Value added in the tourism (i.e. restaurants, bars and hotels) sector expanded by 7.2 percent, from K48.4 billion in 1999 to K51.9 billion in 2000. The increase in value added is largely attributed to an increase in tourist arrivals during the period under review.

16. However, value-added in the mining and quarrying sector is estimated to have declined by 5.1 percent, from K160.2 billion in 1999 to K152.0 billion in 2000. The fall in copper production, arising from difficulties experienced by Roan Antelope Mining Corporation of Zambia Limited (RAMCZ), the delay in the privatisation of the major asset packages of the Zambia Consolidated Copper Mines (ZCCM), and continued depressed cobalt prices, mainly explained the weak performance of the mining and quarrying sector. As a result, mining sector contribution to GDP fell from 6.7 percent in 1999 to 6.1 percent in 2000.

17. Value-added in the community, social and personal services sector declined by 0.7 percent, from K177.5 billion in 1999 to K176.4 billion in 2000. Compression of Government expenditures largely contributed to the drop in value-added in the sector.

2.3 Fiscal Performance

2.3.1 Overview

18. The main objectives of fiscal policy in the year 2000 were to promote sustainable growth, supporting the inflation objective, and increase social sector expenditure[1] so as to alleviate poverty. In addition, increasing capital spending in the road sector was another focus of fiscal policy. This was aimed at facilitating growth in the agriculture, tourism and manufacturing sectors.. In addition, in order to ensure a smooth privatisation of the major assets of ZCCM, Government provided budgetary support amounting to K423 billion to pay ZCCM's domestic creditors, and this includes K191 billion for ZESCO Tax arrears.

19. In view of the above objectives, the Government planned to limit on cash basis, the domestic fiscal deficit to 2.3 percent of nominal GDP. Preliminary figures for the 2000 budget outturn show that a domestic budget deficit of K221.5 billion was recorded against the programme target of K227 billion.

2.4 Domestic Budget Performance

2.4.1 Domestic Revenues

20. Total domestic revenues in the period under review amounted to K1, 952.8 billion, which was above target by K102.8 billion. This was largely attributed to a stronger outturn in tax revenues. Tax collections which stood at K1, 930.5 billion were above target by K109.5 billion while non-tax revenues at K22.5 billion were below target by K6.7 billion.

[1] Social sector expenditure is defined as current and capital expenditure on health, education, social safety net, water and sanitation and disaster relief.

2.4.2 Tax Revenues

21. In the period under review, tax revenues were above the program target by 5.3 percent. This positive outcome was mainly attributed to the favourable collections in income and international trade taxes. Income tax collections were above target by 6.5 percent at K633.6 billion, compared to the programme target of K595 billion. The payments to some of ZCCM's local creditors contributed positively to this outcome.

22. Similarly, International Trade Tax collections were above target by 28.7 percent. A total of K597.1 billion was collected against the program target of K464 billion. This out-turn was particularly bolstered by higher collections on import VAT. A total of K344.9 billion was raised in import VAT as against the programme target of K248 billion, representing an above target collection of K96.9 billion. The favourable performance in import VAT was attributed to improvements in the collection system, which included;

i) improved enforcement strategies;

ii) new customs regulations that enhanced compliance;

iii) liquidation of the debt stock accumulated from January 2000 on hydrocarbon oils and immediate cash gains emanating from the strategy of assessing all petroleum products at points of entry;

iv) depreciation of the Kwacha that inflated the value of imports when expressed in domestic currency; and

v) Increase in the importation of hydrocarbon products

23. However, collections on domestic taxes on goods and services were below expectation. These taxes fell short of the targeted K571 billion by 10.9 percent, largely due to the poor performance in domestic value added tax, which was below the projected amount of K330 billion by 30.2 percent. This outcome was largely due to the stoppage in production of local hydrocarbon products following an inferno at INDENI in 1999.

2.4.3 Non-Tax Revenues

24. The collections from non-tax revenues were below target by 23.1 percent. Only K22.3 billion was raised against the target of K29 billion. This poor performance was largely due to slippages in the management of non-tax revenue instruments.

Domestic Expenditures and Net Lending

25. Total domestic expenditure and net lending, amounted to K2, 174.2 billion, against a target of K2, 076 billion in the period under review. Out of the total expenditures, current expenditures

accounted for K1, 519.1 billion of which domestically financed capital expenditure and net lending to ZCCM amounted to K242.6 billion and K412.5 billion, respectively.

Current Expenditures

26. Current expenditures during the period under review were above the target by 2.3 percent. This shows an expenditure overrun of K38.1 billion as explained in the respective expenditure categories below:

i) Personal Emoluments (PE's)

27. Expenditure for PE's amounted to K538.3 billion against a budget of K516 billion. The overrun is explained mainly by remittances abroad, which surged upwards due to the depreciation of the Kwacha. In addition, the Civil Service salary increment of 8 percent effected in October 2000 also partly explained the variation in the wage bill outturn.

ii) Recurrent Departmental Charges (RDC's)

28. RDC's were above the budgeted figure of K250 billion by K61.3 billion. This was largely due to increased expenditures arising from the need to maintain security on Zambia's borders. This was further compounded by the weakening of the Kwacha against the US dollar during the review period coupled with the increase in inflation.

iii) Transfers and Pensions

29. Expenditure on grants and other payments was higher than programmed by K9.8 billion. This was mainly on account of the increase in personal emolument requirements by most grant aided institutions.

iv) Interest on Domestic Debt

30. Payments on domestic debt amounted to K140.3 billion against a programme target of K142 billion. The lower interest payments were due to a drop in interest rates especially the 28-day Treasury bill rates. The rates dropped from 32 percent in January 2000 to 11 percent by December 2000.

v) Domestic Arrears

31. Releases to reduce the stock of domestic arrears amounted to K64.3 billion mostly to roads related bills. This was against a target of K44 billion.

vi) Capital Expenditure

32. The Government's objective was to increase funding to capital projects so as to promote economic growth. In this respect, a total of K242.6 billion was released and was above the planned figure of K172 billion by K70.6 billion. Most of this went to roads to support agriculture, and tourism sectors, which have been, identified as potential sources of growth.

Table 2.3: Domestic Fiscal Performance in Year 2000 (K' million)

	Program	Preliminary Outturn	Variance
Total Domestic Revenue	1,850.0	1,952.8	102.8
Tax Revenue	1,821.0	1,930.5	109.5
Income Tax	595.0	633.6	38.6
Domestic Goods and Services	571.0	508.9	(62.1)
Of w/h Excise Duties	241.0	278.5	37.5
Domestic VAT	330.0	230.4	99.6
Trade Taxes	464.0	597.1	133.5
O/w: Import VAT	248.0	344.9	96.9
: Import Tariffs	216.0	250.1	34.1
: Import Declaration Fee	…	2.0	2.0
Non –tax Revenue	29.0	22.3	6.7
Fees and charges	23.0	28.3	(5.3)
Privatisation receipts	(6.0)	(6.8)	0.8
Motor vehicle and others	12.0	0.7	(11.3)
U.N. Refunds	0.0	0.0	0.0
ZESCO Tax Arrears	191.0	191.0	0.0
Expenditure and net lending	2,076.0	2,174.2	98.2
Current expenditures	1,481.0	1,519.1	38.1
Wages and salaries	516.0	538.3	22.3
Public Service Retrenchment	74.0	74.0	0.0
Recurrent Depart. Charges	250.0	311.3	61.3
Transfers and Pensions	211.0	220.8	9.8
Domestic Debt	142.0	140.3	(1.7)
Other current expenditure	74.0	78.1	(4.1)
Dom. Financed Capital	172.0	242.6	70.6
Of which: Counterpart funds	94.0	20.9	(73.1)
: Fuel Levy	22.0	21.0	(1.0)
Net Lending to ZCCM	423.0	412.5	(10.5)
Domestic Arrears	44.0	64.3	20.3
Contingency	157.0	81.9	75.1
Domestic bal. (cash basis)	(226.0)	(221.5)	4.5

Source: Ministry of Finance and Economic Development

Social Sector Spending

33. Inline with the objective of protecting social sector expenditures, Government in the review period had planned to maintain the core social sector expenditures at 37.4 percent of total discretionary budget. However, by end 2000, these expenditures were slightly below target at 34.7 percent of total discretionary budget. In absolute terms, social sector spending amounted to k413.8 billion compared to the budget figure of K444.6 billion (see Table 2.4).

Table 2.4: Social Sector Expenditure (K'billion)

Total Domestic Budget		**2,076**	
Total Discretionary Budget		**1,187**	
Social Sector Budget as percent of discretionary budget		**37.4**	
Sectoral Expenditure	**Budget Provision**	**Releases**	**Release % Of Budget**
Disaster Relief Program	5.00	4.89	96.2
Education	237.05	243.95	102.9
Health	164.20	145.62	88.7
Social Safety Net	23.71	9.67	40.8
Water and Sanitation	14.65	9.78	66.8
Total	**444.61**	**413.82**	**93.1**

Source: Ministry of Finance and Economic Development

Net Lending

34. In 2000, the Government set aside K423 billion for net lending to ZCCM. This was to allow the company pay domestic creditors. To this end, K412.5 billion was released.

Overall Domestic Budget Balance

35. The combination of the outturn in domestic revenues and expenditures as described above resulted into a domestic budget deficit of K221.5 billion, on a cash basis, against a programme target of K227 billion (including support to ZCCM). was recorded in the period under review. This deficit represents 2.5 percent of nominal GDP.

36. The deficit was financed mainly through borrowing from banking and non-bank financing institutions. Out of the K221.5 billion overall budget deficit, a total of K179.3 billion was financed by the banking system and K38.1 billion by non-bank financing institutions. Government borrowing was mainly in the form of Government securities and Kwacha bridge loan from the Central Bank.

37. Government borrowing from the banking system rose by 46.8 percent from K252.3 billion at end-December 1999 to K401.1 billion at end-December 2000. Similarly, borrowing from the non-

bank public rose by 46.7 percent from K81.5 billion as at end December 1999 to K119.6 billion at end-December 2000.

Outlook

38. In 2001 fiscal policy will continue to be focused on promoting economic growth, complementing monetary policy in achieving macroeconomic stability and protecting social sector expenditures. With economic conditions expected to improve in 2001, domestic budget operations are expected to improve. Revenue performance is expected to be higher than in 2000. On the other hand, the Government is expected to increase domestically financed capital spending so as to support the growth objective and poverty reduction.

1.0 Monetary, Banking and Non-banking Financial Sector Developments

Overview

39. During the review period, the primary focus of monetary policy was to reduce of inflation to 19 percent from 20.6 percent in 1999. Monetary policy was also aimed at ensuring that the programme quantitative benchmarks and performance criteria for end-September and end-December 2000 were observed. Meeting these benchmarks and performance criteria was critical in enabling Zambia reach the decision point of the enhanced HIPC Initiative. Consistent with the targets, annual growth of broad money (M2) was to be limited to 25.2 percent.

40. In the conduct of monetary policy, the Bank of Zambia remained committed to the use and development of market-based instruments of monetary control. In this regard, both direct and indirect instruments were employed, namely, the core liquid asset and statutory reserve ratios, the primary issue of government securities (Treasury bills and bonds), outright purchase and sale of Treasury bills on the Bank of Zambia's portfolio, and Open Market Operations (OMO). Furthermore, new Treasury bills (273-day) and Government bonds (24-month) were introduced during the year. These were aimed at improving the effectiveness of open market operations, the management of Government domestic debt, and supporting the development of capital markets.

41. However, adverse external sector developments driven by the sharp rise in international oil prices and the strengthening of the US dollar coupled with the higher than programmed growth in money supply put pressure on the exchange rate, and ultimately inflation. Broad money supply grew by 53.5 percent compared to 29.2 percent recorded in 1999, while the Bank of Zambia official exchange rate of the Kwacha depreciated by 58.3 percent against 13.8 percent the previous year. Consequently, consumer price inflation increased by 9.5 percentage points from 20.6 percent to 30.1 percent.

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Developments in Monetary and Credit Aggregates

Monetary Conditions

42. Monetary conditions eased significantly during the year, despite Treasury bill auctions and government bond sales withdrawing K123.2 billion and K92.5 billion, respectively. The easing of monetary conditions mainly emanated from liquidity injections as a result of Government budget operations injecting K160.9 billion, net purchases of foreign exchange by the Bank of Zambia (necessitated by the need to build-up foreign exchange reserves in the face of lower than programmed BOP support), commercial banks rediscounts, and net open market operations, which injected K152.4 billion, K108.2 billion and K46.3 billion, respectively.

Domestic Credit

43. Total banking system credit rose by 69.5 percent from K1,505.4 billion in 1999 to K2, 551.8 billion in 2000 (see Table 2.5). This was 58.7 percentage points higher than the 10.8 percent programmed growth rate. Banking system credit (net) to the central Government went up by 106.9 percent from K693.2 billion to K1,434.4 billion over the same period and contributed 55.9 percent of the total credit expansion. Credit to public enterprises and the private sector increased by 15.7 percent and 59.0 percent to K297.3 billion and K700.8 billion, respectively. In terms of sectoral distribution of commercial bank's credit, K218.3 billion or 20.1 percent went to the electricity, gas, water and energy sector, whilst K153.2 billion (14.6 percent) went to agriculture, forestry, fishing and hunting. In addition, commercial bank's loans and advances to wholesale and retail trade and manufacturing sectors were K147.4 billion (14.1 percent) and K118.6 billion (11.3 percent), respectively.

Broad Money Supply

44. Broad money supply (M2) grew by 53.5 percent, well above the end-December target of 25.2 percent and the 29.2 percent recorded in 1999, reflecting the expansion in domestic credit. The 34.5 percent increase in net domestic assets (NDA) of the banking system contributed 69.7 percent to M2 growth – of which credit to central Government and the private sector contributed 51.9 percent and 18.2 percent, respectively. A noticeable development in the money supply has been the continued rise in the foreign currency deposits as a percentage of M2, which increased from 37 percent in 1999 to 48 percent in 2000. Excluding foreign exchange deposits, M2 annual growth for 2000 was 27.4 percent.

Table 2.5: Monetary Developments, 1997 to 2000 (in K'billion, unless otherwise stated)

(End of period)	1997	1998	1999	2000			
	Dec	Dec	Dec	Mar	Jun	Sep	Dec 1/
Net foreign assets	-1,129	-2,374	-2,337	-2,497	-2,754	-2,591	-2,870
Bank of Zambia	-1,335	-2,789	-2,807	-2,919	-3,383	-3,300	-3,719
Assets	336	1,279	1,984	1,964	2,124	2,346	2,785
Liabilities	-1,671	-4,068	-4,791	-4,883	-5,507	-5,646	-6,504
Commercial banks	206	415	469	422	629	741	851
Assets	225	457	530	466	680	766	907
Liabilities	-19	-42	-61	-44	-51	-58	-59
Net domestic assets	2,030	3,479	3,765	3,956	4,499	4,581	5,062
Net domestic credit	579	1,108	1,505	1,807	2,019	2,106	2,552
Net claims on government	122	557	693	931	1,148	1,116	1,434
Claims on government	446	821	1,073	1,488	1,695	1,723	2,087
Government deposits	-324	-264	-380	-557	-547	-607	-653
Claims on non-government	457	551	813	875	871	989	1,113
Of which: claims on private sector	----	426	556	587	625	698	701
Claims on public enterprises	----	125	257	288	246	291	297
Other items (net)	1,451	2,371	2,260	2,150	2,480	2,475	2,511
Broad money (excluding foreign exchange deposits)	694	712	894	884	1,015	1,099	1,140
Broad money (including foreign exchange deposits)	901	1,106	1,428	1,459	1,745	1,990	2,192
Narrow money	355	398	504	466	568	623	630
Quasi-money	546	708	924	993	1,177	1,367	1,563
Time and savings deposits	339	314	391	418	447	463	510
Foreign exchange deposits	207	394	534	576	730	891	1,053
		(Twelve-month percentage change)					
Net foreign assets	7.2	-100.2	-2.0	-9.0	-20.0	-12.9	-22.8
Net domestic assets	4.4	65.8	8.0	18.0	30.0	28.9	34.5
Net domestic credit	6.8	95.4	33.6	56.8	53.1	59.7	69.5
Net claims on government	8.0	375.0	20.4	48.1	92.1	94.8	106.9
Claims on non-government	6.5	20.6	47.4	32.8	20.8	32.7	46.7
Other items (net)	3.5	54.0	-3.9	3.5	16.3	10.7	11.1
Broad money	34.4	22.6	29.2	34.6	50.5	58.1	53.5
Narrow money	31.5	12.0	26.7	28.6	51.7	47.5	25.0
Quasi-money	19.5	29.6	30.6	37.6	50.0	63.5	69.1
Of which: foreign exchange deposits	28.6	89.9	35.0	49.0	62.0	94.0	97.3
Memorandum items:							
Foreign exchange deposits (in % of broad money)	23.0	35.6	37.3	39.4	41.8	44.8	48.0
Money multiplier (Kwacha only)	3.5	2.5	2.6	2.8	2.7	2.8	2.2
Money multiplier (Total deposits)	4.2	3.8	4.2	4.6	4.6	5.0	4.3
Currency (in percent of Kwacha deposits)	28.4	118.0	119.0	86.0	107.0	110.0	123.5
Consumer price inflation (end-December)	18.6	30.6	20.6	23.9	23.8	27.7	30.1
Nominal retail selling exchange rate (end-period, K/US$)	1,421.6	2,343.2	2,689.6	2,843.5	3,016.2	3,323.5	3,438.9
Weighted lending rate (end-period, in percent)	49.3	46.1	51.3	49.8	47.8	46.2	46.9
Weighted savings rate for less than K100, 000	14.9	5.9	7.6	7.6	6.6	7.1	7.1

Source: Bank of Zambia

Note: - 1/ data up to November 2000 for some monetary variables.

Price Developments

Interest Rates Developments

45. Nominal yield rates on Government securities exhibited a downward trend during 2000 reflecting the increased liquidity in the banking system. The monthly weighted average yield rates on the 28-day and 91-day Treasury bill portfolios fell from 36.1 percent and 36.2 percent to 11.0 percent and 34.0 percent, respectively. However, the yield rate on the 182-day Treasury bill portfolio marginally rose from 36.4 percent in December 1999 to 36.8 percent at end-December 2000, while the new 273-day Treasury bill was at 38.7 percent. Similarly, the monthly weighted average rate on the 12-month government bond declined from 48.1 percent to 38.7 percent, while the 18-month bond rate went down from 49.2 percent to 43.3 percent over the same period. The 24-month bond registered an average rate of 45.8 percent (see Table 2.6).

Table 2.6 Interest Rates Development 1999 - 2000 (in percent)

	Year - End		End - Quarter 2000			
	1999	2000	Mar	June	Sep	Dec
28-day Treasury bill	36.1	11.0	28.5	23.4	17.5	11.0
91-day Treasury bill	36.2	34.0	36.0	33.4	33.0	34.0
182-day Treasury bill	36.4	36.8	35.4	37.4	35.3	36.8
273-day Treasury bill	-	38.7	-	-	-	38.7
12-month Bond	48.1	38.7	48.4	40.0	39.3	38.7
18-month Bond	49.2	43.3	48.6	43.2	43.0	43.3
24-month Bond	-	45.8	-	-	-	45.8
WALBR	42.4	37.5	40.9	38.9	37.4	37.5
ALR	51.5	46.9	49.8	47.8	46.2	46.4
ASR	11.2	9.7	11.2	9.5	9.7	12.4
Deposit >K20 m (30 days)	19.5	17.9	19.5	18.7	18.5	17.7

Source: Bank of Zambia
Key: ALR = commercial banks' simple average lending base rate
ASR = commercial banks' simple average savings rate
WALBR=weighted average lending base rate

46. Consistent with the decline in yield rates on Government securities, commercial banks' lending, savings and deposit rates edged downwards. Both the commercial banks' nominal weighted average lending base rate and average lending rate declined from 42.4 percent and 51.5 percent in December 1999 to 37.5 percent and 46.4 percent in December 2000, respectively. Similarly, the deposit rate for amounts above K20 million (30 days) fell from 19.5 percent to 17.7 percent. However, the average savings rates or amounts in excess of K100,000 rose from 11.2 percent to 12.4 percent. The general downward trend in interest rates was largely due to the increase in liquidity in the banking system.

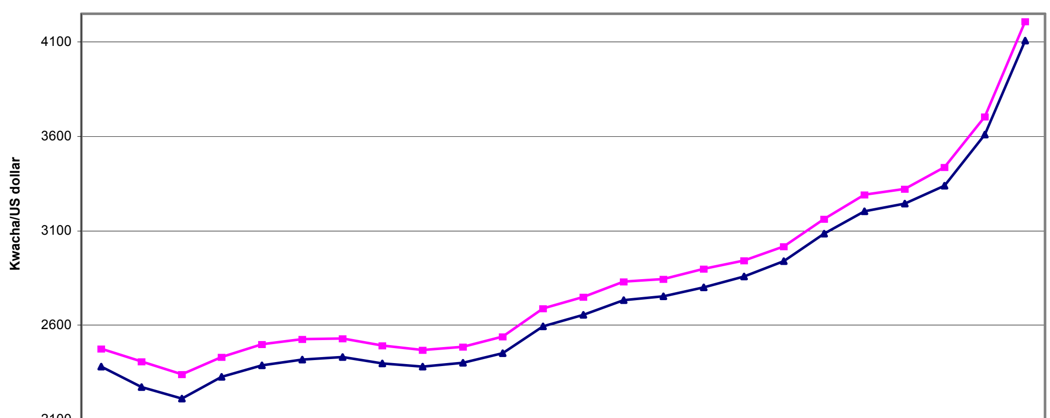
47. The higher annual consumer headline inflation during the period under review coupled with the downward trend in nominal interest rates resulted in lower real interest rates being registered.

The real commercial banks' nominal weighted average lending base rate, average lending rate, deposit rate and the average savings rate deteriorated to 7.4 percent, 16.3 percent, -12.4 percent and –17.7 percent from 22.0 percent, 30.9 percent, –1.1 percent and 9.4 percent, respectively.

Exchange Rates

48. The exchange rate of the Kwacha against the US dollar registered a sharp depreciation in 2000. The Bank of Zambia monthly average nominal mid-rate depreciated by 58.3 percent to K4, 108.8 per US dollar in 2000 compared to a depreciation of 13.8 percent in 1999. Similarly, the commercial banks' monthly average retail weighted selling rate depreciated by 56.5 percent to K4, 209.8 per US dollar in 2000 compared to 14.9 percent in 1999. The depreciation in the exchange rate accelerated over the third and fourth quarters of 2000 **(see Chart 2.1).**

Chart 1. Exchange Rate Developments Jan 1999 to Dec 2000



	Jan-99	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-00	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Official Mid-rate	2379.9	2271.6	2212.8	2325.6	2389.2	2418.8	2431.6	2398	2381.4	2401.5	2452.4	2595.3	2653.9	2734.5	2754.8	2801.4	2857.8	2939.9	3083.9	3204.7	3244.1	3338	3608.4	4108.8
CBRWSR	2476.3	2409.1	2339.7	2433.5	2499.6	2526.3	2528.3	2492.9	2468.2	2486.3	2539.2	2689.6	2751.7	2832.2	2843.5	2899	2944.2	3016.2	3163.1	3290.8	3323.5	3437.9	3704.8	4209.8

CBRWSR= commercial banks monthly average retail weighted selling rate.

49. The depreciation in the exchange rate arose from a combination of factors including the deterioration in the current account deficit and shortfalls in balance of payments support against high debt service. The current account deficit worsened from 14 percent of GDP in 1999 to 18 percent of GDP in 2000 – indicating that demand for foreign exchange for imports and service payments exceeded export earnings**.** Of the expected US$ 241.7 million in balance of payments support, US$ 185.2 million was disbursed, representing a shortfall of US$ 56.5 million against high debt service payment of US$ 134.3 million. In addition, the higher than programmed growth in money supply (53.5 percent) and the low intermediation in the foreign exchange market by the commercial banks, despite high foreign exchange deposit holdings of over US$ 200 million, were significant contributors to exchange rate instability during the year under review. Furthermore, adverse market expectations fuelled speculative behaviour in the foreign exchange market.

50. Preliminary data show that the real effective exchange rate index appreciated by 0.6 percent from 108.4 in December 1999 to 107.8 in December 2000, indicating Zambian tradables were slightly less competitive during the year under review relative to the previous year.

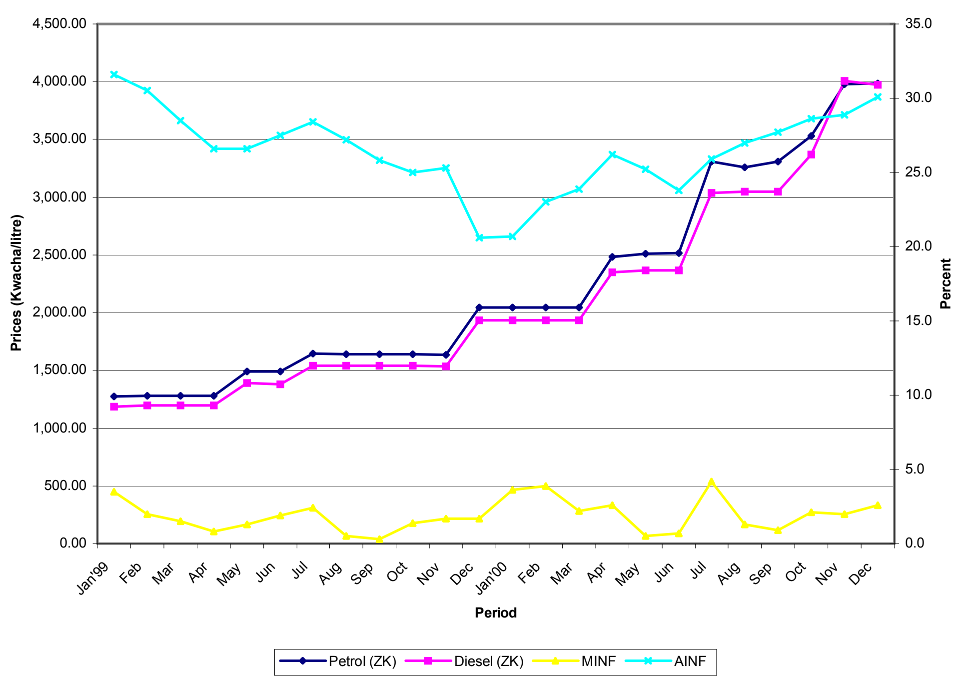
Consumer Prices

Headline and Underlying Inflation

51. The objective of Government was to reduce headline inflation during the year under review from 20.6 percent in 1999 to 19 percent. Developments in consumer inflation were unfavourable. The annual consumer headline inflation was higher than the programmed path. It reached 30.1 percent in 2000, representing 9.5 percentage points higher than the 20.6 percent registered in 1999 (see Chart. and Table 2.7). Furthermore, annual inflation was 11.1 percentage points above the end-year inflation target of 19 percent. Similarly, annual underlying inflation rate (which excludes fresh foods, vegetables and government services from headline inflation) accelerated to 27.8 percent in 2000, 15.9 percentage points higher than 11.9 percent recorded the previous year.

52. The key sources of inflationary pressures in both measures of inflation were the rises in fuel prices (in April, 20 percent, July, 25 percent, and October, 23.2 percent) and electricity (in April, 25 percent) and the weakening of the exchange rate by 58.3 percent. In addition, the increase in broad money supply of 53.5 percent during 2000 emanating mainly from liquidity injections from Government funding operations, which could not be fully sterilised using existing monetary policy instruments contributed to inflationary pressures.

Chart 2: Fuel Prices and Inflation (Jan. 1999 - Dec 2000)



Key: ***MINF = Monthly inflation***
AINF = Annual Inflation

Table 2.7: Consumer Price Developments (percent),1999 to 2000

	Headline Inflation			Underlying Inflation		
Period	**Monthly**	**Annual**	**Year-to-date**	**Monthly**	**Annual**	**Year-to-date**
Jan 1999	3.5	31.6	3.5	4.0	25.9	4.0
Feb	2.0	30.5	5.6	0.5	22.7	4.5
Mar	1.5	28.5	7.2	0.3	22.7	4.8
Apr	0.8	26.6	8.0	1.6	22.3	6.4
May	1.3	26.6	9.3	1.1	24.0	7.6
Jun	1.9	27.5	11.4	0.6	18.4	8.2
Jul	2.4	28.4	14.0	1.0	17.3	9.2
Aug	0.5	27.2	14.6	0.6	17.0	9.9
Sep	0.3	25.8	15.0	1.2	16.9	11.2
Oct	1.4	25.0	16.6	0.2	14.5	11.5
Nov	1.7	25.3	18.6	1.1	14.0	12.7
Dec	1.7	20.6	20.6	-0.7	11.9	11.9
Jan 2000	3.6	20.7	3.6	1.3	9.0	1.3
Feb	3.9	23.0	7.6	-0.1	8.4	1.2
Mar	2.2	23.9	10.0	0.8	8.9	2.0
Apr	2.6	26.2	12.9	3.1	10.6	5.1
May	0.5	25.2	13.5	1.3	10.7	6.5
Jun	0.7	23.8	14.3	0.7	10.9	7.3
Jul	4.2	25.9	19.0	4.8	15.1	12.4
Aug	1.3	27.0	20.6	2.0	16.7	14.6
Sep	0.9	27.7	21.7	2.2	17.8	17.1
Oct	2.1	28.6	24.3	2.5	20.5	20.1
Nov	2.0	28.9	26.8	3.9	23.9	24.7
Dec	2.6	30.1	30.1	2.5	27.8	27.8

Source: Central Statistical Office and Bank of Zambia

Banking and Non-Bank Financial Institutions Sector Developments

53. The performance of the banking and non-bank financial institutions sector, comprising 16 banks and 13 non-bank financial institutions, was satisfactory during 2000. On average, the banking sector maintained adequate capital and reserves relative to their risk profiles. Further, asset quality, earnings performance and liquidity remained satisfactory. However, the deterioration in the financial condition of one of the commercial banks and 4 non-bank financial institutions had a negative effect on the sector's performance.

Banking Institutions

Shareholder's Equity

54. The total shareholders' equity stood at K231.9 billion at end-October 2000 from K227.3 billion at end-December 1999. In this regard, the sector continued to be stable as only 3 banks exhibited weaknesses in their capital structure.

Asset Quality

55. The banking sector's total assets increased from K1,918 billion at end-December 1999 to K2,468 billion at end-October 2000, representing an increase of 28.7 percent. The growth mainly emanated from net loans and leases and balances with banks abroad, which accounted for 32 percent and 30 percent, respectively. This was reflected in the rise in net loans and leases and balances with banks abroad by 15.3 percent and 47.4 percent over the same period, respectively.

56. During the period under review, the sector's asset quality was satisfactory. This was reflected in earning assets averaging 78 percent of total assets compared to 76 percent in December 1999. However, gross non-performing loans amounted to K291.4 billion in October 2000 compared to K88.4 billion in December 1999. Provisions for non-performing loans stood at K156.8 billion or 53.8 percent of gross non-performing loans from K75.5 billion. As a proportion of gross loans, non-performing loans deteriorated from 11.6 percent to 30.7 percent over the same period, which is above the international standard of below 20 percent.

Earnings

57. The earnings performance of the banking sector to October 2000 was satisfactory as evidenced by the annualised returns on assets of 5.1 percent and annualised return on equity of 43.8 percent.

58. Profits after tax fell by K63.0 billion from K83 billion in 1999 to K20.0 billion for the year to October 2000. The decline in earnings was mainly on account of huge provisions on non-performing loans. Loan interest income continued to be the main source of interest income having contributed 58.2 percent of total interest income compared to 71.8 percent.

Liquidity

59. The overall liquidity position during the period under review was satisfactory. The ratio of liquid assets to deposits and short-term liabilities averaged 61 percent in October 2000 compared to 65 percent in December 1999 and was higher than the prudential minimum of 50 percent. The main

contributing factor for favourable industry liquidity was improved asset quality, which resulted in the increase in the sector's earnings. However, two banks experienced serious liquidity problems and mostly relied on inter-bank market borrowings and overdraft facilities from the Bank of Zambia. The liquidity problem of one of the banks was of a permanent nature and consequently that bank was placed under curatorship on 7 April 2000.

Non-Bank Financial Institutions

60. As at September 2000, non-bank financial institutions (NBFIs) regulated by the Bank of Zambia had an asset base of K82 billion. Out of the 13 non-bank financial institutions, 9 satisfied the statutory minimum capital requirements. Of the remaining four institutions, three were insolvent. The fourth one, even though solvent, failed to satisfy the minimum requirements of Statutory Instrument No. 184 of 1995 relating to capital adequacy. In this regard, respective managers and directors of the institutions were requested to put in place plans to bring these institutions into compliance with the law and regulations.

The Banking and Financial Services (Amendment) Act

61. The Banking and Financial Services Bill was passed by Parliament and received Presidential assent. It will become effective once the commencement order has been passed. The objectives of amending the bill were to:

i Enhance the supervisory and regulatory powers of the Bank of Zambia in relation to banking and financial services;

ii Bring existing law in line with best practice and internationally accepted standards for licensing, prudential regulation and supervision; and

iii Establish higher standards of responsibility, accountability and professional competence and integrity on the part of directors, senior officers and employees of banks and financial institutions.

Outlook

62. In 2001, the Government intends to reduce inflation by constraining growth in money supply complemented by prudent fiscal management. The expected improvement in donor inflows under the PRGF and debt relief through the enhanced HIPC Initiative coupled with the anticipated rise in metal exports and non-traditional exports would improve the external position of the country. This favourable balance of payments position would in turn contribute to the stabilisation of the exchange rate of the Kwacha.

63. With regard to the banking sector, the Government, through Bank of Zambia, intends to revise relevant regulations in 2001 to bring them in line with the provisions of the amended Banking

and Financial Services Act. Additionally, regulations related to micro-finance institutions will be issued. Further, the Bank has recognized that poor corporate governance structures in financial institutions have contributed to increased risk-taking, which has led to institutional failure in some cases. To this end, the Bank will institute the following measures in 2001 to enhance corporate governance:

i Introduce International Accounting Standard 30, that is, Disclosures in the Financial Statements of Banks and Similar Financial Institutions;

ii Revise reporting forms for banks and financial institutions to reflect the most important transactions in these institutions;

iii Encourage banks and financial institutions to change their external auditors every three years; and

iv Ensure that the structures of financial institutions comply with the amended Banking and Financial Services Act.

(e) External Sector Developments

Balance of Payments

Overview

64. The overall balance of payments position improved in 2000 by 49.4 percent from a deficit of US$ 348 million in 1999 to a deficit of US$ 176.1 million. The deficit was 56.7 percent lower than the programmed deficit of US$ 407 million. The improvement in the overall balance of payments position reflected a favourable financing environment through debt relief and balance of payments support amounting to US$ 217 million and US$ 185.2 million (see Table 2.8).

65. In 2000, the current account balance continued to be in deficit. Preliminary estimates show that the deficit worsened by 19.7 percent from US$ 483 million in 1999 to US$ 578 million in 2000. In addition, the current account deficit of US$ 578 million in 2000 was 25.7 percent above the target of US$ 460 million envisaged in the economic programme. This deterioration was mainly on account of the increase in deficits recorded on the merchandise trade balance and services (net) accounts. As for the services (net) account, it worsened by 6.6 percent from a deficit of US$ 211million in 1999 to a deficit of US$ 225 million in 2000 reflecting an increase in services payments due to high insurance and freight costs. Despite an improvement in the deficit on net income balance, which improved from a deficit of US$ 157 million in 1999 to a deficit of US$ 144 million in 2000, the current account balance worsened.

66. The merchandise trade balance worsened by 51.8 percent from a deficit of US$ 99 million recorded in 1999 to a deficit of US$ 191 million in 2000. This was attributed to the faster growth in merchandise imports relative to that of exports.

67. Merchandise imports increased by 15.9 percent from US$ 870 million to US$ 1,008 million (f.o.b) while exports rose by 6 percent from US$ 755 million to US$ 800 million during the review period. In addition, goods procured in ports by carriers amounted to US$ 17 million in 2000, same as in 1999. The growth in export earnings in 2000 was largely due to a steady rise, on the international market, in metal prices and increased metal sales volumes. On the other hand, the rise in merchandise imports was attributable to intermediate and capital goods, in particular imports related to the recapitalisation of the mining sector and petroleum products. For instance, mining sector imports rose by 40.5 percent from US$ 121 million in 1999 to US$ 170 million in 2000 while petroleum imports increased by 53 percent from US$ 115 million in 1999 to US$ 176 million in 2000. Mining sector imports rose as a result of increased investments in the mining sector after the privatisation of the major assets of ZCCM in March 2000. On the other hand, the value of petroleum product imports went up largely due to sharp crude oil price increases on the international market. The annual average world crude oil price rose by 47.5 percent from US$ 17.98 per barrel in 1999 to US$ 26.53 per barrel in 2000.

68. For three consecutive years the performance of Non-Traditional Exports (NTEs) has been below expectations. This contrasts sharply with the impressive performance averaging 20 percent per annum during the 1991-96 period. In 2000 the value of NTEs declined by 3 percent from US$ 288 million in 1999 to US$ 279 million registering a shortfall of US$ 46 million below the 2000 target of US$ 325 million projected earlier in the year.

69. The downturn in NTEs performance was attributed to several factors. These were: high domestic production costs, dampened international demand, stiff competition from Zambia's trading partners, and the continued civil strife in the Great Lakes Region (which has been Zambia's predominant export market for NTEs).

Table 2.8: Balance of Payments 1997 to 2000 (US$ millions)

	1997	1998	1999	2000	1999/2000 % Change
Current account	-448	-573	-483	-578	19.7
Balance on goods	54	-153	-99	-191	92.9
Exports, f.o.b.	1,110	816	759	800	5.4
Metal sector	806	520	467	521	11.6
Copper	621	365	372	441	18.5
Cobalt	185	155	95	80	-15.8
Non-traditional	304	296	288	279	-3.1
Imports f. o.b	-1,056	-971	-870	-1008	15.9
Metal sector	-289	-221	-121	-170	40.5
Non-metal	-767	-750	-749	-838	11.9
Fertilizers	-50	-54	-2	-13	550.0
Petroleum	-87	-42	-115	-176	53.0
Maize	-12	-108	0	0	0.0
Others	-617	-547	-632	-649	2.7
Goods procured in ports by carriers	0	2	17	17	0.0
Services (net)	-264	-179	-211	-225	6.6
Services Receipts	112	103	87	101	16.1
Services Payments	-379	-282	-298	-326	9.4
Balance on goods and services	-210	-332	-310	-416	34.2
Income Net	-219	-214	-157	-144	-8.3
Income Receipts	77	44	17	17	0.0
Income Payments	-296	-258	-174	-161	-7.5
Balance on goods, services and income	-429	-546	-467	-560	19.9
Current Transfers	-19	-27	-16	-18	12.5
Private	-19	-27	-16	-18	12.5
Capital and Financial account	25	284	342	129	-62.3
Capital account	0	203	153	162	5.9
Capital Transfers	0	203	153	162	5.9
General government	0	0	0	162	100.0
Debt forgiveness	0	203	153	0	-100.0
Project Assistance grants	0	0	0	162	100.0
Other Sectors	0	0	0	0	0.0
Financial Account	25	81	189	-33	-117.5
Direct Investment	207	198	163	126	-22.7
Portfolio Investment	1	1	13	16	23.1
Direct Investment	207	198	163	126	-22.7
Portfolio Investment	1	1	13	16	23.1
Other Investment	-184	-118	14	-175	-1350.0
Assets – increase in NFA – banks	-5	-35	3	-26	-966.7
Liabilities	-179	-82	11	-149	-1454.5
Official loan disbursements (net)	-192	-45	4	-137	-3525.0
Project loans	0	91	166	97	-41.6
Amortisation (-)	-192	-136	-162	-234	44.4
Other sectors (net)	13	-37	7	-12	-271.4
Errors and Omissions	46	-114	-243	93	-138.3
Overall balance	-377	-403	-348	-176.1	-49.4
Financing of overall balance	377	403	348	176.1	-49.4
Change: NIR of Bank of Zambia	-26	196	-21	-202.9	866.2
Reserve Assets	-26	194	-2	-223	11050.0
O/w: gross official reserves ((incr. (-))	-26	194	-2	-223	11050.0
Liabilities - Central bank	0	2	-33	-7.4	-77.6
Use of Fund of credit and loans (net)	0	0	14	27.5	96.4
Disbursements	0	0	14	27.5	96.4
Debt relief	123	122	443	217	-51.0
Net change in arrears (+ incr)	0	85	-251	-10	-96.0
Bop support grants	0	0	61	51	-16.4
Bop support loans	271	0	117	134.2	14.7

Source: Bank of Zambia

70. The capital and financial accounts balance declined from a surplus of US$ 169 million in 1999 to a deficit of US$ 36 million during the period under review. This was mainly on account of the fall in foreign direct investments and other investments. Foreign direct investment declined by 29.4 percent from US$ 163 million in 1999 to US$ 126 million in 2000 reflecting the slowdown in the privatisation process. The continued decline in investment pledges partly as a result of withdrawal of certain tax incentives in the Investment Act also contributed in the slowdown in the inflow of foreign investments. Similarly, other investments, largely in the form of net foreign assets of banks and official loan disbursements, worsened from a surplus of US$ 14 million in 1999 to a deficit of US$ 175 million in 2000.

Outlook

71. The overall balance of payments position is expected to worsen in 2001 from a deficit of US$ 356 million in 2000 to a deficit of US$ 407 million. This is mainly on account of the anticipated decline on the current account. The current account is expected to worsen from an estimated deficit of US$ 578 million in 2000 to a projected deficit of US$ 610 million in 2001. This outlook is based, with the exception of the improvement on the income (net) account, on forecasted declines on the merchandise trade balance and services (net) accounts, which are to widen by 15.2 percent and 8 percent, respectively. On the other hand, the capital and financial accounts are projected to improve by 52.6 percent from a deficit of US$ 38 million in 2000 to a surplus of US$ 18 million in 2001. This is largely due to expected increases in 2001 of foreign direct investments, portfolio investments, and debt forgiveness following Zambia's accessation to the enhanced HIPC Initiative.

Capital Market Developments

Overview

72. In the last 6 years, capital markets have steadily consolidated and begun to demonstrate the role of providing a market for sourcing long-term finance for development. During the year under review, the focus was on deepening the market and increasing participation.

73. An important development for the Zambian capital market as a whole was the introduction of the 2-year government bonds by the Bank of Zambia in October 2000. This laid a foundation for the gradual deepening of the capital market. Another significant development was the issuance of the first ever-corporate bond on the Lusaka Stock Exchange (LuSE) market by a public company in Zambia, namely Farmers House Plc. Farmers House Plc issued a series of bonds of 3 to 4 year tenor and raised US$ 1 million via the domestic capital market. This was an important breakthrough in demonstrating the key role of the capital market as a primary source of long-term finance for business.

74. The role of capital markets in the economy of Zambia, however, remains grossly under-utilised and their potential as an economic tool is not fully exploited. This is due to inadequacy of institutional investment guidelines as a policy framework, as found in successful emerging markets of

today. A draft set of institutional investment guidelines was drawn up in October 1999 by all the stakeholders in the industry, namely, the Pensions and Insurance Authority [PIA], the Zambia Association of Pension Fund Managers [ZAPFM], the Securities and Exchange Commission [SEC] and the LuSE. In addition, macroeconomic conditions, especially higher than expected inflation were not favourable to attract long-term investments on the LuSE.

Performance of the Lusaka Stock Exchange

75. During the period 1997 to 2000, capital market capitalisation contracted from a size of US$ 705 million in 1997 to US$ 236 million in 2000. Furthermore, the number of listed companies on the LuSE has remained static since 1998 (see Table 2.9).

Table 2.9: LuSE Performance Indicators, 1996 to 2000

Statistic	1996	1997	1998	1999	2000
Market Capitalisation US$ Mn	229	705	301	280	236
Kwacha Billion	296.1	1,651.8	705.1	767.2	978.5
No of Trades	1,376	3,741	3,772	1,905	1,826
Volume	241,381,900	269,620,235	157,861,939	133,016,663	182,530,918
Turnover Kwacha Million	3,428.2	11,588.4	6,465.3	32,989.8	25,292.0
US$'000	2,805.2	8,813.5	3,216.5	13,347.7	6,094.5
No of Listed Companies	5	7	9	9	9
No of Quoted Companies	3	3	2	6	7
Total No of Companies	8	10	11	15	16
Net Foreign Capital inflows US$ Million	N/A	1.4	0.98	12.54	(0.91)
LuSE All Share Index	N/A	204.45	162.76	195.38	306.28

Source: Lusaka Stock Exchange

76. The market capitalisation at year-end in 2000 was US$ 236 million, a decline of 15.7 percent from US$ 280 million recorded in 1999. This implies that the size of the market shrunk by 15.7 percent in US dollar terms, although there was an increase of 27.5 percent in Kwacha terms from K767 billion in 1999 to K978.5 billion at year-end 2000.

77. In terms of activity, total volumes traded on the LuSE increased by 37.2 percent. However, there were 1,826 equity trades recorded in 2000 compared to 1,905 trades in 1999, representing a decline of 4.1percent. Turnover recorded a decline of 23.3 percent. In terms of foreign capital inflows, it is estimated that foreign investors were net sellers overall in year 2000 to an approximate level of US$ 0.91 million while the number of companies listed on the LuSE remained constant at 9.

Primary Market

Equity Market

78. The primary market in equities was dormant in 2000, with no floatations (initial public offers – IPOs). The Zambia Privatisation Trust Fund (ZPTF) continued to hold shares in the following companies: Zambia Oxygen, BP Zambia, Pamodzi Hotel, Kafironda, Zambia Sugar, Rothmans, and National Breweries. None of these shares were offered or released to the public in 2000 by the ZPTF, but expectations were that any upturn in the economy in 2001 could create favourable conditions for release of some of these shares.

Government Securities

79. The primary market in Government bonds was active. In all, there were 17 issues of the 12-month Government bonds, 17 issues of the 18-month Government bonds and 4 issues of the 24-month Government bonds in 2000.

80. An important development for the Zambian capital market as a whole was the introduction of a two-year government bond by the Bank of Zambia in October 2000. This laid a foundation for the gradual deepening of the capital market.

81. The two-year Government bond provides a key benchmark in the pricing of long dated financial instruments and their associated risks. The existence of the two-year Government bond extends the maturity profile of the capital market instruments currently available in Zambia and makes it possible for the private sector to introduce longer dated instruments whose maturity is beyond two years.

Corporate Bond Issuance

82. A significant and notable development for the Zambian capital market was the issuance of the first ever-corporate bond on the LuSE market by a public company in Zambia, namely Farmers House Plc. Farmers House Plc issued a series of bonds of three to four year tenor and raised US$ 1 million via the domestic capital market. This was an important breakthrough in demonstrating the key role of the capital market as a primary source of long-term finance for business.

Secondary Market

Equity Market

83. The secondary market in equities held ground under difficult financial market conditions of high inflation, high interest rates and Kwacha depreciation. The LuSE All Share Index recorded year-on-year gain of 56.3 percent in Kwacha terms, equivalent to 6.1 percent in US dollar terms.

84. The market recorded low price to earnings ratios (PE). The low PE ratios mainly reflected under-valuation of the market because of low demand. Indications are that this growth will materialise with the expected upturn in the Zambian economy.

Bond Market

85. Efforts by LuSE and the Bank of Zambia to develop the bond market continued. There was a noticeable increase in the trading activity of Government bonds on the LuSE. The market in Government bonds made steady progress and was perhaps one of the most significant developments of the year in terms of capital market growth and development. Activity increased from 66 trades in 1999 to 198 trades in 2000, a rise of 200 percent. Total volumes traded increased by 63.1 percent from K10, 096 million in 1999 to K16, 468 million in 2000 (see Table 2.10).

Repurchase Agreements Market

Repurchase agreements [the repo market] are an important feature of the bond market. A repurchase agreement enables an investor to buy Government bonds as investment and re-sell the same bond to the original holder at a later point on a pre-determined date or as per open arrangement. The repo market therefore provides liquidity in the market in the first instance. In more developed markets repos serve the role of determining and setting the level of interest rates and typically account for 60 – 70 percent of all transactions in the bond market.

Table 210: Secondary Market Trading Activity in Government Bonds

Year	Number of Trades	Face value (K' mn)	Actual Value (K' mn)
1998	17	4,272.3	4,141.6
1999	66	10,045.4	10,0963
2000	198	15,616.3	16,4682

Source: Lusaka Stock Exchange

The Repurchase agreements (Repo) market in Government Bonds

86. The Repurchase agreements (Repo) market in Government bonds took off in year 2000, recording 168 transactions with a total face value of K15, 385 million.

Collateralisations

87. The secondary market in Government bonds steadily became active in the area of collateralisation, and recorded 110 pledges with a total face value of K41, 102 million during the year under review compared to 141 pledges worth K36, 374.5 million in 1999. Government bonds are safe, low risk liquid investments and therefore suitable for pledging as security (collateral) in order to borrow funds at any point in time.

Outlook

> **Institutional investment on the Capital Market**
>
> **Institutional investment is the main engine that drives economic development and helps achieve sustainable economic growth. In the emerging markets, institutional investment constitutes 60 – 70 percent of all portfolio investment, whilst in the advanced economies, institutional investment [mutual funds, pension funds, investment funds, unit trusts etc.] constitutes almost 80 percent of portfolio investment. In Chile, for example, clear policy guidelines on mobilising domestic savings via fund management and investment into the domestic economy through the capital market have contributed to growth of institutional investment to almost 50 percent of GDP.**
>
> **Institutional investment is key and pivotal for capital market development, particularly in Zambia's economy where there is great need to channel resources into the productive sectors of the economy. Thus, the absence of any policy framework on institutional investment guidelines constitutes a major setback and opportunity lost for the Zambian economy. This is a major constraint to the further development of capital markets in the country.**

88. Prospects for the capital market in Zambia remain bright. The supply of equities is in place, and the development of new instruments for mobilisation of finance is taking root. Furthermore, the bond market is taking shape and providing the necessary pricing benchmark for issuers and investors.

1.0 POPULATION AND LABOUR MARKET DEVELOPMENTS

1.1 Population

> **THE CENSUS OF POPULATION AND HOUSING**
>
> **A Census of Population and Housing is defined as the total process of collecting, compiling, evaluating, analysing and publishing demographic, economic and social data pertaining, at a specified time or times, to all persons in a designated area or the whole country. The Census is therefore the backbone of the National Statistical System.**
>
> **The 2000 Census was meant to serve the information needs of Government, private organisations, individuals and others stakeholders.**
>
> **Following the Census 2000, a Post Enumeration Survey (PES) will be conducted to among other things provide an indication of the quality of the census data. In terms of methodology, the PES will be independent from the 2000 Census as the validity of the PES estimates will be premised on independence between Census and PES.**

89. During the year under review, the Government carried out the 2000 Census of Population and Housing. Census enumeration began on 16th October, 2000. The 2000 Census was the fourth since Zambia's independence with the last census being carried out in 1990. The population Census will provide the primary nationwide source of information on numbers of persons in each district, township, locality, village and also age, sex and other characteristics relevant for national social and economic planning. The Census results will also be used to update the national statistical sampling frame on which all household surveys during the intercensal (between censuses) period

will be based.

90. The 2000 Census process was organised around the following key activities:

- Planning and Preparation
- Questionnaire Design and Table Outlines
- Enumeration
- Processing
- Analysis and Publication
- Evaluation
- Documentation and
- Data Dissemination.

91. Enumeration was completed during December, 2000 and data processing commenced. In order to increase the timeliness of census output, the Government utilized the optical mark reader (OMR) form/questionnaire for enumeration. This questionnaire was designed to enable speedy data capturing using OMRs.

1.2 Labour Market Developments

92. Formal sector employment reduced from 477,508 jobs in 1999 to 476,347 jobs in 2000 representing a decline of 0.2 percent. Much of this decline is attributed to the mining and quarrying sector, which contracted from 38,521 jobs in 1999 to 35,042 jobs in 2000. This represented a fall of 9 percent. Other significant reductions in formal sector employment were in the electricity, gas and water and the agriculture, food and fishing sectors, which declined by 4.7 and 1 percent respectively. Workforce rationalisation measures aimed at improving efficiency accounted for much of the decline in formal sector employment. Despite the overall reduction in formal sector employment, the manufacturing, construction and financial, real estate and business services sectors witnessed significant increases of 3.9, 7.2 and 9.2 percent respectively (see Table 2.11).

Table 2.11: Formal Employment Trends, 1997 to 2000

	1997	1998	1999	2000*	% Change 2000/1999
Formal Employment by Industry	**475,161**	**467,193**	**477,508**	**476,347**	**(0.2)**
Agriculture, Food and Fishing	58,898	58,898	60,000	59,377	(1.0)
Mining and Quarrying	44,498	39,160	38,521	35,042	(9.0)
Manufacturing	47,118	46,685	46,000	47,782	3.9
Electricity, Gas and Water	5,009	5,237	5,300	5,049	(4.7)
Construction	17,106	13,459	12,895	13,828	7.2
Trade and Distribution	48,893	48,964	51,097	52,336	2.4
Transport and Communication	45,963	45,840	45,000	46,719	3.8
Fin. Real Estate and Bus. Services	37,862	35,276	34,682	31,483	9.2
Comm., Social and Personal Services	169,814	173,674	184,013	184,731	0.4
Formal Employment by Sector	**475,100**	**467,193**	**477,508**	**476,347**	**(0.2)**
Central Government (civilian)	129,200	117,250	112,345	101,300	(9.8)
Local Authorities	15,100	13,048	12,900	12,500	(3.1)
Parastatal Companies	73,900	68,046	65,300	65,700	0.61
Private Sector Companies	256,900	268,849	286,963	296,847	3.4

Source: Central Statistical Office
****Estimates as at June 30***.

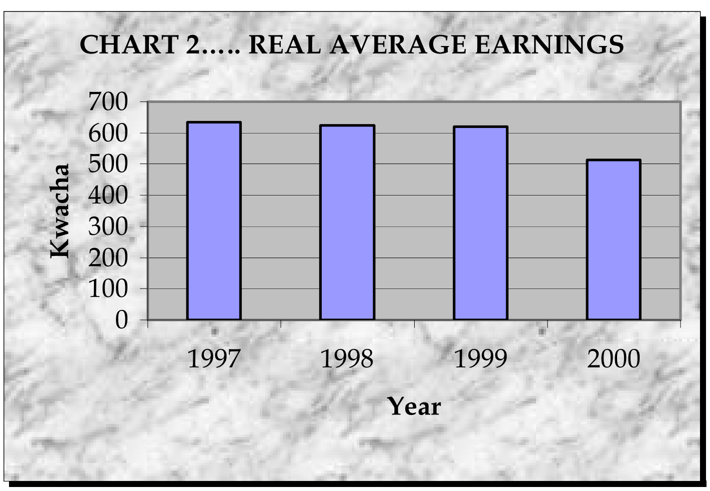
93. In terms of formal sector employment by agency (see Table 2.11), the private sector is the leading sector in formal employment. Private sector employment grew from 286,963 jobs in 1999 to 296,847 jobs in 2000 representing a growth rate of 3.4 percent. Central government employment declined from 112,345 jobs in 1999 to 101,300 jobs in 2000. This represented a decline of 9.8 percent. Natural attrition and voluntary retirement contributed to the decline in central government employment.

*Table 2.12: Trends in Average Earnings (Kwacha), 1997 to 2000**

	1997	1998	1999	2000	% Change 2000/1999
Average Nominal Earnings by Sector**	**150,230**	**184,281**	**233,687**	**245,265**	**5.0**
Central Government (civilian)	134,154	154,850	194,377	205,265	5.6
Local Authorities	152,328	124,536	189,792	197,681	4.2
Parastatal Companies	291,176	341,564	467,001	501,612	7.4
Private Sector Companies	103,264	141,780	187,661	20,6771	10.2
Real Average Earnings by Sector	**625.4**	**616.5**	**616.6**	**513.4**	**(15.2)**
Central Government (civilian)	566.5	524.0	515.9	429.7	(14.7)
Local Authorities	643.3	421.4	503.7	413.8	(15.9)
Parastatal Companies	1,229.6	1,155.9	1,239.4	1,050.1	(13.2)
Private Sector Companies	436.1	479.8	498.0	432.8	(11.0)

Source: Central Statistical Office and Ministry of Finance and Economic Development
Estimates as at June 30
***** Totals do not add up as a result of weighted averaging***

94. Average earnings increased from K233, 687 in 1999 to K245, 265 in 2000 representing an increase of 5 percent. The private sector accounted for much of the increase in average earnings in 2000, which grew by 10.2 percent (see Table 2.12). The trend in real average earnings however points to an erosion over the years. Real average earnings declined by 15.2 percent in 2000 over 1999. Price level increases have eroded real average earnings over the years (see chart 2.2).



CHAPTER THREE

3.1 EXTERNAL DEBT AND AID

3.1.1 Overview

1. The Government's policy on national debt management during 2000 was to reduce external and domestic debt substantially to sustainable levels that would enable achievement of sustained economic growth. In this regard, the primary objective of Government policy was to access the enhanced Highly Indebted Poor Countries (HIPC) Initiative on Debt. Further, the Government aimed at maximizing the benefits from the Paris Club write-offs and rescheduling under the Paris Club Six (February 1996 Agreement) and Paris Club Seven (April 1999 Agreement).

2. In December 2000, the Boards of the IMF and World Bank approved Zambia's accession to the enhanced HIPC Initiative under which the country would enjoy debt relief, reducing its debt stock and debt service substantially.

3. The Government policy on external grants was to mobilise resources beyond the Consultative Group (CG) Annual Meetings pledges. Grants were meant to supplement the shortfalls in domestic revenue and reduce the Government's need to borrow in order to finance the budget especially for capital expenditure and international reserves build up.

3.1.2 External Debt

4. Preliminary data indicate that the total stock of external debt decreased by 3.1 percent from US$ 6,507.3 million as at end December 1999 to US$ 6,310.5 million as at end December 2000. The drop in the stock of outstanding external debt stock was largely attributed to debt service payments to Paris Club and multilateral creditors and debt cancellations from the Paris Club and some Non-Paris Club creditors.

5. An analysis, as shown in Table cc , of the end December 2000 stock of debt disbursed and outstanding (DOD) reveals that the bulk of Zambia's external debt was owed to the multilateral institutions amounting to approximately US$ 3,446.82 million representing about 55 percent of the total debt stock. Bilateral creditors were owed a total of US$ 2,390.20 million (38 percent) of which about 90 percent was to the Paris Club creditors. Private and parastatals debt amounted to US$ 473.5 million (8 percent).

6. Total external Government debt amounted to US$ 5,837.02 million representing a drop of 4 percent from US$ 6,051.5 million as at end December 1999. However, there was an increase in private and parastatal debt due to higher new loan disbursements and less due debt service payments attributed to the private sector.

Table 3.1: Zambia's External Debt Stock (US$ millions)

	1997	1998	1999	2000 *	% Variance between 1999 & 2000	% Share of Total Debt
Bilateral	***3,296.90***	***3,477.80***	***2,676.40***	***2,390.20***	***11.97***	***37.88***
of which						
Paris Club	2,816.50	2,998.50	2,405.00	2,131.40	***12.84***	33.78
Non-Paris Club	480.40	479.30	271.40	258.80	***4.87***	4.10
Multilateral	***3,152.40***	***3,172.70***	***3,375.10***	***3,446.82***	***(2.08)***	***54.62***
of which						
ADB/ADF	327.00	257.00	320.70	316.66	***1.28***	5.02
World Bank	1,450.20	1,547.60	1,668.30	1,736.43	***(3.92)***	27.52
IMF	1,205.50	1,205.20	1,219.20	1,245.40	***(2.10)***	19.74
Others	169.70	162.90	166.90	148.33	***12.52***	2.35
Total Government Debt	***6,449.30***	***6,650.50***	***6,051.50***	***5,837.02***	***3.67***	***92.50***
Private & Parastatals	303.30	278.20	455.90	473.49	***(3.71)***	***7.50***
Total Stock of External Debt	**6,752.60**	**6,928.70**	**6,507.40**	**6,310.51**	***3.12***	***100.00***

Source: Ministry of Finance and Economic Development and Bank of Zambia
****Note: The figures for 2000 are preliminary and likely to change due to on going reconciliation with creditors.***

3.1.3 The Enhanced HIPC Initiative and Debt Relief Delivery

7. In the pursuit of the objective of debt sustainability, Zambia has over the years approached various bilateral creditors to seek debt relief. In this respect, Zambia benefited from seven debt-rescheduling agreements with the Paris Club since 1983, when the cut-off date of January 1, 1983 was agreed. The most recent agreement on Naples Terms with Paris Club creditors was in April 1999, where Zambia negotiated debt relief for forgiveness or rescheduling of about US$1 billion of arrears and new maturities due during the consolidation period of April 1999-March 2002.

HIPC DEFINITIONS

Debt Sustainability: A country may be considered to achieve external debt sustainability when it is able to meet its current and future external debt service obligations in full, without recourse to debt relief, rescheduling, or the accumulation of arrears. Key sustainability indicators are

- **The ratio of the net present value of debt public and publicly guaranteed external debt to exports of 150 percent; and**
- **The ratio of external debt service to exports of 15 percent.**

Decision Point – A point at which a HIPC completes its 3-year track record of good performance under adjustment programs supported by the IMF and the World Bank, and when based on debt sustainability analysis, a country's eligibility for assistance under the HIPC Initiative is determined.

Completion Point – a point at which after having implemented the full Poverty Reduction Strategy Programme for at least one year, the country concerned receives a stock of debt relief and the bulk of the assistance under the HIPC Initiative without any further policy conditions.

8. However, despite this relief, Zambia's external debt has not resulted into sustainability. Thus during 2000, Government vigorously pursued attaining the Decision Point under the enhanced HIPC. The conditions for qualification to the Initiative include:

i. the country must be an IDA-only country and PRGF eligible and should have established a three-year good economic track record under the supervision of the Bretton Woods Institutions (IMF and World Bank); and

ii. an unsustainable external debt situation determined by the present value of debt to export ratio or debt service to export ratio.

9. During the first week of December 2000, the Boards of the International Monetary Fund (IMF) and the World Bank approved Zambia's access to the enhanced HIPC Initiative. Under this the country would receive further debt relief from the Paris Club [2] and for the first time would also get debt relief from the Multilateral Institutions. The enhanced HIPC approval of both the World Bank and IMF Boards is effective 1st January 2001. The total expected debt relief is US$3,500 million to be extended by both all (bilateral, commercial and multilateral) creditors.

10. Due to the peculiar nature of Zambia's debt service payments effective January 2001 especially to the IMF[3], the Bretton Woods Institutions were persuaded to front-load the delivery of the debt relief. Thus for Zambia more than 50 percent of this debt reduction will be delivered within the first five years of the enhanced HIPC Decision Point (December 2000). This will substantially reduce the debt stock and the debt service.

11. The external debt service for the year 2001 without Paris Club and without enhanced HIPC would have amounted to approximately US$ 606 million. Given the relief from the Paris Club countries at Naples Terms 67 percent net present value reduction and rescheduling, the country's debt service would have been US$ 434 million. In the absence of the enhanced HIPC Initiative debt relief, this figure could have been clearly unsustainable.

12. Debt Relief assistance under the enhanced HIPC will come in the form of reduced debt service and extra assistance in form of grants to assist with balance of payments.

The IMF will provide interim assistance (front-loading) [4] of 75 percent in three years (2001 to 2003) and the remaining 25 percent in two years (2004 to 2005). Zambia's annual debt service obligations to the IMF after maximum front-loading enhanced HIPC assistance is projected to be US$ 84 million in 2001 instead of US$235 million.

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[2] The Paris Club Creditors are going to give Zambia Cologne Flow Terms, which is ninety (90) percent debt relief in the form of write-offs and rescheduling. In offering this relief, Zambia's Completion Point is assumed to be in 2003.

[3] Zambia's debt service obligations to the IMF in 2001-2005 were projected to rise sharply, stemming from the expiration of the grace period on principal payments on PRGF/Structural Adjustment Facility (SAF) loans related to the clearance of arrears to the IMF under the Rights Accumulation programme (RAP) in 1995. Starting in June 2001, Zambia's annual debt obligations to the Fund will rise from less than US$10 million a year in 1998-2000 to about US$234 million in 2001.

[4] Normally under the Enhanced HIPC Initiative the IMF would only provide 45 percent interim debt relief in the first three years, however, because Zambia had a hump in her debt service to the IMF which would have meant that Zambia's debt would still be high even after accessing HIPC, the IMF granted a special provision of 75 percent interim relief. This means that instead of receiving 15 percent per year for the first three years, Zambia is going to receive 25 percent debt relief for the first three years of the HIPC implementation.

13. The World Bank enhanced HIPC assistance to Zambia will be for a total of US$487.8 million in Net Present Value (NPV) terms [5] or the equivalent of US$885 million in nominal terms. The World Bank would begin providing interim assistance by reducing Zambia's debt service by 84.2 percent over a period of twenty years.

14. The African Development Bank (ADB) would deliver interim assistance from the Decision Point onward to a maximum of 40 percent of the total assistance in NPV terms (estimated at US$ 146 million). The Debt service reduction will be 80 percent of ADB debt service for twenty-two years starting in 2001 for the period 2001-2022. Nominal assistance from the ADB is estimated at US$ 18 million per annum over the period 2001-2006 and US$ 7 million per annum on average for the rest of the delivery period.

15. Zambia's external debt burden remains one of the developmental roadblocks and will continue to be so in the coming years when debt service remains at the same levels of US$ 160 million (same as in 2000)[6] until 2003 then will go up during 2004 and 2005.

3.1.4 The Floating Completion Point

16. The enhanced HIPC Initiative has a Floating Completion Point, unlike before where it was fixed for a three-year period after the Decision Point. The delivery of assistance at the Completion Point is linked to the satisfactory performance in the areas of macroeconomic management, structural reforms and poverty reduction in accordance with the objectives and strategies set out in a country's full Poverty Reduction Strategy Paper (PRSP). In Zambia's case, the specific actions discussed and agreed between the IMF and the World Bank will complement or reinforce reforms and policies included in the programme supported by a PRGF arrangement as well as in ongoing convents with the World Bank.

17. The specific actions discussed and agreed include:

i) Poverty Reduction

- The adoption of a PRSP to be prepared through a participatory process, and satisfactory progress with implementing and monitoring the PRSP for at least one year on an annual report.

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[5] The World Bank's assistance under the enhanced HIPC Initiative will cover the exposure to Zambia of both the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD).

[6] Even after accessing the enhanced HIPC Initiative.

ii) **Social sectors**

- Progress in combating HIV/AIDS
- full staffing of secretariat to National HIV/AIDS/STD/TB Council; and
- integrate HIV/AIDS awareness and prevention programmes in the pre-service and in-service programmes of at least ten key ministries.

iii) **Progress in education sector reform as indicated by:**

- increasing the share of education in the discretionary budget from 18.5 percent in 1999 to at least 20.5 percent by 2003;
- raising the starting compensation of teachers in rural areas above the poverty line for a household, as defined by the Central Statistics Office; and
- an action plan for increasing student retention in Northern, Luapula, Eastern, North-Western, and Western Provinces.

iv) **Progress in health sector reform as indicated by:**

- implementation and scaling up of an action plan for malaria;
- procedures and mechanisms for the procurement of drugs re-organised to be fully transparent and efficient;
- timely release of complete, detailed, annual health expenditure data; and
- actual cash releases to district health management boards shall be at least 80 percent of the amount budgeted.

v) **Macroeconomic and structural reforms as indicated by:**

- maintaining a stable macroeconomic environment as evidenced by satisfactory performance under a programme supported by PRGF Arrangement;
- Implementation by MOFED of an Integrated Financial Management Information System (IFMIS) on a pilot basis for at least three ministries and a mid-term review of the pilot programme;
- Implementation of a medium-term Expenditure Framework prepared by MOFED and approved by Cabinet;
- Restructuring and issuance of international bidding documents for the sale of a majority (controlling) interest in power company, ZESCO; and

- Issuance of international bidding documents for sale of a majority (controlling) interest in the Zambia National Commercial Bank (ZANACO).

3.1.5 External Project Assistance and Balance of Payments Support

18. Zambia's objective regarding external aid has been to improve her development cooperation with her cooperating partners with whom she shares the goal of improving the welfare of the people of Zambia. The country intends to achieve this through the promotion of ownership of the development process, effective coordination of external assistance as well as transparency, accountability and good internal management. Government will continue to pursue these objectives in order to appeal for assistance for the implementation of the economic programmes to attain economic stability, growth and poverty reduction.

19. During the year, Zambia continued to enjoy warm relationships with her cooperating partners who expressed their desire and determination to see her succeed in achieving fundamental macroeconomic objectives in the economy. Zambia's cooperating partners continued endorsing the policy agenda the Government of Zambia has set for itself and encouraging the Government to pursue this agenda to successful completion indicating a great sense of partnership.

3.1.6 The Consultative Group Meeting

20. The 12th Consultative Group (CG) meeting for Zambia was held in Lusaka during the period 16-18 July 2000. This was the first time that the CG was held in Zambia, making it possible for a wider cross-section of society to participate in the dialogue on Zambia's development with the international community. Participants from Zambia comprised representatives from Government, the private sector and civil society. There was equally good representation from the international community comprising 14 bilateral countries and 12 multilateral institutions. Others were from the international non-governmental organisations including the media. The total number of participants was 362 as compared to less than 100 that participated in the Paris 1999 CG.

21. The main objective of the 12th CG was for Zambia to seek finance to close the external financing gap of US$730 million. After successful and frank deliberations co-operating partners expressed renewed confidence in Zambia in light of the recent achievements, particularly the privatisation of ZCCM and the involvement of a wider cross-section of the Zambian society in dialogue on Zambia's development process.

22. The cooperating partners renewed their commitment to support Zambia in her efforts towards sustainable economic growth and poverty reduction. To this end, they pledged to make available US$ 1.0 billion over the period 2000 – 2001 compared to US$ 818 million pledged in 1999. This amount comprised US$ 645 million in project finance and US$ 355 million in balance of payments support.

3.1.7 Disbursements

23. During the year under review a total of US$455.5 million (see Tables 3.2) and was disbursed by co-operating partners for various economic and social programmes. Out of the amount released, US$245.9 million was for project financing comprising US$ 110.6 million from the bilateral donors and US$ 135.4 million from multilateral institutions.

Table 3.2: Project Financing (US$ million)

Category	1996	1997	1998	1999	2000
Bilateral	22	9	0	24.5	29.6
Multilateral	121	128	0	106.6	177.1
W/Bank	121	128	0	106.6	
ADB	0	0	0	8	
EU	0	0	0	36	
Total	**143**	**137**	**0**	**175.1**	**207.6**
Bilateral	198	187	202.2	130	110.6
Multilateral	115.8	131	121	133.6	135.4
World Bank	23	75	70	-	66.3
ADB	31	13	26	47.6	26.9
EU	36	27	25	6	42.2
Others	25.8	16	-	80	-
Total	**313.8**	**318**	**323.2**	**263.6**	**245.9**

Source: Ministry of Finance and Economic Development

24. The total BOP support released by both the bilateral and multilateral donors totalled US$ 209.6 million broken down into US$179.6 million from multilateral institutions and the balance at US$ 30 million from bilateral donors, namely the United Kingdom (US$ 21.7 million) and US$ 8.3 million from the Netherlands.

Table 3.3: Balance of Payments Support (US$ million)

Category	1996	1997	1998	1999	2000
Bilateral	**22**	**9**	**0**	**24.5**	**29.98**
Multilateral	**121**	**128**	**0**	**160.6**	**179.62**
W/Bank	121	128	0	106.6	140.3
ADB	0	0	0	8	13.28
EU	0	0	0	36	0
IMF	0	0	0	10	26.04
Total	**143**	**137**	**0**	**185.1**	**209.6**

Source: Ministry of Finance and Economic Development and Bank of Zambia

[TO COUNTER CHECK FIGURES WITH BOZ]

3.1.8 Outlook

25. The Government will strive to strengthen relations with her co-operating partners in order to mobilise resources for economic growth and poverty reduction. The Government also expects its co-operating partners to continue endorsing its policy agenda and encourage it to pursue this agenda to a successful conclusion. In addition, Government will continue to improve the management of debt and continue to seek all feasible avenues for further debt relief so as to plough the freed resources in poverty reduction programmes.

26. Among the programmes the Government would expect concerted effort and support from co-operating partners are the successful implementation of the PRSP process, reaching the HIPC Completion point; successful implementation of the Good Governance Programme, successful conclusion of the Census of Population and Housing 2000 (post enumeration activities and data processing) and successful Presidential and General Elections in 2001.

CHAPTER FOUR

SECTORAL PERFORMANCE

4.1 AGRICULTURE, FORESTRY AND FISHING

4.1.1 Overview

1. During the period under review, Government policy in the agricultural sector continued to be that of facilitating and supporting the development of a sustainable and competitive agricultural sector that assures food security at national level and maximises the sector's contribution to Gross Domestic Product (GDP). Liberalisation and promoting private sector participation in marketing and input supply continued to be the main policy thrust.

2. The sector continued to face difficulties of low production and productivity. This was mainly attributed to difficulties in the availability of inputs, poor infrastructure and inadequate credit to small-scale farmers, among others.

3. Despite the difficulties faced, preliminary real value added in the agricultural, forestry and fishing sector in 2000 increased to K418.2 billion from K411.0 billion in 1999, up by 1.8 percent. This was mainly on account of the favourable performance in the forestry sub-sector, which registered a growth of 4.0 percent.

4.1.2 Sector Performance

4.1.2.1 Agro-meteorological and Input Supply Conditions

4. Although there was a reduction in rainfall over the country in the 1999/2000 season compared to the previous season, the cumulative rainfall for the 1999/2000 season showed that normal rainfall was received in almost all parts of the country. The rains that prevailed supported normal crop growth in many parts of the country. The short dry spells that were prevalent in many parts of the country before harvesting also contributed to normal crop growth. Additionally, there were no serious incidents of pests and diseases reported in the country.

5. In terms of input supply, Government continued with its policy of liberalising input supply. However, due to market inefficiencies Government through the Food Reserve Agency (FRA) played a role in fertiliser marketing by providing fertiliser on a loan basis to small-scale farmers and out grower schemes. The major private sector players in fertiliser marketing were Omnia, Sasol and Kynock who either sold fertiliser on a cash basis or through barter.

4.1.2.2 Crop Production

6. Productions of major crops like maize, sunflower, wheat and virginia tobacco increased in the 1999/2000 season. The normal rainfall that prevailed in most parts of the country largely accounted for the favourable performance of the above-mentioned crops (see Table 4.1).

i) Maize

7. Maize output increased by 11.2 percent in the 1999/2000 season from 9,710,805 (90kg) bags in the 1998/1999 season to 10,421,713 (90kg) bags.

ii) Sunflower

8. The production of sunflower went up by 19.6 percent in the 1999/2000 season from 134,968 (50 kg) bags in the 1998/1999 season to 161,483 (50 kg) bags.

iii) Wheat

9. Output of wheat rose by 7.9 percent in the 1999/2000 season from 769,183 (90kg) bags in the 1998/1999 season to 830,000 (90kg) bags.

iv) Virginia Tobacco

10. Production of Virginia tobacco in the 1999/2000 season was 3,416,295 kilograms compared to 2,168,623 kilograms in the 1998/1999 season, representing a significant increase of 57.5 percent.

v) Other crops

11. However, output of soyabeans, paddy rice, cotton, millet, mixed beans and burley tobacco declined. The unfavourable rains experienced in some parts of the country partly contributed to this negative outturn.

Table 4.1: Crop Production

Crop	Unit	Production 1998/1999	Production 1999/2000*	Percent Change
Maize	90kg	9,710,805	10,795,713	11.2
Sunflower	50kg	134,968	161,483	19.6
Soyabeans	90kg	296,701	252,991	(14.7)
Groundnuts	80kg	637,065	674,369	5.9
Paddy Rice	80kg	183,753	110,891	(39.7)
Irrigated Wheat	90kg	769,183	830,000	7.9
Seed Cotton	kg	58,515,354	56,757,677	(3.0)
Sorghum	90kg	283,262	297,788	5.1
Millet	90kg	773,528	479,563	(38.0)
Mixed Beans	90kg	183,245	163,427	(10.8)
Virginia Tobacco	kg	2,168,623	3,416,295	57.5
Burley Tobacco	kg	3,762,081	3,202,397	(14.9)

Source: Central Statistical Office

**** Preliminary, based on partial information***

4.1.2.3 Status on Food Reserves

12. The FRA continued its role of maintaining strategic food reserves for the country. In this regard, about 30,000 tonnes of maize grain was held as strategic reserves. Furthermore, Government through FRA continued to offer fertiliser loans to farmers through a scheme where farmers paid back in kind. The scheme involved FRA buying 2 x 50 kg bags of maize from farmers at a price higher than the ruling market producer price in exchange for 1 x 50kg bag of fertiliser. In 2000, the ruling market producer price was between K10,000 to K14,000 but the FRA bought the maize from farmers at K16,000 per 50 kg bag of maize.

4.1.2.4 Market and Infrastructure Development

13. During the year under review, Government continued facilitating the development of agricultural markets, the provision of market support such as entrepreneurship training, strengthening of agricultural credit delivery and provision of appropriate legal framework for a competitive market. Government through programmes such as the Rural Investment Fund (RIF) , which is a sub-programme under Agricultural sector Investment Programme (ASIP), and the Economic Expansion in Outlying Areas (EEOA) implemented agricultural infrastructure projects of major concern. Under the RIF about 460 backlog projects were funded at a total cost of K11.1 billion from mid-December 1999 to September 2000. Similarly, 184 new projects at a total cost of K3.7 billion were funded during the period January to September 2000. The projects included rehabilitation and building of roads, bridges, dams, dip tanks, fish ponds, irrigation furrow systems, storage facilities, among others.

4.1.2.5 Agricultural Extension

14. Government continued to provide advisory and technical services to farmers, fishers and the general public in the areas of crops, irrigation, land husbandry, farm power and mechanisation, fisheries and agricultural information. This was aimed at ensuring improvement in agricultural production, farm incomes and food security by a direct interface with farmers through the field extension staff. These staffs are found in a network of 1591 agricultural camps throughout the country. Several farmers benefited from this service particularly small-scale farmers. The main technologies extended to farmers included:

i) Seed multiplication of traditional crops (sorghum, cowpeas, pearl millet, groundnuts, cassava and sweet potatoes);
ii) Use of quality seed and seed sampling;
iii) Demonstration of new varieties;
iv) Drought tolerant varieties;
v) Soil fertility management;
vi) Compost making;
vii) Minimum tillage;
viii) Use of kraal manure;
ix) Crop rotation;
x) Use of improved fallow (Temphrosia and Sesbania Sesban);
xi) Pigeon pea as a source of food and improved fallow;
xii) Management of grey leaf spot;
xiii) Large grain borer (LGB) control campaigns and rapid loss assessment of insect population on maize cobs;
xiv) Effective use of chemicals for pest control;
xv) Produce and input sourcing;
xvi) Break even prices and cost of crop production;
xvii) Marketing strategies;
xviii) On-farm storage;
xix) Keeping farm records; and
xx) Support to crop diversification.

15. In addition, Government through the National Agricultural Information Services (NAIS), continued to support the extension services through the dissemination of agricultural related information to both the urban and rural communities.

4.1.2.6 Agricultural Research

16. Government continued to generate appropriate crop and soil technologies in order to increase agricultural productivity and diversify production. This included the development of low cost sustainable farming systems for all major agro-ecological zones and farm sizes through participation of both the public and private sectors in research activities. This ensured the provision of a high quality, appropriate and cost effective service to farmers. In this regard, Government, through its research activities in the sector, bred crop varieties that were high yielding, tolerant to pests, diseases and adverse environmental conditions (drought and soil acidity) and had high nutritional value for all farmer categories. The research activities were mainly carried out on maize, sorghum, millet, beans, cowpeas, groundnuts, sweet potatoes, cassava and vegetables.

4.1.2.7 Seed Control and Certification

17. In 2000, Government through the Seed Control and Certification Institute (SCCI) maintained its responsibility of ensuring that seeds and seed varieties that are supplied to the farming public are of high quality. The major tasks undertaken during the year were field and seed inspections, seed sampling, laboratory seed testing, variety testing and registration, licensing and registration of seed dealers and coordination of rural seed systems. It also ensured that all the seed and seed varieties produced locally or outside the country were registered, tested and inspected. Such efforts were aimed at contributing to increased agricultural production in the country. This resulted in wide spread use of high quality seeds by farmers during the year under review.

4.1.2.8 Livestock Production

18. During the year under review, Government efforts were directed at expanding the production of livestock products and improving food security by:

i) promoting private sector involvement in the development of the livestock industry;

ii) providing and enacting appropriate rules and regulations;

iii) controlling and providing veterinary drugs; and

iv) undertaking appropriate livestock research.

19. Due to deliberate efforts by Government to curb livestock diseases and improve extension services to livestock farmers, livestock population in 1999 increased (see Table 4.2) by 5.7 percent (cattle), 7.0 percent (sheep), 7.0 percent (goats) and 11.1 percent (pigs).

20. The cattle off-take among commercial farmers was estimated at 17 percent in 1999 while it ranged between 6 to 7 percent among traditional cattle keepers.

Table 4.2: Livestock Population for 1998 and 1999*

Type of livestock	1998	1999	% Change
Cattle	2,747,176	2,904,880	5.7
Sheep	67,341	72,083	7.0
Goats	891,374	953,757	7.0
Pigs	310,845	345,196	11.1
Total	**4,016,736**	**4,275,916**	**6.5**

Source: Ministry of Agriculture, Food and Fisheries
*** Livestock figures have a time lag of one year***

4.1.2.9 Fishing sub-sector

21. Estimated fish catches in 2000 season went up by 3.2 percent from 67,327 tonnes in 1999 to 69,500 tonnes during the review period. The increase was due to the abundant waters in rivers and lakes in the 1999/2000 season. Implementation of programmes aimed at optimising yields in aquaculture and developing sustainable management strategies for fisheries contributed to the favourable performance in the fishing sub-sector.

4.1.3 Outlook

22. The agricultural sector in 2001 is poised for further growth. This growth is premised on good weather as well as the development of policies and strategies that will address the fundamental factors affecting the performance of the agricultural sector. In 2000, Government commenced the preparation of the successor programme to ASIP I in view of ASIP I coming to an end in December 2001. The ASIP II will reinforce the progress made in ASIP I. This will include developing further public-private sector partnerships and decentralising of support to small-scale farmers organised in groups at local levels. Due to the duality nature of the agricultural sector, publicly managed and funded agricultural services will be largely concentrated among small–scale farmers. The formulation of the ASIP II is expected to be finalised in June 2001. The food security pack programme launched in 2000, is an input package for small-scale farmers, which will positively impact on their crop production and consequently improve their household food security situation.

23. Government will also continue to open up roads, which are often impassable during some periods of the year through programmes such as RIF. This will assist small-scale farmers and market intermediaries to interact profitably as the cost of transporting produce from production areas to markets will be reduced.

24. Further, the restructuring of the Ministry of Agriculture, Food and Fisheries has been completed. The ministry has been decentralised and the staff is therefore expected to be more responsive to farmer's needs. This in turn will have a positive impact on farmer productivity.

4.2 MINING AND QUARRYING

4.2.1 Overview

25. For three consecutive years, real value-added in the mining sector has been declining. In 2000 it fell by 5.1 percent from K160.2 billion in 1999 to K153.7 billion in 2000 largely due to domestic operational bottlenecks. Consequently mining and quarrying sector contribution to GDP has declined from 6.7 percent in 1999 to 6.1 percent in 2000.

26. Following the privatisation of the major assets of ZCCM in March 2000, mineral production has however, started to rebound. This was mainly on account of the recapitalisation of the mines by the new owners.

27. In addition, mineral prospecting and exploration by several mining houses were undertaken in the review period. The most significant were on the completion of exploration on Kansanshi Mine, Konkola North Area, and Lumwana. The explorations revealed high potential for copper in those areas.

28. Metal prices on the international market exhibited signs of recovery in 2000. The price of copper increased from an average of US$ 1,550.8 per tonne in 1999 to US$ 1,834.4 per tonne in 2000. This was mainly on account of sustained demand in Asia, Europe and North America.

29. During the year under review, the Government established regional bureaux in four regions in an effort to decentralise mining operations. These bureaux are in Mkushi, Kitwe, Chipata and Livingstone. These bureaux were established to facilitate the development of small-scale mining by providing the following services:

i Technical Services covering the acquisition of mining, processing, safety and environmental protection; and

ii Documentation pertaining to acquisition of mining rights, marketing and export procedures.

4.2.2 Sector Performance

4.2.2.1 Production of Metals

30. There was a decline in the production of copper from 265,879.7 tonnes in 1999 to 256,178.5 tonnes in 2000. Similarly, cobalt production also declined by 11.4 percent, from 3,761.2 tonnes in 1999 to 3,332.8 tonnes in 2000 (see Table 4.3).

Table 4.3: Metal Production in Tonnes and Percentage Change (1999 and 2000)

	1999	2000*	% Change 1999/2000
Copper	265,879.7	256,178.5	(3.6)
Cobalt	3,761.2	3,332.8	(11.4)

Source: Bank of Zambia
**** Preliminary***

31. Metal production was constrained mainly by inadequacies in both technical and capital factors resulting from many years of lack of investment in the sector. This negatively affected both the mines' operational efficiency and productivity. Additionally, production at some of the newly privatised mines was below the 1999 level. This was also mainly due to production constraints arising from lack of investment and maintenance, and partly due to industrial and labour unrest.

i. Metal Prices

32. There was a general increase in metal prices in 2000 compared to 1999. Copper traded at an average price of US$ 0.8 per pound at the London Metal Exchange (LME) in 2000 compared with a price of US$ 0.7 per pound during the previous year. The price of cobalt also registered an increase of 0.7 percent in 2000 (see Table 4.4). The favourable price developments were caused mainly by the increased copper consumption mostly from Europe and the Middle East. The recovery in emerging markets in Asia in the year 2000 had boosted the demand for copper, while high production of electronics equipment and their components, construction components, safety systems and automobiles had further strengthened the demand.

33. During the year under review, Chinese consumption of copper increased dramatically, recording an almost 13 percent increase year-on-year in January-May, fuelled by spending primarily on infrastructure and construction.

Table 4.4: Average Annual Prices of Copper and Cobalt (in US$ per pound)

Period	1999	2000	% Change
Copper	0.7	0.8	18.6
Cobalt	11.7	11.8	0.7

Source: Bank of Zambia

Table 4.5: Average Monthly Unit Prices of Copper and Cobalt in 2000 (in US$ per pound)

Month	Jan	Feb	Marc	Apr	May	Jun	Jul	Aug	Sep-	Oct	*Nov	*Dec
Copper	0.80	0.82	0.81	0.80	0.79	0.82	0.82	0.83	0.85	0.87	0.87	0.87
Cobalt	12.9	10.7	15.1	12.5	12.4	13.2	11.0	10.2	10.9	11.9	11.9	11.9

Source: Bank of Zambia
**** Projections***

34. The recovery in the price of copper, as was the case for most of other non-fuel commodities, was engendered by an improvement in the global economic and financial conditions after a global recession in 1998 in the wake of the 1997 Asian crisis. Real economic growth in Japan, emerging market economies in Asia, and Europe, which are Zambia's major copper consumers, improved during the year thereby increasing demand and price of copper.

ii) Privatisation

35. The unbundling and privatisation of the ZCCM assets in business packages was aimed at promoting diversity of ownership of mining assets as well as minimising political and economic risks and the task was completed on 31st March 2000.

36. Konkola Division plus Konkola Deep Mining Project (KDPM), Nchanga Division and Nampundwe Mine were sold to a consortium comprising Zambia copper Investment (ZCI), Commonwealth Development Corporation (CDC) and International Finance Corporation (IFC) and the new company changed its name to Konkola Copper Mines (KCM). The cash consideration was US$ 30 million plus US$ 60 million future cash payment. The transaction was completed in March 2000.

37. Mufulira Division Concentrator and Nkana Mines Concentrator together with its Cobalt Plant were sold to First Quantum and Glencore International at a cash consideration of US$ 20 million. The transaction was completed in March 2000.

38. During the year under review, Nkana Smelter and its Refinery and Acid plant were incorporated into a wholly owned subsidiary of ZCCM (ZCCM Smelter Company Limited). Anglo American Corporation Plc would manage the company for a period of 5 years.

iii) Prospecting and Exploration

39. Prospecting and exploration works continued in most parts of the country in 2000. Most of these works reached advanced stages. Avmin of South Africa, through its locally incorporated company, Chambishi Metals Plc, constructed a new plant at a capital cost of US$130 million to treat the Nkana slag dump for the recovery of cobalt and copper. At full capacity, the plant is expected to produce an additional 4,200 tonnes of cobalt and 6,000 tonnes of copper per annum. In addition to

programme this project the company invested in the rehabilitation and reconditioning of the existing cobalt and acid plant, which will result in a total output of 6,000 tonnes of cobalt and 16,000 tonnes of copper per annum.

40. Non-Ferrous Corporation Africa Mining Plc of China commenced its investment programme of about US$ 150 million in the rehabilitation and development of Chambishi Mine. The mine is expected to be fully operational towards the end of 2001 and is expected to produce 45,000 tonnes of copper per annum.

41. Chibuluma Mines Plc, which is a subsidiary of Metorex Limited of South Africa, has started the development of a new mine at Chibuluma South Area. The development commitment of approximately US$ 34 million would be expended over a period of three years. As a result, the mine is expected to produce 17,000 tonnes of copper per annum when it becomes operational in the year 2001.

42. Konkola Copper Mines Limited (KCM), a subsidiary of Zambia Copper Investments initiated work on the development of Konkola Deep Mining Project. The company will spend in excess of US$ 523 million over a period of five years and the plant is expected to produce over 160,000 tonnes of copper per annum at full capacity.

43. Cyprus Amax carried out very detailed exploration work over the Kansanshi Copper Ore Bodies in the North Western Province. The development of Kansanshi will result in a total production of 150,000 tonnes of copper per annum.

44. Phelps Dodge completed the exploration of the Lumwana copper ore body in the North-Western Province, which represents the largest undeveloped copper resource outside the Copperbelt Province. However, the viability of the project depends much on the availability of appropriate infrastructure.

4.2.3 Outlook

45. There is ground for real optimism for an improved performance in the mining sector given that the privatisation of copper mines completed the recapitalisation of the mines had commenced. In addition, the increasing demand for copper and cobalt on the world market will positively influence their prices and production in the coming year. The mining industry is expected to be revitalised through increased investment, technology and reduction in production costs. Consequently, output of metals, and operating profits will increase.

46. Further, the recovery in the industrialised economies and emerging markets in Asia will boost the performance of the mines in the domestic economy.

4.3 ENERGY AND WATER

4.3.1 Overview

47. In line with the general economic liberalisation programme in the energy sector, Government continued implementing reforms aimed at improving the efficiency, reducing the cost at which energy is distributed and encouraging private sector participation.

48. During the year under review, the electricity and water sector real output grew from K72.1 billion in 1999 to K72.9 billion, an increase of 1.2 percent. This, however, was lower than the growth of 2.6 percent recorded in 1999. The decrease in real value added was mainly attributed to the decline in electricity generation that fell by 0.3 percent. This was compounded by the continued closure of the INDENI Refinery that was gutted by fire in 1999 and, the low coal production and sales.

49. During the year under review, Government continued to implement policies under the National Water Policy with a view to facilitate the equitable provision of adequate quantity and quality of water for all concerned groups of users at acceptable costs. In addition, Government was concerned with ensuring the security of supply in order to enhance socio-economic development.

4.3.2 Sector Performance

4.3.2.1 ENERGY

4.3.2.1.1 Electricity

50. The biggest challenge facing the main national electricity supplier, ZESCO, in the new economic dispensation is to run as a commercially viable entity. In this regard, initiatives to restructure ZESCO and generally the electricity industry continued. The Zambia Privatisation Agency (ZPA) also commissioned a study on options for private sector participation in ZESCO Limited.

i) Electricity Generation and Consumption

51. The favourable hydrological conditions during the year under review had a positive impact on the availability of hydropower generation. Despite these favourable conditions, electricity generation during 2000 fell by 0.3 percent from 6,508,808 Mega Watt hours (MWh) in 1999 to 6,488,568 MWh (see Table 4.6). This was mainly attributed to a decline in domestic demand, which fell by 8.9 percent from 3.97 million MWh during the period January to August 1999 to 3.62 million MWh during the same period in 2000.

Table 4.6: Electricity Generation in MWh (January to October)

	1999	2000	% Change
Main Hydro Stations	6,460,978	6,453,021	(0.1)
Mini Hydro Stations	35,011	22,042	(37.0)
Diesel Stations	12,899	13,505	5.0
Total	6,508,808	6,488,568	(0.3)

Source: ZESCO Limited

52. The decline in domestic electricity consumption was mainly as a result of reduced demand in the mining, commercial and residential sectors. Specifically, electricity demand by the Copperbelt Energy Corporation (CEC) from ZESCO declined by 12.4 percent from 2.5 million MWh during the period January - August 1999 to 2.2 million MWh during the same period in 2000. Commercial and residential sectors electricity demand declined by 10.9 percent and 2.2 percent respectively during the same period. The fall in the commercial and residential sectors was mainly attributed to the Powercut Initiative[7] that was implemented by ZESCO during the year.

ii) Exports

53. The volume of electricity exports continued to improve in 2000. Preliminary indications are that whereas 428,265 MWh of electricity were exported in 1999, about 642,294 MWh were exported in 2000, representing an increase of 13.0 percent. The amount of revenue also increased by 30 percent from US$ 4.7 million in 1999 to US$ 6.2 million in 2000. The increase in exports was mainly attributed to increased sales to Zimbabwe, which in 1999 was only importing minimal power from Zambia (Table 2). In addition, considerable increases in power exports to Congo DR, Tanzania and Botswana were registered.

Table 4.7: Electricity Exports (January to October)

Country	MWh			(US$)		
	1999	2000	% Change	1999	2000	% Change2000/1999
Congo DR	2,073	2,768	34	173,279	216,443	25
Tanzania	2,840	5,098	44	313,148	490,116	56
Botswana	8,174	9,372	15	326,653	394,931	21
Namibia	15,558	17,388	12	455,563	486,460	7
Zimbabwe	54,573	168,237	207	449,722	1,359,628	202
South Africa	359,545	400,745	13	3,029,458	3,321,403	7
Total	567,823	642,294	13	4,747,823	6,178,981	30

Source: ZESCO Limited

iii) Electricity Tariffs

[7] The Powercut Initiative is an exercise, which was meant to recover the huge amount of outstanding electricity bills owed to ZESCO through the disconnection of power to all defaulting customers.

54. In terms of domestic tariff changes, ZESCO, in April 2000 effected a 25 percent electricity tariff increase under the Automatic Tariff Adjustment Formula (ATAF). In addition, an application for a tariff revision was made to the Energy Regulation Board in November 2000 for consideration.

iv) Rural Electrification Programme

55. With regard to the Rural Electrification Programme, a plan of action to undertake at least one rural electrification project in each province was made during the review period at an average cost of K1.3 billion for each project. The total cost of the action plan was approximately K12.0 billion. Out of this amount, K700 million was made available to the Rural Electrification Fund (REF) and was spent on continuation of works on two projects in two provinces.

56. In order to complement the rural electrification programme, implementation of the pilot project (1999-2003) on providing energy services using solar photovoltaic equipment in the Eastern Province continued. By December 2000, the project in Nyimba was completed. About 100 systems were installed at a total cost of US$ 101,000. Four demonstration solar home system (SHS) units were also installed in Chipata and another four in Lundazi, bringing the total number of demonstration units to eight. In addition, tenders were awarded for the supply of 150 SHS in Lundazi and another 150 SHS in Chipata at a total cost of US$ 134,901 and US$ 178,848, respectively. The provision of solar energy especially to commercial premises improved business activities in these areas.

4.3.2.1.2 Petroleum

57. With INDENI Oil Refinery rehabilitation works still uncompleted, importation of petroleum products by road and rail continued during the year under review. The Zambia National Oil Company (ZNOC) alone imported a total of 236,594 tonnes of petroleum products during the period June to December 1999. As of September 2000, 144,619 tonnes of petroleum products were imported into the country. The products that were imported in 1999 and 2000 include petrol, paraffin, diesel and fuel oil (see Table 4.8).

Table 4.8: Petroleum Products Imported in Tonnes*, 1999 to 2000

Product	1999 (Jun-Dec)	2000 (Jan-Sept)
Petrol	61,148	46,220.50
Paraffin	16,136	10,692.05
Diesel	124,154	66,830.5
Fuel Oil	35,156	20876.00
Total	**236,594**	**144,619.09**

Source: Zambia National Oil Company
**** Figures do not include imports by Oil Marketing Companies***

i) Prices

58. During the review period, landed costs of petrol, diesel and paraffin increased by 12 percent, 39 percent and 25 percent respectively (see Table 4.9). This coupled with the continued depreciation of the Kwacha negatively affected the wholesale prices of these products.

Table 4.9: Landed Cost and Wholesale Price of Petroleum Products in Lusaka, 1999 to 2000

Product	Landed Cost (US$/MT)		% Change	Wholesale Price (K'm/MT)		% Change
	1999	2000		December 1999	October 2000	
Petrol	426	475	12	1.18	1.75	48
Diesel	341	475	39	0.95	1.41	79
Paraffin	321	400	25	0.78	1.70	81

Source: Ministry of Energy and Water Development and Zambia National Oil Company

59. As a result of the increments in landed costs and wholesale prices of petroleum products, pump prices also increased tremendously (see Table 4.10).

Table 4.10: Lusaka Pump Prices per Litre

Product	December 1999	October 2000	% Change 1999/2000
Petrol	1,859	3,402	83
Diesel	1,727	3,377	95
Paraffin	1,106	1,847	67

Source: Ministry of Energy and Water Development

ii) Coal

60. The total sales of coal registered an increment of 17 percent from 109,988 tonnes during the period January-September 1999 to 128,421 tonnes during the same period in 2000 (see Table 4.11). Although the sub-sector registered an increase through coal sales from Maamba Collieries, these were far below the targeted levels and capacity of the plant. This was mainly due to the continued low availability of plant and earth moving equipment.

Table 4.11: Total Coal Sales in Tonnes (January to September)

	1999	2000
First Quarter	27,163	48,608
Second Quarter	38,153	30,996
Third Quarter	44,672	48,817
Total	**109,988**	**128,421**

Source: Maamba Collieries

4.3.2.2 WATER

4.3.2.2.1 Sub-sector Performance

i) Water Supply and Distribution

61. During the year under review, it was estimated that 58 percent of the total population had access to safe water. Access to safe water continued to be more common in urban areas than rural areas. In urban areas, 93 percent of the households had access to safe water while only 38 percent of rural households had access to safe water. It was further estimated that 82 percent of the total population had access to toilet facilities. In urban areas, almost all households had access to toilet facilities (91 percent), while 30 percent of the rural households had no access to toilet facilities. Despite these positive changes, the accessibility levels are far short of government's targets. Government's targets are that of increasing access to safe water by 50 percent in rural areas and 100 percent in urban areas, and that of increasing access to sanitary means of excreta disposal of 50 percent in rural areas and 100 in urban areas. As a consequence, provision of safe water and sanitation services continued to be a major source of concern for the government.

62. In order to improve service delivery in the sector, Government, therefore, continued with commercialisation of water supply and sanitation services. Consequently, seven water companies were established between 1999-2000. Mulonga, Nkana and Kafubu Water and Sewerage Companies started operations in 1999 while Southern, North-Western Water and Sewerage Companies and Asset Holding Company started operations in 2000. The Asset Holding Company provides water and sewerage services to all former ZCCM townships in five towns on the Copperbelt.

ii) Water Resources

63. Available data from all the Hydrological stations indicates that there was more water in all the rivers during 1998/1999 than the 1999/2000 season. The highest mean monthly discharge for the Kafue River during 1999/2000 was 781 m^3/s for the month of March compared to 813 m^3/s during 1998/99. For the Zambezi River, the mean monthly maximum flow for 1998/99 was 3,052 m^3/s for the month of May while for 1999/2000 it was 2677 m^3/s for the month of April. For the Chambeshi-Luapula the highest mean monthly flow during 1999/2000 was 121.67 m^3/s for the month of April while for 1998/1999 season it was 182.63 m^3/s for the month of May.

iii) Water Resources Management

64. During the year under review, water resources management was also an important activity in the sub-sector. The Water Resources Action Plan (WRAP) was formulated as a means of increasing access and utilisation of water, and managing it towards national growth in a manner that is sustainable.

4.3.3 Outlook

65. In 2001, the outlook in the Energy sub-sector is promising. The restructuring options in the energy sector such as the creation of the Office for Private Power Investment in the Ministry of Energy and Water Development, will further contribute to the mobilisation of private investment to tap the already existing hydropower potential in the industry. The rural electrification programme is also expected to be enhanced with the successful implementation of the direct remittance of the rural electrification levy to the REF by ZESCO.

66. The envisaged privatisation of the Maamba Collieries is expected to inject new investment in the mine. This will boost capacity utilization. Further, the completion of the privatisation of the copper mines is expected to boost demand for coal from Maamba.

67. During the year 2001, measures that will result in appreciating the value of water, creating opportunities for increasing access and utilisation and managing it towards national growth are expected to be fully implemented. This new direction of thought and action is critical to the successful development of the country. Thus, the Water Resources Action Programme (WRAP), formulated is expected to support the National Water Policy in the establishment of a comprehensive framework that will promote the use, development and management of water resources in a sustainable manner.

4.4 TRANSPORT AND COMMUNICATIONS

4.4.1 Overview

68. The transport and communications sector recorded a positive growth of 10.4 percent in value added from K154 billion in 1999 to K170.1 billion in the review period. The favourable performance was attributed to increased activities in the sub-sectors of road infrastructure, road transport movement, as well as communications.

4.4.2 Sector Performance

4.4.2.1 Roads and Road Transport

69. During the period under review the transport sub-sector, performance was satisfactory. Real value added rose from K75.4 billion in 1999 to K90.8 billion in 2000 representing an increase of 20.4 percent.

70. In the last five years, the private sector continued to play a major role in passenger and cargo transport. The United Transport and Taxis Association (UTTA) were the key players in the passenger transport while under freight transport the operators were Truckers Association of Zambia (TAZ), Federation of Road Transport Hauliers (FEDHAUL) and other international operators.

71. The estimated number of passengers carried in the year 2000 was 66,076,000 compared to an estimated 57,985,015 in 1999, representing an increase of 13.9 percent. The estimated quantum of cargo transported by road by registered vehicles was 14,925,600 tonnes compared to that of 12,575,000 tonnes in 1999, an increase by 18.6 percent.

72. During the period under review, road rehabilitation and maintenance under the Road Sector Investment Programme (RoadSIP) continued implementing its project components. RoadSIP-I was launched in 1998 with objectives of bringing the condition of the road network to 50 percent good and at least 10 percent poor; reduce the road accidents by 20 percent; develop the capacity of local consultants and contractors; produce environment guidelines and introduce environment clauses in all road contracts; and build capacity in the road agencies.

73. Most of these objectives were partially achieved during the year under review as outlined below.

i) A Road Safety Action Plan aimed at reducing road accidents has been formulated and is been implemented.

ii) The National Council for Construction has been established with a view to build the capacity of local contractors.

iii) The Environmental Unit has been established in the Roads Department with a view to monitor that all road contracts take into consideration the environmental clauses;

iv) The capacity of road agencies is being developed through the Public Sector Investment Reform (PSRP); and

v) A good number of roads are being maintained and rehabilitated.

74. As at the end of the review period, a total of US$ 79.34million was spent under RoadSIP-1 on the maintenance and rehabilitation of the trunk, main, district, urban and feeder roads and about 12 road projects were completed and 15 are near completion through out the country. The accelerated implementation of RoadSIP-1 was one of the contributing factors to the positive performance of the sub-sector (see Table 4.12).

Table 4.12: Status of Financing under RoadSIP, 1999 to 2000

Funding Source	Actual Jan-Sep2000 US$ Million	Estimate Oct-Dec 2000 US$ Million	Estimate 2000 US$ Million
Road Fund	5.8	3.5	9.3
GRZ	18.5	4.5	23.0
Donor	17.6	4.0	21.6
IDA Credit	17.3	8.0	25.4
Total	**59.3**	**20.0**	**79.3**

Source: Ministry of Transport and Communication

4.4.2.2 Rail Transport

75. The rail sub-sector registered a decline of 15 percent in real value added from K10 billion in 1999 to K8.5 billion in 2000. The decline in the sub-sector's output was on account of the sharp fall in freight and passenger movement due to stiff competition from road sub-sector.

76. Cargo freight and passenger movements by Zambia Railways Limited (ZRL) continued to decline. The goods transported fell from 1,611,898 tonnage in 1999 to 1,457,245 tonnage in 2000 representing a decrease of 9 percent (see Table 4.13).

Table 4.13: Zambia Railways: Goods Transported (In tonnes), 1999 and 2000

Period	Local Goods	Exports	Imports	Transit	Total
1999	897,003	262,456	248,682	203,727	1,611,898
2000	715,224	208,621	320,001	213,399	1,457,245

Source: Zambia Railways and Ministry of Transport and Communication

77. As for passengers, a total of 469,925 were transported in the review period compared to 816,804 in 1999, representing a decrease of 42 percent (see Table 4.14).

Table 4.14: Zambia Railways: Passengers Transported, 1999 and 2000

	Ordinary Train	Zambezi Train	Mulobezi Train	Total
1999	605,711	155,959	55,134	816,804
2000	404,879	20,980	44,067	469,925

Source: Zambia Railways and Ministry of Transport and Communication

78. During the year, limited works of track rehabilitation were undertaken with a total of 15,840 concrete sleepers, covering 11.0 km, being laid at a cost of US$ 0.9 million. This brought the distance under concrete sleepers to 477 km out of a total mainline distance of 848 km, leaving a balance of 371km still under wooden sleepers. In addition, another US$ 1.8million was spent on general maintenance of the railway line.

79. In order to improve the operations of ZRL, the Government is exploring ways of inviting the participation of the private sector in the company. In this regard Government in the review period approved in principle the concession of the company to prospective investors.

4.4.2.3 Air Transport

80. The air transport industry in 2000 continued to expand in terms of number of operational airlines under a liberalised and deregulated industry. A total of 17 Zambian private registered holders of air service permits as well as other foreign operated airlines were operating scheduled air transport services on domestic, regional and international routes (see Table 4.15). During the year, aircraft movement increased by 8 percent to17,512 flights from 16,075 flights. Although there was an increase in the movements of aircraft the number of passengers that embarked and disembarked decreased during 2000. In the period January to October 2000, a total of 370,436 passengers were handled by the air carriers compared to 416,357 passengers handled in 1999.

81. The number of international Airlines that operated in Zambia in 2000 included British Airways; Air Malawi; Air Zimbabwe; Air Tanzania; South African Airways; Kenya Airways; Comair; Inter Air; and Ethiopia Airlines. During the year, two airlines started operating in the sector and these were Air Kenya and Phoebus Apollo Aviation. On the other hand Air Namibia stopped operating on 31st May 2000.

Table 4.15: Number of Zambian Registered Operating Airlines in 2000

Name	Type Of Service
Zambian Airways Ltd	Passenger Services
Zambian Skyways Ltd	Passenger Services
Stabo Air Ltd	Passenger Services
Travel International Air Charters Ltd	Passenger Services
Proflight Air Services Ltd	Passenger Services
ZEGA Air Ltd	Cargo Services
Southern Aviation	Cargo Services

Source: Department of Civil Aviation

82. The following were the local charter operators operated in the years 1999 and 2000: Del Air (Z) Limited; Zambia Flying Doctor Services Limited; Staravia Limited; Avocet Air Charters Limited; Airwaves Limited; Proflight Air Services Limited; Tongabezi Limited (stopped in 1999); Batoka Shy Limited; Agair Limited (crops spraying); and DHL International (Z) Limited (cargo and mail).

83. The civil aviation industry in 2000 however continued to be constrained by the poor state of infrastructure at airports due to inadequate financial and material resources. However, Government realizing the strategic role of civil aviation in national development took measures in 2000 to improve the infrastructure at the international Airports. These included;

i) renovation of the terminal building at Lusaka International Airport;

ii) renovation of the terminal building at Livingstone Airport; and

iii) provision of storage facilities of aviation gasoline and JET A1 at Mfuwe Airport.

84. During the same period the rehabilitation of Livingstone International Airport runway was completed.

4.4.2.4 Water Transport

85. In 2000, the Water Transport sub-sector continued to play its role in providing transport services to areas, which cannot be accessed by other means of transport particularly in the lakes Bangweulu, Mweru areas, the Luapula river basin, Lake Kariba, Zambezi flats and the waters of Lake Tanganyika.

86. During the period under review the country's major international inland water transport outlet on the shores of Lake Tanganyika, continued to play an important role in the movement of cargo to and from Zambia through Mpulungu Harbour. Total cargo handled through the port in 2000 stood at 48,769.8 tonnes of which 39,101.1 tonnes was Zambian cargo and the remaining 9, 667.74 was transit cargo. Additionally the port recorded 161 voyages compared to 99 in 1999. This positive development was due to the successful privatisation of the Mpulungu Harbour in 1999.

87. For the other water transport the developments were as follows; the total number of passengers carried in 2000 was 13,415 as against 12,514 in 1999, and that of cargo was 7,500 tonnes as against 6,331 tonnes in 1999 on Lake Bangweulu. On Lake Mweru a total number of 4,000 passengers were carried compared to 5,785 in 1999. There has been a significant investment in water transport services in that the number of small private boat operators on both lakes catering both cargo and passenger traffic increased.

88. On the Upper Zambezi, ZAMPOST continued to provide water transport services for passenger, cargo and mail between Mongu and Kalabo. Private boat operators also played a significant role in providing water transport services. However, the number passengers carried decreased from 7,896 in 1999 to 3,434 during the year under review.

4.4.2.5 Communications

89. The communications sub-sector recorded a positive increase in output from K42.5 billion in 1999 to K42.9 billion in 2000, representing an increase of 1.1 percent. The growth in the sub-sector was due to the expansion in programmes of mobile phones services by the Zamtel, Telecel and Celtel (formerly Zamcel) (see Table 4.16 and 4.17).

Table 4.16: Mobile Cellular Operators

Name	Number of Subscribers 1999	Number of Subscribers 2000
Telecel (Z) Ltd	6,233	29,500
Celtel (Z) Ltd	5,200	28,000
Zamtel	5,288	4,078

Source: ***Ministry of Transport and Communication***

Table 4.17: ZAMTEL, Public Switched Network Operator, 1999-2000

Year	Number of Subscribers
1999	78,257
2000	84,253

Source: ***Ministry of Transport and Communication***

90. During the year, the Zambia Telecommunication Company Limited (ZAMTEL), installed a new digital telephone exchange type NEAX-61E from NEC of Japan in Kabwe with a capacity of 4500 and Kafue with a capacity of 1500, replacing the old NX-1E exchanges. A new digital exchange NEAX-61E of capacity 600 was also installed in Mkushi replacing an old Metaconta Rural Exchange.

91. ZAMTEL also introduced a Common Channel Signaling system (CCS No. 7) which will offer enhanced services to customers such as international GSM roaming for mobile subscribers and calling party identification. The following routes are now on CCS No. 7 signaling: British Telecom; Telecom Italia; AT&T of USA; Telkom of South Africa and MCI of USA.

92. Zambia Postal Services Corporation (ZAMPOST) ran a network of 134 Post Offices and 98 Sub Post Offices and Postal Agencies. It handled 7,441,221 domestic mail items. As regards the foreign items 2,107,876 were dispatched and 3,856,230 were received from foreign administrations. A track and trace system was installed at the Customer Service Centre for Express Mail Service items in Lusaka. This was in conjunction with the Universal Postal Union (UPU). This system is able to monitor the movement, i.e. transportation and delivery of all international EMS items through the utilization of computers.

93. An average sum of K 100 million was invested in the domestic telegraphic money order service in order to service customers within the minimum acceptable times. Customers in rural Post Offices are now able to receive their money within 7 days.

94. Apart from ZAMPOST there were 8 major companies providing courier services in the sector namely, DHL, Mercury Couriers, Mail Africa, Skynet Times Printpak, Securicor, Federal Express; and TNT International. In addition, the Corporation increased the number of Post Offices offering the Western Union Money Transfer Service to 20.

4.4.3 Outlook

95. The Roads sub-sector is expected to continue registering positive growth in the year 2001. The expected improvements in economic conditions and the anticipated commencement of RoadSIP-II will spur growth in the sub-sector.

96. As regards the rail sub-sector, the prospects for the year 2001 are that, a distance of 29km would be rehabilitated under World Bank funding, at a cost of US$1.5million to complete the concrete re-sleepering programme between Kafue and Kabwe. Still under World Bank Funding, a total of 60,000 wooden sleepers would also be procured at a cost of US$ 1.0 million for the maintenance of wooden sleeper sections which are in poor condition and account for the majority of derailments. On signalling and telecommunications, it is planned that approximately US$2.0 million will be spent to replace the microwave communication and to install a new train control system.

97. In the communications sub-sector, ZAMPOST has embarked on a commercialisation programme whose objective is to go into partnership with Information Technology services providers. This will enable the Corporation to computerise most of its counter and mail operations. Most of its services will be offered on-line leading to a reduction in time taken to process a transaction, improvement in the quality of service and increased volumes.

98. Work for the installation of a third Earth Station at Mwembeshi is underway and commissioning is expected in first quarter of the year 2001.

4.5 MANUFACTURING

4.5.1 Overview

99. The manufacturing sector performed favourably during 2000. Preliminary data indicates that manufacturing value added increased from K254.2 billion in 1999 to K288.4 billion in 2000. This represents an increase in value added of 13.4 percent during the year under review. The continued liberalization of the economy, firm level production improvements and increased domestic demand for manufactures contributed to the improved performance. The completion of the sale of major mining assets of the Zambia Consolidated Copper Mines (ZCCM) contributed to increased demand for manufactured inputs.

4.5.2 Sector performance

100. The food, beverages and tobacco sub-sector continued to play a dominant role in total manufacturing value added. Value added in the sub-sector grew from K154.8 billion in 1999 to K185.1 billion in 2000 representing a growth of 19.6 percent (see Table4.18). The improvement in the sub-sector was as a result of robust agricultural output following favourable weather conditions during the 1998/99 agricultural season. Increased production by beverage producing firms and agri-processing accounted for much of the gains in the sub-sector.

Table 4.18: Manufacturing Value Added Sub-sector at 1994 Constant Prices (K' Billion), 1997 to 2000

Sub-sector	1997	1998	1999	2000*	2000/99 %change
Food beverage & tobacco	138.6	146.0	154.8	185.1	19.6
Textiles & leather products	39.1	42.4	44.8	46.6	4.2
Wood & wood products	19.6	19.2	19.3	19.1	(1.1)
Paper & paper products	7.2	7.3	7.6	7.5	(1.5)
Chemical rubber & plastics	22.5	18.7	15.5	16.5	6.1
Non metallic mineral products	4.1	4.5	4.4	4.9	11.7
Basic metal products	3.3	1.3	1.3	1.6	21.6
Fabricated metal products	8.0	7.3	5.9	6.4	6.3
Other manufactures n.e.c	0.5	0.5	0.6	0.6	(0.1)
Total manufacturing	242.8	247.2	254.2	288.4	13.45
Total GDP	2,405.6	2,360.4	2408.5	2492.1	3.47
Share of manufacturing total GDP	10.1	10.5	10.6	11.6	9.4

Source: Central Statistical Office
*** Preliminary***

101. Performance in the fabricated metal products, basic metal products and non-metallic mineral products was remarkable in 2000 as compared to 1999. The basic metal products sub-sector achieved a high growth rate of 21.6 percent while the non metallic minerals and fabricated metal products sub-sectors recorded growth rates of 11.6 percent and 9.3 percent, respectively. The substantial growth

experienced in the sub-sectors represents a resurgence in input demand by mining companies following the sale of the remaining assets of ZCCM.

102. The chemicals, rubber and plastics sub-sector registered an increase in value added from K15.5 billion in 1999 to K16.5 billion in 2000 representing a growth of 6.1 percent. Despite the prolonged closure of the Indeni Oil Refinery and stiff competition from imported chemical and plastic products, the sub-sector registered positive gains also following increased demand from mineral processing and other chemical processing activities.

103. The textiles and leather products sub-sector registered an expansion in value added from K44.8 billion in 1999 to K46.6 billion in 2000. This increase in value added represents a growth of 4.2 percent. Despite stiff competition from cheaper imported textiles the sub-sector continued to forge ahead in mainstream manufacturing of textiles and cotton yarn for export.

104. The wood and wood products sub-sector registered a decline in output. Value added in the sub-sector declined from K19.3 billion in 1999 to K19.1 billion in 2000 representing a decline of 1.1 percent. Weak demand from the sectors utilising wood and wood products and stiff competition from imported finished wood products contributed to the low output.

4.5.3 Outlook

105. Output in the manufacturing sector is poised to remain robust in 2001. This optimism is hinged on the completed sale of the major remaining assets of ZCCM (Nchanga, Nampundwe, Konkola, Nkana, and Mufulira) which will increase input demand for fabricated metal products as the mines are recapitalised. The supply side for fabricated metal products is expected to respond to increased demand through increased investment in plant and machinery as a result of medium term growth prospects. The food and beverages sub-sector will remain buoyant in the medium term despite stiff competition that the FTA arrangement will pose to the sub-sector. Improvements in agricultural output, diversified agri-business activities and strong consumer demand for food should sustain output in the sub-sector.

Box..: THE IMPACT OF THE COMESA FREE TRADE AREA (FTA) ON MANUFACTURING FIRMS

The FTA is expected to benefit firms that utilize imported inputs from within the COMESA region following removal of duties on raw materials. This is because raw materials from COMESA countries will benefit from the zero rate tariff, and as such locally manufactured goods are expected to become more competitively priced.

The challenge for the sector will arise mainly from non-FTA sourced inputs. It is currently estimated that about 50 percent of manufacturing inputs are sourced from non-COMESA countries. This will mean that goods with a higher non-COMESA sourced input element will be less competitive on both the domestic and foreign market. The local manufacturing industry should prepare for the challenge of competing in a broadened export oriented market environment.

106. The chemicals, rubber and plastics sub-sector will benefit from the resumed operations at the Indeni Petroleum Refinery plant.

4.6 TOURISM

4.6.1 Overview

107. The performance of the tourism sector in the year 2000 was favourable when compared to the previous year. Measured by activities in Bars, Hotels and Restaurants, the tourism industry is estimated to have registered a growth of 7.2 percent in 2000 compared to 5.6 percent in 1999. This growth was evidenced by an increase in tourist arrivals and receipts. As a result of the increase in tourist arrivals, particularly those from high income countries, earnings from tourism related activities grew by 7 percent in the review period.

4.6.2 Sector Performance

4.6.2.1 Tourist Arrivals

108. Preliminary estimates indicate that a growth of 9.8 percent in international tourists was registered from 403,502 in 1999 to 443,073 in 2000 (see Table 4.19). This rise in arrivals was largely driven by increases in the category of tourists Visiting Friends and Relatives (VFR) and those coming for business purposes. The number of tourists VFR is estimated to have grown from 59,351 in 1999 to 77,720 in 2000, representing an increase of 30.9 percent. An increase in arrivals from Zimbabwe by 57 percent from 17,709 in 1999 to 27,828 in 2000 was one of the main factors behind the increase in the VFR category of tourists.

109. As for those coming for business, these are provisionally estimated to have increased by 6.7 percent from 187,934 in 1999 to 200,478 in 2000. The liberalisation of the economy that resulted in an increase in cross border trade in the region was a contributing factor to the rise in business tourists.

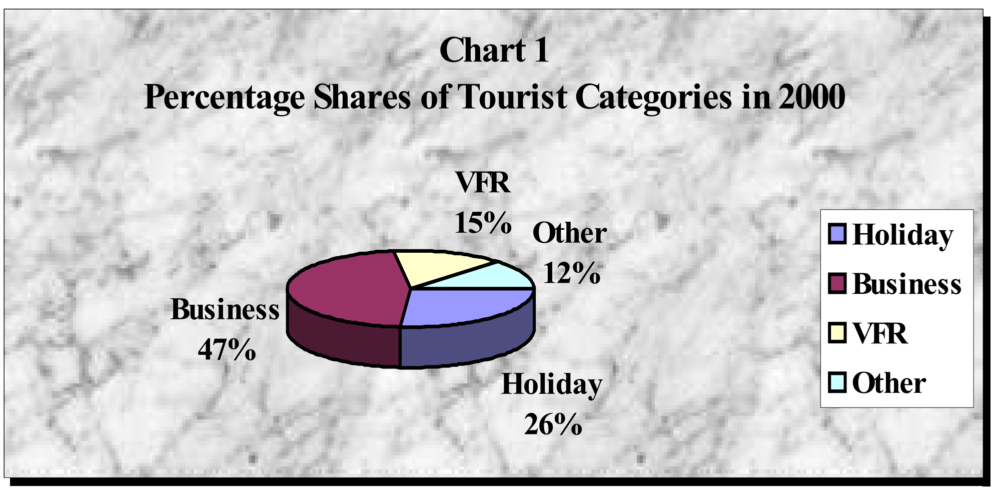
110. The category of tourists coming for holidays was estimated to have risen by 3.9 percent from 106,226 in 1999 to 110,336 in the review period. This was mainly on account of more arrivals from the Americas (USA, Canada and South America) and the Asia-Oceania region (Australia, New Zealand, India, Japan) both of which recorded increases of 16 percent's (see Table14.9).

Table 4.19: International Tourist Arrivals by Origin and Nature of Visit, 1999 to 2000

	1999					2000*				
Residence	**Holiday**	**Bus.**	**VFR**	**Other**	**Total**	**Holiday**	**Bus.**	**VFR**	**Other**	**Total**
Southern Africa	33,202	133,438	38,376	26,597	**231,613**	34,424	145,332	53,633	30,766	**264,155**
East Africa	2,556	13,162	4,639	4,571	**24,928**	2,211	13,250	5,828	4,599	**25,888**
North Africa	125	304	55	223	**707**	125	306	55	224	**710**
West Africa	123	366	75	447	**1,011**	123	368	98	449	**1,038**
Central Africa	2,908	13,081	5,673	6,399	**28,061**	2,881	13,175	7,060	6,739	**29,855**
Europe	45,333	20,945	6,776	7,497	**80,551**	45,078	19,120	7,163	8,114	**79,475**
Americas	8,660	3,299	2,071	1,944	**15,974**	10,059	3,321	2,085	1,277	**16,742**
Asia$ Ocenia	13,319	3,339	1,686	2,313	**20,657**	15,435	5,606	1,797	2,371	**25,209**
Total	106,226	187,934	59,351	49,991	**403,502**	110,336	200,478	77,719	54,539	443,072
% Of Total Arrivals	25.7	47.3	14.6	12.4	**100**	15.2	26.4	51.2	7.2	**100.0**
% Change 2000 Over 1999						3.9	6.7	30.9	9.1	**9.8**

***Source:** Ministry of Tourism*
Bus. = Business
**** Preliminary***

111. In terms of shares, arrivals for business purposes by far constituted the largest share of total tourist arrivals to Zambia. These accounted for 47 percent of total arrivals followed by holiday makers at 26 percent and those Visiting Friends and Relatives at 15 percent (see Chart 1).



112. A breakdown of tourist arrivals by origin shows that the majority in 2000 originated from the Southern African region. These accounted for 59 percent followed by Europe and Central Africa at 18 percent and 7 percent, respectively.

4.6.2.2 Earnings and Bed Occupancy

113. Total receipts from tourist related activities were estimated at US$ 91.2 million in 2000, representing a growth of 7 percent over the US$ 85.2 million earned in 1999 (see Table 4.20). This growth in receipts was attributed to several factors including the general increase in tourist, especially the increase in those coming from high income regions such as Americas.

114. The utilisation of tourism facilities in the major establishments however continued to be low. Average national room occupancy rates increased marginally from 36.5 percent in 1999 to 37.2 percent in 2000. Bed occupancy rates also increased from 31.2 percent in 1999 to 34.4 percent in 2000. The room and bed occupancy rates remained low mainly on account of low tourist volumes.

Table 4.20: Revenues, Room and Bed Occupancy Rates, 1995 to 2000

	1995	1996	1997	1998	1999	2000*
Room Occupancy Rate	47.0	40.8	49.4	40.3	36.5	37.2
Bed Occupancy Rate	36.0	31.8	41.2	41.2	31.2	34.4
Revenue (US$ million)	46.7	59.8	75.5	74.7	85.2	91.2
Percent Change (Revenues) (annual)	**-**	**28.1**	**26.3**	**-1.1**	**14.1**	**7.2**
Employment	**-**	**-**	**-**	**-**	**10,340**	**11,892**

Source: Ministry of Tourism
**** Preliminary***
- Data not available

4.6.2.3 Tourism Development and Promotion

115. A major development in the review period was the commencement of the rehabilitation of the Livingstone International Airport. By the end of the year, the rehabilitation of the runway at the Airport had been completed, while rehabilitation of the terminal buildings to bring them to international standards was also in progress. The rehabilitation of the airport is expected to attract more international carriers to Livingstone, especially with the expected completion of the Sun International Hotels. Already in the review period, a South African based carrier, Nationwide Airlines inaugurated a flight to Livingstone and indicated that it was to increase the number of flights during 2001.

TOURISM SECTOR INCENTIVES

- **Constitutional protection against nationalisation**
- **Priority access to land**
- **Facilitation of acquisition of self employment work permits for investors**
- **Value Added Tax (VAT) zero rating of tour packages**
- **Corporate tax reduced from 35% to 15%**
- **Duty free imports on aircraft and other spare parts**

116. The construction of the new Sun International Hotel also proceeded well during the review year. In addition, a number of pledges for investment in the tourism industry also continued to be made by potential investors. This was in response to the incentives offered in the sector by the Government and also the immense potential in the sector. Thus, a total of US$ 19.3 million in investment pledges were made by potential investors in the review period.

117. Although tourism is the main earner of foreign exchange in the non-traditional export category, Zambia's tourism industry is still very small. Its contribution to Gross Domestic Product (GDP) in the review year was only 2 percent and employed about 11,000 people. In terms of comparison with other countries in the region, tourist arrivals in 2000 accounted for only about 3-4 percent of total arrivals to the SADC region while the US$ 91.2 million earned in revenues are below the pacesetters in the region such as South Africa, Zimbabwe, Namibia and Botswana.

118. This slow development of the sector has been as a result of long standing impediments, which continued in the review year. These include the poor state of infrastructure such as tourist access roads, which rendered tourism activities to be seasonal, the general lack of adequate skilled human resources, lack of good hospitality services, inadequate funding of the sector and poor marketing of Zambia as a tourist destination. The situation in the review period was further compounded by rising energy costs especially those of electricity and petroleum.

119. Because of the inadequate marketing of Zambia, the country continued to be largely an unknown tourist destination. This is evidenced by the slow growth rate of tourists coming for holidays, which only increased by 3.8 percent in 2000. However, the Government stepped up its efforts to resolve some of these constraints particularly those related to infrastructure. For instance, the rehabilitation of core road network and some airports was scaled up.

4.6.2.4 Regional Tourism Initiatives

120. The Southern African Development Community (SADC), has set as one of its priorities the development of tourism in the member states including Zambia. Thus in 1999 a draft SADC tourism protocol was prepared, which among its provisions, proposes the streamlining of entry requirements in the SADC region so as to ease the flow of international tourists. This is expected to be achieved through a UNIVISA system for tourists entering the SADC member states.

4.6.3 Outlook

121. The prospects for an accelerated growth of the sector in the year 2001 are bright. The expected completion in mid 2001 of the Sun International Hotels, the terminal buildings at Livingstone International Airport, the hosting of the Organisation of African Unity summit, and the eclipse of the sun, are some of the major events that are expected to drive growth in the sector. On its part, the Government has accorded high priority to rehabilitating the tourist access roads, which should start addressing the long-standing constraint of poor tourist access roads.

4.7 BUILDING AND CONSTRUCTION

4.7.1 Overview

122. During the year under review, priorities in the building and construction sector continued to be focused on the provision of infrastructure through the Road Sector Investment Programme (RoadSIP), housing development and real estate business. However, preliminary estimates indicate that the sector's output increased from K123.9 billion in 1999 to K125.4 billion in 2000. This represents a growth of 1.2 percent in real terms.

4.7.2 Sector performance

4.7.2.1 Buildings Infrastructure

123. The rehabilitation programme of the government during the year 2000 included construction and rehabilitation of Government buildings, schools and health infrastructure. This contributed to increased activities in the building sector. Further, under the Market Upgrading Policy, a number of markets in several parts of the country were also rehabilitated/constructed (see Table 4.21).

Table 4.21: Markets Under Rehabilitation and Construction in 2000

Name of Market	Project Cost (K' Millions)	Comments/Status
Nyumba Yanga	1138.5	Work to be completed end Jan. 2001
Libala	1057.5	Work expected to be completed end Feb. 2001
Chilenje	2513.8	Rehabilitation to be completed April 2001
Chongwe	80.0	Construction work on-going
Kalomo Main	10.0	Rehabilitation on-going
Zimba	10.0	Rehabilitation on-going
Luwingu	100.0	Rehabilitation on-going
Itezhi-tezhi	50.0	Construction on-going
Mporokoso Main	21.4	Rehabilitation completed
Mporokoso Markets*	20.0	Rehabilitation of four small markets in Lunte Area completed
Kawambwa	15.0	Construction of Kazembe Modern Market in Mansabombwe. Works on-going.
Mushili -Ndola Rural	5.8	Works completed

Source: Ministry of Local Government and Housing

124. The construction work on the Presidential Housing Initiative (PHI) that began in 1999 also started to bear fruit. During the year 2000, about 141 housing units were constructed (102 low-cost and 39 high-cost) under phase one. Out of these, 97 (62 and 35 low-cost and high-cost) units were sold. In addition, PHI entered into 12 contracts with the private sector with a projected construction cost of about K538 billion. From these contracts, about 8,372 low-cost, 2,772 medium-cost, 1,169 high-cost units, 40 high-rise flats and 4 schools were expected to be constructed. The money for these projects is expected to come from the sale of completed housing units, pledges and donations from well-wishers.

4.7.2.2 Roads Infrastructure Development and Maintenance

125. The Government through RoadSIP continued to place emphasis in the development of the roads infrastructure. In this regard, a number of rural feeder roads as well as trunk, main and district roads were rehabilitated and/or reconstructed (see Table 4.22). Two bridges (Lukangaba and Kalungwishi) were also constructed while work on the new Chirundu bridge continued.

Table 4.22: Projects Undertaken During 2000

Name of Project (Road)	Funding Agency	Kms	*Intervention Status*
Kapirimposhi - Serenje	Danida	197.0	Rehabilitation completed
Serenje – Mpika	IDA/GRZ	236.0	Rehabilitation completed
Mpika – Chinsali	IDA/GRZ	186.0	Rehabilitation completed
Chinsali – Nakonde	IDA/GRZ	213.0	Rehabilitation completed
Monze – Zimba Road	EU	205.0	Rehabilitation still on-going
Luangwa Bridge - Mwami Border Post	NRB	590.0	Holding maintenance completed
Chingola - Solwezi	NRB	170.0	Holding maintenance completed
Choma – Chitongo	GRZ	91.0	Reconstruction completed
Mutanda-Kasempa Boma	GRZ	150.0	Reconstruction for first phase completed while second phase still on-going
Luanshya -Mpongwe	GRZ	66.0	Reconstruction still on-going
Lundazi - Chama	GRZ	123.0	Regraveling completed
Chama - Muyombe	GRZ	100.5	Regraveling completed
Mbala – Nakonde	GRZ	179.	Holding Maintenance completed
Nchelenge-Mununga–Luchinda	GRZ	131.0	Regraveling completed
Magoye – Chavuna	GRZ	33.0	Regraveling completed
Leopards Hill-Chongwe	GRZ	91.0	Regraveling completed
Mpika – Kasama	GRZ	204.0	Holding maintenance carried out
Ndola-Mufulira–Sabina	NRB	104.0	Holding maintenance carried out
New Chirundu Bridge	JICA/GRZ		Construction work on-going
Lukangaba Bridge	GRZ		Construction completed
Kalungwishi Bridge	GRZ		Construction work on-going

Source: Ministry of Finance and Economic Development and Ministry of Works and Supply

4.7.2.3 Urban Road Maintenance and Rehabilitation

126. The major projects under the Urban Maintenance and rehabilitation were:

i) Lusaka Road Maintenance and Rehabilitation

127. During the review period, Lusaka City council rehabilitated 60km of City streets. Approximately 88 percent of the works were completed and maintenance contracts were under way in five zones of the City.

ii) Kitwe/Ndola Priority Roads Rehabilitation and Maintenance

128. Work on the Kitwe and Ndola rehabilitation programme during the review period involved minor completion activities and the final closing activities. In addition, both Ndola and Kitwe processed maintenance contracts that were modelled after the performance contract format for the Lusaka City. Work is expected to commence during 2001. Further, funding for the Ndola Year-2000 Urban Road rehabilitation for Buyantanshi Road was approved. The works on this road were expected to be tendered early 2001 and actual rehabilitation is expected to commence.

iii) National Year-2000 Urban Road Rehabilitation

129. The National Urban Roads Rehabilitation Programme was expected to improve major roads in seven provincial capitals and five municipalities. The programme budget was estimated at K10 billion and was expected to provide for works in the districts as shown in Table 4.23. Contracts for seven provincial centres were approved and work is expected to be completed during 2001.

Table 4.23: National Year-2000 Road Rehabilitation Programme, 2000

Urban Area	Project (Road)	Length (km)
Livingstone	Libala drive (Airport Road)	5.0
Chipata	Umodzi Highway	5.4
Kabwe	Freedom Way, Great North Road, Independence Avenue	4.9
Mongu	Independence, Libonda, Lewanika, Mbuyu Roads	4.6
Solwezi	Independence Road	1.5
Mansa	Chitimukulu, Independence, Bangweulu	1.5
Kasama	Andrew Mwenya, Lua-Luo Ring Road	3.1
Chililabombwe	Konkola road	4.8
Chingola	Chiwempala Road	3.4
Kalulushi	Kafue Road	2.7
Luanshya	Ndola road, 4th Street, Zone Avenue, Cha Cha Cha Road	3.9
Mufulira	Chatulinga Road	5.0

Source: Ministry of Local Government and Housing

4.8 PRIVATE SECTOR DEVELOPMENT

4.8.1 Overview

130. The Government in the review year continued to pursue policies that were supportive to the growth of the private sector. The focus was on enhancing the growth and competitiveness of the private sector especially in view of the coming of the COMESA Free Trade Area (FTA).

131. In this regard, Government reduced duty on inputs on several items and also continued with its divestiture of public enterprises through the privatisation programme. A notable outcome of the privatisation programme was the completion of the major assets of the Zambia Consolidated Copper Mines (ZCCM) whose delayed sale impacted negatively on private sector activities.

132. The activities of the private sector were however, affected by the instability in the macroeconomic environment that was characterised by rising inflation, a rapid depreciation of the Kwacha and rising energy costs. The slump in world prices for some of the major agricultural products also affected earnings of some of the exporters. These difficulties coupled with the continued inadequacies in medium and short-term financing and relatively poor state of infrastructure in most parts of the country, slowed down private sector activities in most sectors of the economy.

4.8.2 Policy Developments

133. The Government, in addition to maintaining the already existing incentives, undertook a number of fiscal measures to further enhance the growth and competitiveness of the private sector. These measures included the following:

a) Excise duty on electricity was reduced from 10 to 7 percent;

b) Exercise duty on carbonated soft drinks was reduced from 25 to 10 percent;

c) Customs duties on items used for livestock production were removed;

d) Changes were made to customs tariff rates as a result of the re-categorisation of 120 items considered to be vital for agriculture, local manufacturers and industry as a whole; and

e) Duty on greenhouse plastic sheeting, tubes, pipes and hollow profiles were reduced from 25 to 15 percent. Similarly duty on the medium for growing roses and on cold room equipment was reduced from 25 to 5 percent to promote non-traditional exports.

4.8.3 Privatisation and The Private Sector Reform

134. Government's objective in 2000 was to finalise the privatisation of the remaining major assets of ZCCM and to expedite the privatisation of the non-ZCCM parastatals. The privatisation of the major assets of ZCCM was finalised in March 2000.

135. The assets involved were Nchanga, Konkola, Mufulira, Nkana and Nampundwe Pyrite Mines. Mufulira Division, including Nkana Mines, Concentrator Cobalt Plant were sold to First Quantum Minerals and Glencore International A.G. on 18th February 2000. Nchanga Division including Chingola Refractory ore dumps; Konkola Division and Nampundwe Private Mine were sold to a consortium comprising the Zambia Copper Investment (ZCI), International Finance Company (IFC) and the Commonwealth Development Corporation (CDC), on 31st March 2000.

136. The other significant privatisations in the review year were the leasing of the assets of Mpulungu Harbour Corporation and the completion of the leasing of the Rainbow Lodge to Sun International. The Mpulungu Harbour serves as an important link for freight to and from the Great Lakes Region. The Harbour however, had in the recent past experienced a rapid decline and it is hoped that its privatisation would help in revitalising it.

137. During the year under review, a total of 10 companies were privatised. With the completion of the privatisation of ZCCM assets and the others, the total number of companies privatised out of a working portfolio of 280 reached 248 as at 31st December 2000 with 32 still pending (see Table 4.24).

Table 4.24: Privatisation Programme Status, 1994 to 2000

	1994	1995	1996	1997	1998	1999	2000
Completed privatisation deals (cumulative)	15	60	189	213	224	234	245
Negotiations completed)		12	4	8	6	2	3
Heads of Agreement Signed		30	5	2	6	2	0
Companies/Units Privatised (cumulative)	15	102	194	223	236	238	248
Companies under negotiation	4	24	6	33	20	16	6
Companies under preparation	32	12	53	25	16	26	26
Commercialisation of Govt. Departments*				31	31	31	31
Total Working Portfolio	**52**	**210**	**253**	**312**	**303**	**311**	**311**

Source: Zambia Privatisation Agency
****Total number of Government departments identified for commercialisation***

138. The 32 companies that were pending privatisation were at various stages of preparation by the end of review period. Table 4.25 provides the status of some of these companies.

Table 4.25: Privatisation and Parastatal Sector Reform Activities in 2000

Company	Progress as at end December 2000
Zambia Railways Limited and Mulobezi Railways	The Government in 2000 approved concessioning of the operations of Zambia Railways Limited and preparations for inviting bids from potential concessionaires were underway by the end of the review period. A decision was made in 2000 to conduct a separate study to evaluate the potential for concessioning the Mulobezi Railways.
Kariba Minerals Limited	The company was advertised and the tender closed in October 1998. Dolphin was awarded the purchase but failed to perform and consequently the company was re-advertised and tenders closed on 6th October 2000. Five bids were received and negotiations had commenced with two preferred bidders.
Zambia Telecommunications Company Limited (ZAMTEL)	The possibilities of offering 25 percent shares to be floated on the Lusaka Stock Exchange were still being studied in the review year.
Zambia National Commercial Bank Limited (ZANACO)	A study to prepare privatisation options was underway in 2000.
National Airports Corporation Limited	Preparation to undertake privatisation studies on the capitalization of Ndola, Livingstone and Mfuwe airports were underway.
ZESCO Limited	The study on options of privatisation of ZESCO were underway in the review period.
Zambia Postal Services Corporation Limited (ZAMPOST)	A study is yet to be undertaken to determine options for the privatisation of Zampost. However, some initial preparatory work started in 2000
New Savoy Hotel	The hotel was re-advertised in the review year following the withdrawal of a prospective buyer. One bid was received but was rejected and the hotel by the end of the review year was still available for sale.
Kafue Textiles of Zambia Limited	Previous privatisation attempts have been unsuccessful, as no buyers have expressed interest. Possible incentives to be offered to make the company more attractive were being explored during the review period.
Nitrogen Chemicals Zambia Limited	Negotiations were as at end 2000 in progress with three interested buyers. The ZPA in the meantime approved that the company enter into a tolling contract with a company called UBB Group of South Africa while privatisation efforts were on going. The tolling agreement would provide the company with some funds to pay immediate expenses including salaries.
Maamba Collieries Limited	Completion of the sale could not take place due to failure by Benicon of South Africa to deliver as per sale Agreement. ZPA subsequently revoked the sale agreement and the mine was re-advertised and is still available for sale.

Source: Zambia Privatisation Agency and Ministry of Finance a and Economic Development

4.8.4 Investment and Export Promotion

139. Government objective is to diversify the economy through promotion of non-traditional exports and encouraging investment in productive sectors that have growth potential such as agriculture, manufacturing and tourism. Thus, Government in the review year, continued to facilitate investment activities in the economy and the promotion of non-traditional exports.

140. In the area of investment, several investment campaigns were undertaken both locally and abroad resulting in inquiries by potential investors to invest in the economy. A total of US$ 105 million in investment pledges were thus recorded by the Zambia Investment Centre as at 31st December 2000. This was however 34 percent lower than the US$ 160 million recorded in 1999 (see Table 4.26).

141. The reduction in the value of investment pledges in 2000 could be attributed to the unstable macroeconomic environment during the year. The withdrawal of special incentives from the Investment Act in 1996 was also a contributing factor. The reduction in the value of pledges for the service sector by 50 percent as well as the continued drop of pledges in the mining sector is another reason for the decline.

142. The majority of the investment pledges made during 2000 were earmarked for the manufacturing sector (28.3 percent), followed by the services sector (26.9 percent) and the tourism sector (18.4 percent).

Table 4.26: Investment Pledges: January to December, 1999 to 2000

	1999			2000		
	Number of projects	**Pledged Employ-Ment**	**Value in US$'000**	**Number of projects**	**Pledged employ-Ment**	**Value in US$ '000**
Agriculture	20	925	30,424.6	16	764	7,824.1
Manufacturing	46	2269	32,658.1	36	1736	29,734.6
Tourism	18	336	8,960.3	15	564	19,338.7
Construction	6	102	1,988.6	7	562	10,634.6
Transport	1	36	1,360.0	5	199	2,702.0
Mining	4	908	10,221.0	3	183	2,173.6
Fisheries	1	11	57.0	2	78	630.0
Services	25	507	72,985.1	23	569	28,302.3
Health	1	42	1,600.0	0	0	0.0
Financial Institutions						3,850.0
Total	**122**	**5136**	**160,254.7**	**107**	**4655**	**105,189.9**

Source: Zambia Investment Centre

4.8.5 Non-Traditional Exports

143. For the third year running, there was a drop in earnings of visible Non-Traditional Exports (NTE's). These declined by 16.6 percent from about US$ 253million in the period January to November 1999 to about US$ 211 million (f.o.b.) in the same period in 2000 (see Table 4.27).

Table 4.27: Developments in Major Non-Traditional Exports, January to November, 1999 to 2000 (in US$ '000), f.o.b.

Product	1999	2000	Percent Change 2000 over 1999
Fresh –flowers	33,833.3	30,780.7	**(9.0)**
Cotton lint	34,531.2	8,794.5	**(74.5)**
Cotton yarn	31,071.7	22,447.7	**(27.8)**
Sugar	21,888.1	20,831.2	**(4.8)**
Fresh vegetables	17,829.3	16,056.0	**(9.9)**
Gemstones	13,456.4	11,983.0	**(10.9)**
Copper rods	16,189.0	12,081.8	**(25.4)**
Tobacco	12,263.6	8,333.0	**(32.0)**
Cement	5,006.4	5,475.6	**9.4**
Coffee	4,557.1	7,376.4	**61.9**
Stock-feeds	3,464.8	2,729.5	**(21.2)**
Electrical cables	4,981.1	4,355.4	**(12.6)**
Others	53,679.7	59,590.7	11.0
Total*	**252,751.7**	**210,835.5**	**(16.6)**

Source: Bank of Zambia
****Does not include electricity and tourist earnings***

144. The fall in NTE earnings in 2000 was largely accounted for by declines in cotton yarn and lint, cement, copper rods, sugar and tobacco (see Table 4.27). As for cotton yarn and lint, low international prices and stiff competition from Brazil and some East Asian countries were some of the contributing factors to reduced earnings in the review period. In addition, there were supply disruptions for cotton yarn and lint in the domestic economy. Some of these disruptions related to rehabilitation works at Swarp Spinning Mills, the major exporter of cotton yarn, and the pullout by Lonrho Cotton Zambia Limited from cotton lint production.

145. The glut on the world market for tobacco as a result of increased supply by the two biggest producers (Zimbabwe and Brazil) in the 1999/2000-crop season dampened world market prices. Similarly coffee prices on the world market were dampened by increased production from Central America and Brazil.

146. The continued political instability in the Great Lakes Region; the stiff competition on the regional market for sugar and the opening of cement plant in Tanzania contributed to the decline in the exports of these commodities to that region.

147. Additionally, exports of petroleum products were affected by the continued closure of INDENI Oil Refinery due to an inferno in mid 1999.

148. Nevertheless, some commodities registered positive growth in the review period. These include chemical products (mainly medicaments, detonators & cosmetics), and wood products.

Increased exports of chemical products were largely due to an increase in production of detonators and increased demand for cosmetics in the Congo DR.

149. A breakdown of the structure of NTE's by commodities in the review year shows that the major export commodities were floricultural products (mostly fresh flowers), which were valued at US$ 30.8 million or 14.6 percent of the total NTE's earnings. The next major export items were cotton yarn at US$ 22.4 million (10.6 percent) sugar at US$20.8 million (9.9 percent) and fresh vegetables at US$ 16 million (7.6 percent) (see Table 4.28). The predominance of primary products in Zambia's NTE's exposes the earnings to external shocks as has happened in the last three years when the price of primary agricultural commodities has been falling. This has contributed to the declines in earnings.

Table 4.28: Shares of Major Export Items in 2000 (in US$ '000)

Product	*Earnings*	Percent of Total
Fresh flowers	**30,780.7**	14.6
Cotton yarn	**22,447.7**	10.6
Sugar	**20,831.2**	9.9
Fresh vegetables	**16,056.0**	7.6
Copper rods	12,081.8	5.7
Gemstones	11,983.0	5.7
Tobacco	8,333.0	4.0
Coffee	7,376.4	3.5
Sub total	129,889.8	61.6
Total NTE's	**210,835.5**	**100.0**

Source: Bank of Zambia

150. In general terms, exporters in the review period were constrained by high production costs (relating to among, others electricity tariffs and fuel) as well as marketing constraints. In April 2000, electricity tariffs were increased by 25 percent while the pump price of fuel was increased three times largely due to world price increases.

4.8.6. Development Finance

151. The lack of adequate medium and long term financing to support private sector activities has been a long-standing problem in the economy. The Government has been exploring ways of how to effectively provide medium and long term financing without falling into the risks experienced with regard to government assisted credit schemes in the past. In this respect, Government in the review year continued to facilitate the on lending of foreign loans and assistance to the private sector through various schemes. Some of the schemes that were assisting the various segments of the private sector with credit included the following:

i) SYSMIN Programme

152. This programme, which is worth US$ 30million, was finalised during 2000. It is intended to provide technical and financial support to Small Scale Mining Sector in Zambia.

ii) The Export Development Programme

153. This programme, which started in 1996, has been benefiting producers of high value crops such as cut flowers, tobacco, coffee and cotton through technical assistance and short-term credit. The list of beneficiaries was in the review year expanded to include producers of leather, wood and organic products.

iii) Enterprise Development Fund (EDF)

154. This programme is being administered by the Bank of Zambia and is meant to benefit among others, emergent and established exporters through provision of the much needed development finance. The EDF is worth US$ 45 million and has three components:

- Multi-purpose Credit Facility (MCF) of US$ 40 million consisting of two credit lines of investment and export pre-shipment
- The Matching Grant Scheme of US$ 3.5 million
- A Technical Assistance Package of US$ 1.5 million

155. As of September 30, 2000, about US$ 5 million was disbursed to enterprises in the various sectors of the economy (see Table 4.29).

Table 4.29: Amounts Disbursed under the EDF (January to September, 2000)

Sector	Amount in US Dollars
Manufacturing	550,000
Transport	1,698,200
Security Services	94,320
Agriculture	135,000
Food Processing	1,027,978
Air Transport	170,000
Mining	326,402
Agro Processing	200,000
Construction	750,000
TOTAL	**4,951,900**

Source: Ministry of Commerce, Trade and Industry

156. The EDF was however faced with some difficulties. In the case of the Matching Grant Scheme (MGS), most applicants were finding it difficult to access the resources as a result of not being able to source the 100 percent up-front payment that was required. However, the implementing agency allowed interim disbursements to be done so that it would enable the firms' space their payments. The other problem faced in accessing the MGS was in relation to the application procedure and requirements especially for small-scale enterprises. These were later simplified for the small-scale enterprises to make them easier for them to access the resources.

157. In the case of the Multi-purpose Credit Facility (MCF), there were no major problems faced in accessing the funds. However, to further increase the accessibility of the fund, the Export Pre-shipment facility (EPF) was modified to allow intermediate-goods producers for mining companies to be eligible.

4.8.7 Micro, Small and Medium Scale Enterprise Development

158. The Micro, Small and Medium Scale (MSME's) enterprises constitute an important segment of the private sector. This is particularly so considering that Zambia has a large informal sector, whose major players include small-scale enterprises.

159. In the review year, Government's support to the MSME's continued to be rendered largely though the Small Enterprise Development Board (SEDB). Government's efforts were also being supplemented by those of the Non Governmental Organisations (NGOs).

160. Development of Micro, Small and Medium-scale Enterprises was largely constrained by difficulties of a financial nature. However, Government through SEDB continued to strive to offer support to a number of MSMEs within its limits. Some of these support programmes included the following:

i) Providing training to MSMEs in areas such as business management, food technology and textile technology. A total of 12 seminars were conducted and 156 entrepreneurs were trained in various disciplines;

ii) Providing market support services by holding exhibitions for MSMEs to exhibit their products. In 2000 a total of 6 exhibitions were held and 102 MSMEs exhibited their products. Under the same programme, Makeni Unique Collection Showroom was established to provide a market place for buyers and sellers. A total of 20 MSMEs exhibited their products at the showroom and about 90 percent of the products were sold; and

iii) Providing factory space through industrial estates, which in 2000 had 100 percent occupancy in all the Estates.

161. The MSMEs in general continued to be faced with the problem of lack of cheap credit facility, high production costs, market accessibility and quality assurance.

4.8.8 Outlook

162. A number of important developments took place in 2000 that are expected to have important bearing on the private sector in the year 2001. These include the COMESA-FTA that came into force in October 2000, the completion of the privatisation of ZCCM major assets and the impending opening of Sun International Hotels in Livingstone in mid 2001.

163. The coming of the FTA means an expanded market for buyers and sellers in the region. About 23 percent of Zambia's non-traditional exports go to the COMESA region and with the trade liberalisation under the FTA, these are expected to increase. The privatisation of ZCCM and the completion of some tourist related developments in Livingstone are expected to further spur private sector confidence and activities.

164. Inspite of the recent moves by the Government to enhance the competitiveness of local industry, the optimism for private sector growth could be threatened by the relative high production costs in the domestic economy putting local industry at a disadvantage in the regional market

4.9 SCIENCE, TECHNOLOGY AND VACATIONAL TRAINING

4.9.1 Overview

165. During the year under review in Science, Technology and Vocational Training sector, the Government continued carrying out its mandate of providing technical education and vocational training and promoting the development of science and technology. The focus of the Government was on the acceleration of the implementation of the National Science and Technology policy. As part of the implementation of the policies, the Government established and operationalised the regulatory bodies namely; the Technical Education Vocational and Entrepreneurship Training Authority (TEVETA) and the National Science and Technology Council (NSTC). The National Science and Technology Council was established and all the positions were filled by August 2000.

4.9.2 Sector Performance

a) Science and Technology

166. During the year under review, the National Institute for Scientific and Industrial Research (NISIR) continued with the commercialisation of their technologies as a means of generating income. In addition, the following programmes were implemented:

i) A joint project with the Schools of Veterinary and Agriculture of the University of Zambia on Animal Feed Supplementation Packages continued to be undertaken. Preliminary investigation on supply of gamma-sterilised blood to tsetse facilities in Africa was also done. The project isolated *Theileria pava* which cause corridor disease was characterized and a stabilate was prepared for possible vaccine production;

ii) The project on production of potato seed (minitubers) continued to be conducted and the some varieties of potatoes were marketed to seed companies

iii) In collaboration with the National Science Centre in the Ministry of Education, 3,340 different types of scientific glassware were supplied to institutions of learning;

iv) Chalk production for schools and other institutions of learning. The technology and materials used in the production of chalk is local and the product is of very high quality; and

v) Conducted a training course in the electronics and electrical field focusing on personal computer assembly, repair and Local Area Network.

b) Technical Education Vocational and Entrepreneurship Training

167. The Government in 2000 continued to pursue the implementation of the Technical Education Vocational and Entrepreneurship Training (TEVET) policy initiatives. The strategies focusing mainly on operationalising the Management Boards in institutions, and development of a TEVET were implemented.

168. The number of grant-aided institutions remained at 23 as shown in Table XX. However, the Government started to provide financial support to three community-based institutions namely: Vocational Training Centre for Commerce (VTCC) in Lusaka, Kanyembo Ntemena in Kawambwa and Saint Ambrose Trades School in Kafue.

Table 4.30: Institutions by Province 1996 to 2000

Province	1996	1997	1998	1999	2000
Central	2	2	2	2	2
Copperbelt	5	5	5	5	5
Eastern	1	1	1	2	2
Luapula	1	1	1	1	1
Lusaka	4	4	4	5	5
Northern	1	1	1	1	1
North Western	1	1	1	2	2
Southern	3	3	3	3	3
Western	1	1	1	2	2
Total	**19**	**19**	**19**	**23**	**23**

Source: Ministry of Science Technology and Vacation Training

169. Enrolment levels have generally declined since 1997 as shown in Table X. In 2000, enrolment levels declined by 42.3 percent from 5,876 in 1999 to 3,348. This unfavourable performance was mainly due to non-enrolment by large colleges like Evelyn Hone. With regard to gender, there has been an improvement in terms of enrolment of females. The female enrolment ratio for the year 2000 was about 51 as compared to 44 in 1999. This indicates that for every 100 males enrolled in colleges in 2000, about 51 were females.

Table 4.31: Enrolments by Institution and Sex, 1997 to 2000

Institution	Enrolment							
	1997		1998		1999		2000	
	M	F	M	F	M	F	M	F
Chipata TTI	95	27	37	20	34	22	41	28
Choma TTI	99	-	127	-	89	-	111	-
Evelyn Hone	877	458	858	502	914	510	-	-
Industrial Training Centre	-	-			80	3	-	-
Kabwe TTI	344	113	320	114	296	113	272	120
Kaoma TTI	11	1	22	7	23	34	21	82
Kasiya Secretarial College	-	83	-	89	-	85	-	46
Kitwe VTC			75	17	74	18		
Livingstone TTI	273	164	295	162	213	120	121	50
Luanshya TTI	303	192	270	170	245	120	196	64
Lukashya TTI	345	150	351	121	299	129	238	122
Lusaka TTI	206	70	227	75	99	63	119	41
Lusaka VTC	64	9	49	7	142	18	74	13
Mansa TTI	122	30	91	30	120	41	196	67
Mongu TTI	44	12	54	9	43	14	27	10
Mwinilunga TTI	33	25	31	24	10	13	20	19
Ndola Polytechnic	-	-	-	-	-	-	67	28
Nkumbi Int	295	242	286	217	323	211	233	197
Northern Technical College	897	65	476	48	647	78		
Solwezi TTI	54	16	47	13	13	15	29	18
St Ambrose Trades School	-	-	79	54	-	-	-	-
TVTC	190	96	100	65	152	97	168	97
Ukwimi TTI	15	2	53	6	35	2	45	11
ZASTI	69	14	44	9	61	10	61	12
ZIBSIP	105	67	139	86	115	60	183	101
Total	**4,441**	**1,836**	**4,031**	**1,845**	**4,027**	**1,776**	**2,222**	**1,126**

Source: Ministry of Science, Technology and Vocational Training
KEY: TTI = Teacher Training College,
VCT=Vocational Training Centre

170. Similarly, the number of graduates from training institutions fell by 36.5 percent from 2,461 graduates to 1,562 graduates. The number of graduate female students dropped to 546 from 848 in 1999.The reduction in the number of graduates was mainly attributed to the disturbances in the college calendars years especially Evelyn Hone College which records the highest number of graduates.

Table 4.32: Number of Graduates by Institution and Sex, 1998 to 2000

Institution	Enrolment					
	1998		1999		2000*	
	Male	Female	Male	Female	Male	Female
Chipata TTI	12	-	34	22	-	-
Choma TTI	-	-	42	-	45	-
Evelyn Hone	211	134	421	237	-	-
Industrial Training Centre	-	-	42	1	-	-
Kabwe TTI	151	74	119	29	102	75
Kaoma TTI	-	-	13	32	8	2
Kasiya Secretarial College	-	25	-	61	-	50
Kitwe VTC	-	-	-	-		
Livingstone TTI	100	77	107	64	-	-
Luanshya TTI	80	43	141	72	111	52
Lukashya TTI	141	62	136	51	82	66
Lusaka TTI	123	40	43	24	94	37
Lusaka VTC	-	-	-	-		
Mansa TTI	35	3	75	39	95	29
Mongu TTI	33	6	10	-	12	-
Mwinilunga TTI	31	24	-	-	20	19
Ndola Polytechnic	-	-	-	-	67	8
Nkumbi International College	79	31	88	92	79	52
Northern Technical College	180	18	113	18	-	-
Solwezi TTI	47	13	-	-	12	5
St Ambrose Trades School	-	-	-	-	-	-
TVTC	60	29	74	46	91	62
Ukwimi TTI	15	2	35	3	-	-
ZASTI	5	-	12	3	58	12
ZIBSIP	27	8	108	54	140	77
Total	**1,330**	**589**	**1,613**	**848**	**1,016**	**546**

Source: Ministry of Science, Technology and Vocational Training
****Preliminary***

c) College Rehabilitation

171. The Government, under the Zambia Education Capacity Building Programme (ZECAB, . continued the rehabilitation of Lusaka Trades Training Institute, the Northern Technical College in Ndola and Kitwe Vocational Training Centre,

4.9.3 Outlook

172. In the year 2001, the Government will continue with the rationalisation programme in the science and technology sector. The process of forming the National Crop and Soils Research Institute, will be accelerated by bringing together the Pest and Livestock Control Centre of the former National Council for Scientific Research and the Mount Makulu Research Centre. The Government

will also fully operationalise the Technology Business Centre and the National Remote Sensing Institute.

4.10 ENVIRONMENTAL AND NATURAL RESOURCES CONSERVATION

4.10.1 Overview

173. During the period under review, Government's focus in this sector continued to be that of providing an environmental policy framework as well as monitoring, evaluating and coordinating its implementation. This was aimed at ensuring protection of the environment and sustainable development. Some of the programmes that were implemented in order to meet the sector's objectives were the Environmental Support Programme and the Zambia Forestry Action Plan.

174. Government also continued to work closely with the public on issues of environmental protection through the Environmental Council of Zambia (ECZ) and the Zambia Forest and Forestry Industry Corporation (ZAFFICO). In addition, Government continued to play an active role on environmental issues at the global level.

4.10.2 Sector Performance

4.10.2.1 Policy Developments

175. Government continued its efforts of safeguarding and protecting the environment from unsustainable exploitation. In this regard, efforts in 2000 were directed at developing the National Wetlands Policy to guide the management of wetlands in the country. It is expected that the National Wetlands Policy will be concluded during 2001. Government also prepared the Hazardous Waste Management Regulations, Ozone Depleting Substances Control Regulations, and Forest Fees and Licensing Regulations aimed at further enhancing environmental management. However, these regulations are yet to come into effect.

176. In addition, Government continued the work of developing the five-year Strategic Operational Plan (SOP), which will cover the period 2000 to 2005. The main aim of the SOP is to structure the developmental goals of the sector.

4.10.2.2 Environmental Support Programme

177. In 2000, the implementation of the Environmental Support Programme (ESP) continued operating in Mufulira and Mpika and was extended to Petauke, Kafue, Siavonga, Nchelenge, Mufumbwe, Chibombo, Mongu, Kaoma, Kalabo and Senanga districts. This move was aimed at empowering local communities to manage their natural resources on a sustainable basis.

178. Further, funding to six micro projects in the area of environmental conservation among the local communities of Mpika and Mufulira was approved under the pilot Environment Fund of ESP. In the area of information management, an environmental information forum was established to facilitate easy exchange of environmental information. Government also continued to use radio and television programmes to raise public awareness on environmental issues throughout the year. In this regard, environmental news was introduced on the main television news bulletin. In addition, production of digital based maps and topographic standards were initiated under the National Environmental Action Plan (NEAP).

4.10.2.3 Zambia Forestry Action Plan

179. During the period under review, phase II of the Provincial Forestry Action Plan (PFAP) was initiated and will cover the Southern Province. The main focus of phase II of PFAP will continue to be that of involving local communities in planning and implementing forestry micro projects.

180. In the area of forestry revenue collection, there was a steady improvement in revenue generation during the period 1997 to 2000. About K2 billion was generated in 2000 compared to K1.2 billion in 1999. For 1997 and 1998, K342 million and K821 million was collected respectively. The increase in revenue collection was mainly due to the vigorous enforcement of the law and the revitalization of the Forestry Department after the restructuring of the Ministry in 1997.

4.10.2.4 International Cooperation

181. Government continued to play an active role in issues of environmental concerns at the global level in view of the fact that environmental issues cut across boundaries. In this light, the Government is party to the following international instruments:

i) the United Nations Framework Convention on Climate Change (UNFCCC);

ii) the Convention on Biological Diversity (CBD);

iii) the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their disposal;

iv) the Vienna Convention for the Protection of the Ozone layer and its Montreal Protocol on substances that deplete the Ozone layer; and

v) the United Nations Convention to Combat Desertification.

182. In order to fulfil its international obligations, Government in 2000 put in place the following initiatives:

i) *Development of a National Communication to implement the provisions* of the UNFCCC. Studies in the area of green house gas emissions, vulnerability assessment and mitigation assessment continued to be undertaken in 2000.

ii) *Development of a National Biodiversity Strategy and Action Plan* (NBSAP). Government submitted the NBSAP for adoption by Cabinet. A project profile on Lukanga swamps was also prepared for possible funding from the Global Environmental Facility.

iii) *Continued implementation of the National Programme on the Montreal Protocol.* Government continued implementing its activities of building capacity in the private and public sectors to use ozone friendly alternative gases instead of ozone depleting substances.

iv) *Development of* a *National Action Plan* (*NAP*). Government initiated the preparation of the NAP as a framework to implement the provisions of the Convention to Combat Desertification.

4.10.3 Outlook

183. It is envisaged that in 2001, the preparation of both the National Action Plan to combat desertification and the National Wetlands policy will be completed. It is also expected that Government will put in place the National Biodiversity Strategy and Action Plan (NBBSAP). This will set the momentum for the implementation of projects under the NBBSAP. All draft regulations formulated in 2000 will be put into effect and new regulations formulated if need arises. In addition, activities to fulfil the country's international obligations especially in such international instruments as the Convention on Biological diversity, the Montreal Protocol, the Climate Change Convention and the Desertification Convention will continue to be implemented in 2001.

184. It is also expected that the contribution of the forestry sector to the socio-economic development of the country will be enhanced in view of the anticipated increased revenue collections from this sub-sector. This favourable performance will emanate from Government's policy of adding value on all forestry products.

4.11 EDUCATION

4.11.1 Overview

185. In the year under review, Government continued to implement the National Education Strategy of providing good quality education to every eligible child within the shortest possible time. The strategy emphasised basic education since this is a foundation for further education and training as well as the alleviation of poverty. Emphasis was on infrastructure development by building new school structures and rehabilitating dilapidated ones, on improved educational materials provision, teacher development, school health and nutrition, and on curriculum improvement. The curriculum improvement also incorporated cross cutting issues such as HIV/AIDS, gender and equity, population and environmental issues and life skills. It also emphasised capacity building and decentralisation.

4.11.2 Sector Performance

186. During the period under review, there was moderate increase in the number of new schools built and those rehabilitated especially at the basic school level. The number of schools increased slightly from 4,290 in 1999 to 4,298 in 2000 (see Table 4.33). Government schools accounted for 97 percent. The increase in the number of schools between 1999 and 2000 was more in urban areas than in rural areas. The high rate of increase in urban areas was due to high demand for educational services and the increased participation of the private sector in education.

Table 4.33: Number of Basic and Secondary Schools (1998 to 2000)

School Type	1998	1999	2000	1999/ 2000% Change
Basic School	4,221	4,290	4298	0.2
Secondary School	228	241	282	17.0

Source: Ministry of Education

4.11.2.1 Basic School Enrolments and Progression

187. Enrolments at basic school level stagnated, recording an annual growth rate of less than 1 percent for both girls and boys. However, there was an improvement in promotion and retention rates. The promotion rates in the whole sector remained generally steady. Few pupils dropped out of the system, a trend that continued from the previous two years, (see Tables 4.34 and 4.35). It should however be noted that economic reasons and failure to progress accounted for more dropouts than other reasons.

Table 4.34: Basic School Enrolment (1997 to 2000)

Year	Basic School Enrolment		
	Total	**Male**	**Female**
1997	1,547,775	808,336	739,439
1998	1,557,257	810,873	746,384
1999	1,555,707	812,176	743,531
2000*	1,559,970	814,304	745,666
Percent Change 2000/1999	**0.27**	**0.26**	**0.29**

Source: Ministry of Education
**** Preliminary***

Table 4.35: Dropouts by Year and Reason

Reason	1997	1998	1999	2000
Failure to progress	2,286	11,625	11,285	9,536
Illness	2,396	1,758	1,475	1,246
Death	1,331	822	604	510
Pregnancy	1,396	909	599	506
Economic	32,399	28,262	26,325	22,246
Expelled	266	253	167	141
Other	8,073	1,297	383	324
Grand Total	**64,991**	**44,926**	**40,838**	**34,508**

Source: Ministry of Education

4.11.2.2 Teacher Supply

188. There was a significant increase in the number of teachers entering the teaching profession during the year 2000. This was as a result of improvements in enrolments at the teacher training level. The increase in enrolments at the teacher training level was mainly due to the Zambia Teacher Education Course (ZATEC) which produced 666 teachers in 1999 and enrolled 3,648 students in the year 2000 when it was extended to all the other colleges from the initial pilot phase of three colleges (see Table 4.36). This increase in the number of teachers graduating did not however have much impact on the sector because of the number of teachers who retired under voluntary separation as well as many vacancies left as a result of a reduction in the number of untrained teachers as a matter of Government policy.

Table 4.36: Number of School Teachers (1997 to 2000)

Year	T rained Teachers	Untrained Teachers	Total
1997	31,581	8,896	32,467
1998	30,901	3,909	34,810
1999	30,953	1,913	32,866
2000*	33,843	---	33,843
%Change 2000/1999	**40 %**	**---**	**31.2 %**

Source: Ministry of Education
--- Not available
**** Preliminary***

4.11.2.3 Academic Production Classes

189. The policy on Academic Production Unit classes is that a school can only enrol one third of its total normal classes enrolment. The programme has been quite successful as most schools have so far introduced these classes. Enrolment figures are yet to be compiled as the opening of these classes in each case is determined by the need for the kind of classes to be opened.

4.11.2.4 Tertiary Education Enrolment

190. The total number of students at the University of Zambia and the Copperbelt University increased from 6,573 in 1999 to 6,852 in 2000. The notable increase in enrolments at University level was a result of the liberalised student admission system, which allowed many students to sponsor themselves instead of depending on the Government bursary. The closures at the two institutions have also resulted in a backlog of students who enter university later than they were supposed to. Enrolment at teacher training level for the year 2000 remained almost the same as the year before.

Table 4.37: University and Teacher Training Enrolment

	Enrolment				
Institution	**1997**	**1998**	**1999**	**2000**	**Percentage Change 2000/1999**
UNZA	3,990	3,996	4,417	4,817	9
CBU	1,723	1,647	2,156	2,035	-5
Total University	5,713	5,643	6,573	6,852	4.3
Teacher Training	5,001	5,774	5,780	5,790	0.2

Source: Ministry of Education

4.11.2.5 Out of School Programmes

i) Community Schools

191. The number of community schools has continued to grow throughout the country. In 2000 the number of community schools grew to 416 and employed 1,052 teachers. However, total enrolment dropped form 47,276 in 1999 to 45,646. This was mainly due to an increase in number of basic schools upgraded and new classes built in a number of areas that accommodated more pupils. The Bursary schemes for primary schools introduced under the Zambia Educational Capacity Building (ZECAB) and BESSIP which are catering for the financial problems of 23,328 needy children have also enabled more pupils to enrol in school (see Table 4.38).

Table 4.38: Enrolment and Staffing in Community Schools

	1997	1998	1999	2000	% change 2000/1999
Number of Schools	123	220	373	416	12
Boys	8,002	13,479	28,323	22,305	4
Girls	1,048	15,125	24,044	21,443	-11
Total	19,050	28,604	47,276	45,646	-3
Percent of Orphans	19%	17.9%	20%	17%	-3
Male Teachers	67	278	361	609	39
Female Teachers	64	290	438	443	23

Source: Community Schools Secretariat

ii) Education Broadcasting Services

192. In response to the unmet demand for school places, the Interactive Radio Programme was introduced through the department of Education Broadcasting Services (EBS) on a pilot basis. The pilot programme is also targeted at the out-of-school and underprivileged children. During the year under review the department was able to train progamme producers and mentors to supervise the listening-in centres, write the programmes, procure and install studio equipment and record the programmes.

193. The programme was officially launched in July 2000 with the opening of 8 listening-in-centres. Each centre is supervised by a mentor who is supported by the community. Each one of these centres has an average enrolment of about forty pupils. Altogether the eight listening-in-centres have a total enrolment of 3000 pupils. These programmes will last for five months instead of a year for each grade. The baseline study to find out whether the children are benefiting from the learning that is taking place in these centres has already been conducted and the summative evaluation of the pilot project was completed in mid December 2000.

iii) Basic Education Sub-Sector Investment Programme (BESSIP) Implementation

194. The main focus of the Basic Education Sub-Sector Investment Programme (BESSIP) during the year under review was the provision of inputs to the Basic Education sub-sector in order to improve the delivery of education services, enable more children to enrol, improve the learning achievements as well as the Ministry's capacity to monitor outcomes, manage finances, develop a framework for sector analysis and support decentralisation of service delivery to District Education Boards. Financing of the components was on course although there was over-expenditure in the programme management component (see Table 4.39).

Table 4.39: BESSIP Financing by Component (January to September)

Component	Budget US$	Actual US$	% of actual against budget
Programme Management	1,024,125	1,326,339	129%
School Infrastructure	18,833,394	12,335,382	65.5
Teacher Dev. Deployment and Compensation	6,060,195	1,064,252	17.5
Education Materials	8,297,885	245,332	3.0
Equity & Gender	919,504	664,496	72.3
School Health & Nutrition	715,940	262,003	36.6
Curriculum Development	1,428,000	232,130	16.3
Capacity Building and Decentralisation	4,806,100	1,334,413	27.8
Total	**42,085,142**	**17,464,346**	**41.5**

Source: Ministry of Education
Note: Budget figures are as per 2000 Annual Work-plan

4.11.2.6 School Infrastructure

195. During the year under review, 500 new classrooms and 330 new staff houses were constructed. In addition, 442 classrooms and 641 staff houses were also rehabilitated. This is in addition to the 905 constructed classrooms and 1,096 rehabilitated classrooms as at December 1999 (see Table 4.40). Work to prepare the bills of quantities and tender documentation for the rehabilitation of the 11 teachers' training colleges have been prepared but the actual rehabilitation will only take place in 2001.

Table 4.40: School Infrastructure and Education Materials

Infrastructure and materials	1997	1998	1999	2000
New Classrooms	505	650	905	500
Classroom Rehabilitation	450	500	1,096	442
New Staff Houses	350	350	350	330
Staff Houses Rehabilitation	150	150	450	641
Desk Supplies	17,400	25,300	42,690	18,600
Books Supplies	1,160,958	1,161,155	1,161,155	1,500,000

Source: Ministry of Education

4.11.2.7 Curriculum Development

196. During the year under review, the Curriculum Development Centre through the Basic School Curriculum Development Component developed a Curriculum Framework. Starting with teacher education the curriculum stipulates what should be taught at basic school level with emphasis on the acquisition of numeracy and literacy skills and also incorporated issues such as HIV/AIDS, gender and equity, life skills, population and environmental issues. The high School curriculum was also revised along the same lines and the examinations formally set by Cambridge University Examination Syndicate were fully localised.

4.11.2.8 School Mapping Exercise

197. The School Mapping Exercise which started in 1999 was completed in December 2000.The exercise involved locating sites for proposed schools, as well as all existing educational infrastructure under the Ministry of Education using the Global Positioning System (GPS) and assessing the physical conditions of the existing infrastructure.

4.11.2.9 HIV/AIDS Programmes

198. After the December 1999 BESSIP Annual Review, the HIV/AIDS sub-component was set up in the Ministry of Education. A Focal point person at policy level was appointed. A full time Coordinator and a UN Volunteer were also employed. These made up the Ministry of Education HIV/AIDS Education team. Provincial and district focal points were also appointed as well as school focal points. The team has so far produced the document outlining strategies that Government will employ in HIV/AIDS education.

199. The 2000 action plan activities commenced in October and the following activities were undertaken: production of HIV/AIDS brochures for pupils; parents and Ministry of Education staff: HIV/AIDS pass-on cards were produced; provincial advocacy; and sensitisation workshops were held; pre-testers of Grade Five life skills education have been trained and a review of the on-going HIV/AIDS activities in schools were undertaken.

4.11.2.10 Private Sector Involvement in Education

200. Current Government policy is to encourage private sector participation in the education sector. As at December 2000 the number of private schools per province were113 on the Copperbelt, 34 in Central, 12 in Eastern, six in Luapula, 152 in Lusaka, nine in Northern, five in North Western, 32 in Southern and six in Western, bringing the total to 369 private Basic and High schools registered with the Ministry of Education.

4.11.3 Outlook

201. In the year 2001, it is anticipated that Government will devote adequate resources to the education Sector. Most of these resources are expected to be for the implementation of the Basic Education sub-sector. The resources are intended for the developing of infrastructure, teacher education and compensation, educational materials provision and all other programmes as indicated in the BESSIP programmes according to priority.

4.12 HEALTH

4.12.1 Overview

202. During the period under review, Government's priority in the health sector continued to be that of providing cost-effective quality health care as close to the family as possible through the implementation of the health reforms. The emphasis during the period under review was on improving access to quality health care for the poor and the population in hard to reach areas.

203. Government developed a five-year National Health Strategic Plan that will provide guidance and set priorities for the implementation of health reforms during the period 2001 to 2005. The restructuring of Ministry of Health Headquarters was completed during the review period. The Government also continued with the development of basic health care packages for 1^{st}, 2^{nd} and 3^{rd} level referral services. It also established the HIV/AIDS/STD/TB Council to coordinate the multi sectoral response to the HIV/AIDS pandemic and an interim team was appointed to put in place logistics for the council. To improve the human resource capacity of the sector the Government developed a ten-year Human Resource Plan.

204. Further developments were made in the areas of systems development at district, hospital and central level, infrastructure development, replacement of critical equipment, human resource development, health care financing and resource allocation. Government worked out modalities for making the sector wide approach programming more effective within the context of health reforms.

4.12.2 Sector Performance

4.12.2.1 Health Care Financing

205. Government's objective in the area of health care financing during 2000 continued to be that of mobilizing resources through appropriate and sustainable means. Government was committed to ensuring that the available resources were utilized efficiently.

206. Expenditure in the health sector in 2000, accounted for 1.9 percent of the nominal GDP same as in 1999. Expressed as a percentage of the National Budget, its share increased in nominal terms to 14.1 percent. However in real terms, expenditure on health had been declining. The contribution by Government and cooperating partners stood at 51 percent and 49 Percent respectively. In the year 2000, total expenditure was K282 billion where Government contributed 57 Percent while 43 Percent came from international cooperating partners.

207. During the year 2000, the Government began the process of revising the resource allocation formula to introduce socio-economic factors such as poverty levels in the weighting, in addition to cost factors being used currently. Various options for the introduction of social health insurance were considered and these efforts will continue in the year 2001. With regard to community financing, the

Government began the process of strengthening various existing schemes in the country so that these can serve as alternative sources and means of financing health care especially in rural areas where there are liquidity problems.

4.12.2.1 Drug Supply

208. Government continued with the implementation of the National Drug Policy (NDP). Various activities were implemented to improve the availability of essential drugs and medical supplies countrywide.

209. Problems of drug supply and their availability were examined and it was found that while the rural health centers had adequate supply of essential drugs through the kit system, their urban counterparts and the hospital management boards continued to experience erratic and unreliable supply of essential drugs. This was because the kit system to urban clinics was discontinued in 1997 due to inadequate funding.

210. As regards bulk drug supplies, a tender for the supply of drugs worth US$ 6 million was awarded in 1999. Arrival of the drugs and medical supplies under this tender began in January 2000 and will continue in 2001. This had greatly improved the stock status at both Medical Stores Limited and the district and hospital management boards.

211. With reference to the Tuberculosis (TB) programme there had been severe shortages of drugs and laboratory supplies over the last few years. Since 1997, the country has experienced several stock outs of TB drugs due to inadequate funding and a delay in the delivery of drugs by the supplier. Between 1998 and 1999, Government put up emergency tenders for the procurement of TB drugs on two occasions. These drugs became available during the year 2000. Other TB drugs are expected to be available in the country in 2001.

212. Government continued to give priority to the provision of Rural Health Centre (RHC) and Community Health Worker (CHW) kits. In the review period, a total of 15,000 RHC kits, 11,000 CHW kits and 16 essential bulk drugs were received for the year 2000. Distribution was done on a monthly basis for RHCs, and bi-monthly for CHWs during the year under review.

213. During the period under review, drug storage and distribution up to the district level improved tremendously. However, distribution from districts to health centers still remained a problem. This was mainly caused by transport problems experienced at district level.

214. Government continued to experience problems in ensuring that proper distribution and control of drugs to dispensing points was adhered to. Some of the problems were indiscriminate use of antibiotics, stores and inventory procedures not being followed and sometimes theft.

4.12.2.2 Disease Burden

215. During the period under review, Malaria continued to be the leading cause of morbidity and mortality among the top ten diseases. In 1999, malaria incidence was 350 per 1000 population. In the first quarter of the year 2000, malaria accounted for the highest in both incidence and hospital admissions at 82 per 1000 population and 76,306, respectively. Its case fatality rate was 30 per 1000 admissions. Respiratory infections (non-pneumonia) had the second highest incidence during the first quarter of 2000 with an incidence rate of 26 per 1000 persons. Anaemia had the lowest incidence rate at 3 per 1000 population. Pneumonia had the highest case fatality rate of all hospital admissions at 61 out of 15,000 total admissions, followed by non bloody diarrhoea at 60 deaths from a total of almost 10,000 admissions (see Table 4.41).

216. The HIV sero-prevalence rate during the review period remained at 20 Percent. Further, in the review period sentinel data indicated that there was a continued decline in the HIV/AIDS infection rate among the youth in the age group 15 – 19 years. The high incidence is closely associated with the AIDS epidemic.

217. In order to enhance measures to tackle the AIDS pandemic, Government established the National HIV/AIDS/STD/TB Council to coordinate the multi-sectoral response to the pandemic. An interim team was appointed and a three-year strategic framework for the period 2001 to 2003 was developed and costed.

Table 4.41: First Quarter Reported Cases and Disease Specific Mortality at Health Centres

Disease	Total incidence (case/1000)	Total admissions	Total deaths
Malaria	82	76,306	2,162
Respiratory infections non pneumonia	26	13,698	282
Diarrhea: non-bloody	14	9,960	597
Trauma: accidents, burns, injuries	7	7,545	118
Respiratory infections pneumonia	7	14,988	916
Eye infections	7	2,515	14
Skin infections	7	4,046	21
Ear/nose/throat infections	5	3,154	8
Intestinal worms	4	1,166	4
Anemia	3	8,389	718
Other diagnosis	7	7,393	311

Source: Central Board of Health, Ministry of Health

4.12.2.3 Primary Health Care:

i) Immunisation coverage

218. During the year, the Government continued with its immunisation programme with great success recorded in the implementation of National Immunisation Days (NIDS) targeted towards Polio eradication throughout the country with coverage rates above 90 percent (see Table 4.42). However, immunisation coverage in 2000, was lower than in 1998-1999. The coverage rate was 92 percent. The reason for this is that during the same year the immunisation programme experienced logistical and financial problems and hence coverage was limited.

Table 4.42: Coverage trends for NIDS and SNIDS,1998 to 2000

Year	Percent Target figure	Number of Children Immunized	
		1st Round (%)	2nd Round (%)
1998 (NIDS)	100	94	99
1999(SNIDS)	100	96	97
2000(SNIDS)	100	92	92

Source: NIDS reports:1998; 1999 and 2000.

219. Although there was great success in the implementation of NIDS, the programme experienced a decline in routine coverage for some EPI targeted diseases in both 1999 and 2000. The coverage rates for BCG declined from the average of 97 percent between 1995-97 to 87 percent and 80 percent in 1999 and 2000, respectively. The coverage for DPT3 and OPV3 increased from an average 80 percent in 1998 to 91 percent in 1999. For 2000, coverage was estimated at over 92 percent. The coverage for measles had declined from average percentage coverage of 81 percent between 1996-98 to 72 percent in 1999. Preliminary data from the Health Management Information System (HMIS) for 2000 indicates a further decline estimated at less than 70 percent.

220. The reasons for the declining immunisation coverage include the continuing resource constraints faced by the Government, which had led to low levels of district funding, poor maintenance of EPI vehicles, a deteriorating cold chain and staff shortages.

4.12.2.4 Human Resources

221. In the area of human resource development, Government continued to implement programmes that ensured staff retention. As the health sector is a labour intensive industry, Government ensured that within the available resources there was sufficient staff with the right training, in the right place at the right time.

222. However, the health worker patient ratios are unacceptably high with unequal distributions across the provinces. For instance, in Luapula a Doctor serves 145,780 people, while a doctor in

Lusaka serves a population of 6,660. Although, for some categories of staff such as clinical officers and Zambia Enrolled Nurses (ZENs), the staff per population ratios were reasonably similar in all provinces, but among Registered Nurses, there were some striking inequalities. For instance, in the Eastern Province, a registered mid-wife served 14 times more than the population served by a mid-wife in Lusaka.

Table 4.43: Population Per Staff Member in each Province

Province	Population	Pop per Dr	Pop per ZRN	Pop per ZRM	Pop per ZEN	Pop per ZEM	Pop per CO
Eastern	1,477,907	86,940	43,470	134,360	2,980	17,390	12.960
Southern	1,532,937	19,650	7,440	46,450	1,1950	4,220	7,940
Western	789,898	34,340	22,570	112,840	3,760	18,810	9,080
N/Western	606,879	16,400	7,590	121,380	1,940	22,480	7,310
Luapula	728,898	145,780	22,780	48,590	3,000	60,740	9,110
Northern	1,399,666	37,830	17,500	466,560	3,370	29,780	10,140
Copperbelt	1,735,802	9,040	3,820	20,910	1,490	6,680	11,500
Lusaka	1,717,176	6,660	3,120	16,840	1,490	7,500	7,010
National	11,031,040	16,130	6,860	36,530	2,040	9,420	8,870

Source: Ministry of Health
Dr-Doctor, ZRN: Zambia Registered Nurse; ZRM: Zambia Registered Midwives; ZEN: Zambia Enrolled Nurse; ZEM: Zambia Enrolled Midwives; CO: Clinical Officer;

223. The distribution of human resources by level of health facility also showed that there was a general imbalance between the numbers of staff employed at the different levels (see Table 4.44). The overall maldistribution of staff throughout the health care delivery system had resulted into shortages especially in rural areas that were not preferred by staff.

Table 4.44: Distribution of Human Resources by Level of Health Facility

	Central hospital	General hospital	District hospital.	Rural health centres	Urban health centres	Others	Total
Dr	405	125	102	4	24	34	694
ZRN	587	339	247	147	157	61	1538
ZRM	133	77	77	58	111	9	445
ZEN	753	980	919	1106	810	230	4798
ZEM	218	351	273	349	470	39	1700
CO	75	182	273	473	140	98	1241
EHT	3	7	46	459	42	35	592
Others	716	424	286	80	232	1009	2747
CDE	1544	1024	1046	1204	324	1078	6220
Total	**4414**	**3509**	**3269**	**3880**	**2310**	**2593**	**19975**

Source: Central Board of Health
CDE: Classified Daily Employee
EHT: Environmental Health Technician

224. In order to address the maldistribution of staff and improve the staffing levels in health institutions, the Government developed a ten-year human resource plan to provide a framework for future demand and supply of this type of resource. Staff retention has been a problem and in an effort to resolve this issue, the Government proposed improved conditions of service for all Health Board employees. In addition, payment of personal emoluments has been decentralised to provinces.

4.12.2.5 Physical Infrastructure

225. During the review period, Government continued to accord high priority to the provision of infrastructure. In 2000, the distribution of health facilities was three Central Hospitals, four specialised hospitals, 12 Government and 6 Mission General Hospitals, 32 Government and 27 Mission District hospitals, 851 Government and 65 Mission Rural Health Centers; and 153 Urban Health Centres.

226. In an effort to improve the quality of health care, Government continued with construction and rehabilitation of health facilities. During the year 2000, 39 rural health centres were extended to 12-bed capacity and these were provided with medical equipment and water reticulation. During the same period preparation of drawings and tender documents for the extension of additional 36 rural health centers was completed. In addition, construction of blood banks at each provincial center was done and these have since been equipped. To ease accommodation problems for health staff, Government completed the construction of 3 lots of prefabricated housing units in Chiengi, Nyimba and Ndola hospital. Plans were under way to construct more housing units in the year 2001. Access to health facilities has been a problem especially for rural areas.

227. In an effort to take health care as close to the family as possible, Government also embarked on the construction of health posts on a pilot basis. This is expected to go to full scale in 2001. Works also commenced on the rehabilitation of central hospitals.

4.12.2.5 Human Resources Constraints

228. The financial constraint remained a problem for the health sector. World Health Organisation estimates that about US$ 60 per capita is required to provide quality health care in developing countries. In the year 2000, only US$ 10 per capita was available in Zambia. In addition, the high disease burden due to high poverty levels and prevalence of HIV/AIDS caused financial pressure on the health care system. Given the impact of HIV/AIDS there will be need to increase expenditure on health from the current 1.9 percent of GDP to 3 percent in order to ensure that resources intended for the delivery of the health care package are not used up to treat opportunistic infections due to HIV/AIDS.

229. The understaffing levels in health facilities partly caused by voluntary separation, and the high attrition rates due to death caused by the major killer health conditions in the country had an impact on the quality of health care.

4.12.3 Human Resources Outlook

230. During the year 2001, Government will continue with the implementation of Health Reforms within the framework of the National Health Strategic Plan for 2001-2005.The following will be priority areas:

i). Revisiting and implementation of the basic health care packages with a district focus;

ii). Improving access to health care for hard to reach and underserved areas as well as vulnerable groups;

iii). Under SWAPs, transform the district basket funding into a health sector basket;

iv). Strengthen the mainstreaming of gender in the design and implementation of health programmes;

v). Under the hospital sector, reform rightsising of hospitals and other health institutions;

vi). Construction, equipping and staffing of health posts countrywide. Strengthening the capacities and resource base of health centres to effectively carry out their functions and lessen the burden of hospitals;

vii). Within the framework of an integrated approach to health, put more emphasis on interventions on public health interventions, HIV/AIDS/TB/STI, integrated reproductive health, child health, mental and oral health and disease surveillance; and

viii). Implementing the 10-year human resource plan, infrastructure development and improvement in the procurement and distribution of drugs and supplies.

231. Further development of the sector wide approach programmes (SWAP) through the development of a common system for planning, reporting and procurement, will be one of the key issues to be addressed. In addition, efforts will be devoted to resource mobilization through the development of a social health insurance (SHI) scheme and strengthening of community financing schemes. The problem of staffing will continue to be addressed through the improvement of conditions of service.

4.13 COMMUNITY, SOCIAL AND PERSONAL SERVICES

4.13.1 Overview

232. In the review period, Government's objective remained that of poverty reduction and alleviation especially for disadvantaged groups. In this regard, programmes aimed at raising the standards of living of vulnerable and disadvantaged persons such as persons with disabilities, street children, orphans, women and persons in old age continued to be implemented in 2000. The implementation of these programmes was guided by the need to stimulate and enhance community participation, promote and preserve culture, promote social welfare services and protect the rights of children and the family.

4.13.2 Sector Performance

4.13.2.1 Poverty Reduction Programme

233. In 1998, Government formulated the National Poverty Reduction Strategic Framework (NPRSF) and later developed the National Poverty Reduction Action Plan (NPRAP) to operationalise the framework and ensure coordination, monitoring and evaluation of poverty programmes. Government remained committed to reducing poverty from the current level of over 70 percent during 2000.

234. As such, the process of developing the NPRAP continued in 2000. In this light, a consensus building workshop was held and it validated the incorporation of the recommendations for the improvement of the NPRAP. The NPRAP formed the basis for developing the Poverty Reduction Strategy Paper (PRSP).

4.13.2.2 Safety Net Programmes

235. A number of social safety net programmes were implemented during the year under review. These included the Food Programme Management, National Trust Fund for the Disabled (NTD), and the Programme Urban Self Help (PUSH).

i. Food Programme Management

236. The programme was aimed at providing a safety net through short-term employment, asset creation and training in income-generating activities for poor households, improve food access through supplementary feeding of malnourished children and undernourished nursing mothers. The

activities of the food programme were mainly carried out under the Urban Food for Work and the Supplementary Feeding Programmes.

a) Urban Food for Work

237. Under this programme, a total of 7,162 persons in nine districts received food assistance. The majority of the food beneficiaries were in Kitwe district (1,268) followed by Kabwe (1,260). In terms of food quantities distributed by district, Kitwe received the largest quantity of 17.2 tonnes, which represented 18.8 percent of total food assistance disbursed. Kabwe received 17.1 tonnes, which represented 18.6 percent of the total food disbursed during the review period (see Table 4.45).

Table 4.45: Beneficiaries by District, 2000

District	Number of beneficiaries	% of Total	Quantities (MT)	% of Total
Kabwe	1260	17.6	17.1	18.6
Kapri-Mposhi	420	5.9	5.7	6.2
Ndola	896	12.5	12.1	13.3
Kitwe	1268	17.7	17.2	18.8
Luanshya	608	8.5	8.3	9.0
Chingola	790	11.0	10.8	11.7
Lusaka	822	11.5	11.2	12.2
Kafue	484	6.8	6.6	7.2
Monze	614	8.6	8.4	9.1
TOTAL	**7,162**	**100**	**94.4**	**100**

Source: Ministry of Community Development and Social Services

b) Supplementary Feeding Programme

238. During the year under review, Government supported the Supplementary Feeding Programme aimed at reducing childhood mortality attributed to malnutrition and assisting HIV/AIDS and Tuberculosis affected persons and orphans through food aid. The programme was implemented in 35 districts and 3 hospitals countrywide.

239. A total of 65,000 individuals and households had received food rations in about 600 health centres, 50 hospitals and 50 Non Government Organisations/Community Based Organisations (see Table 4.46).

Table 4.46: Number of Supplementary Feeding Beneficiaries by Category, 2000

Beneficiary Category	Number
Under five Malnourished children	31,000
Pregnant Mother	4,500
Tuberculosis Patients	15,000
TB/HIV/AIDS patients (Home Based Care)	6,500
Orphans/Care-taking Households	8,000
Total	**65,000***

Source: Ministry of Community Development and Social Services
**** Data is up to October 2000***

ii. National Trust Fund for the Disabled (NTD)

240. The NTD continued with the disbursement of loans under the loan-revolving scheme, which is aimed at empowering and reducing poverty, among persons with disabilities, through self-employment.

241. During the period under review, a total of K185.9 million was disbursed to 353 beneficiaries (see Table 4.47). The bulk of the disbursements (132 beneficiaries) were given to beneficiaries engaged in trading activities. This represented 37.4 percent of total beneficiaries. In terms of amounts of loan disbursed, K72.9 million was disbursed to production and manufacturing related activities. These activities accounted for the largest portion of total loan disbursements, representing 39.2 percent.

242. In order to improve loan targeting to beneficiaries, 45 District Technical Committees were formed through out the country. The committees were meant to improve the identification and appraisal of potential clients and monitor the recovery of loans.

Table 4.47: Loan Disbursement by Activity, 2000

Activity	No. of beneficiaries	% of Total	Amount of loan(Km)	% of Total
Farming	93	26.3	42	22.6
Production and manufacturing	117	33.1	72.9	39.2
Commercial services	11	3.1	10.8	5.8
Trading	132	37.4	60.2	32.4
Total	**353**	**100**	**185.9**	**100**

Source: National Trust Fund for the Disabled

iii. Programme Urban Self Help (PUSH)

243. The PUSH entered its second phase of implementing the poverty alleviation programme during the year under review. The programme continued with the primary purpose of assisting vulnerable groups such as women, children and the aged.

244. By the third quarter 2000, a total of 166 km of access roads had been constructed as compared to 88.9 km in 1999. Only three ventilated improved pit latrines (VIP) and two midden boxes respectively were constructed. The PUSH also extended its activities to four more districts increasing the number from five in 1999 to nine in 2000. The programme mainly involved improvement of basic infrastructure, water points, and sanitary facilities through labour intensive works in the target areas.

245. Under PUSH practical training programmes in Labour Based skills were conducted in nine districts. On average between 60 to 80 gang leaders and community leaders were trained in labour-based skills during the review period.

Social Welfare Schemes

246. Social welfare schemes are meant to provide welfare services to persons in need by strengthening individual and family lives through counselling and providing food rations, among others. The Public Welfare Assistance Scheme (PWAS) is the largest welfare scheme administered by the Government. Other social welfare initiatives included old peoples homes and foster care.

Public Welfare Assistance Scheme

247. In order to improve the delivery of public welfare assistance, the PWAS Management Unit (PMU) was established during the year under review. This followed the redesigning of PWAS which was aimed at improving welfare assistance through better targeting especially at the community level. The unit conducted training in nine pilot districts namely, Chadiza, Chongwe, Luanshya, Mansa, Mkushi, Nakonde, Senanga, Siavonga and Mwinilunga under the redesigned PWAS. The training was aimed at enhancing the skills of identified community leaders in identifying and prioritising public welfare assistance using welfare resources. This compliments the traditional care that persons give at the community level.

248. The PWAS Management Unit, with the support of co-operating partners and the Ministry of Health/Central Board of Health, piloted the Youth Health Care Cost Scheme to cater for orphaned and vulnerable children (OVC). The programme was piloted in six districts where training of the stakeholders was also completed.

Foster Care

249. The Government received a number of applications for committal orders to foster care reflecting an increase in the awareness of the existence and importance of fostering children in needy. There was an increment in the foster fees from K1,500.00 to K50,000.00 per family per month. The Government continued to collaborate with children's homes providing care to needy children. As at the end of June 2000, the homes provided care to 172 children of whom 92 were male and 80 were female for selected homes (see Table 4.48)

Table 4.48: Children Committed to Children's homes, 2000

Home	Male	Female
St. Martins	19	13
NISSI	15	15
Holy Family	5	-
Holy Family – Nkwazi	6	3
Transient Home – Ndola	7	12
Transient Home – Lusaka	14	10
Bumi	10	3
Kasisi	108	120
Mbaya Musuma	4	3
Harolds	19	8
SOS Children's Village	-	-
Total	**207**	**159**

Source: Ministry of Community and Social Services

250. The Government continued to assist street children in an effort to reduce their problems. Street Children Committees assisted over 1,831 street children during the first half of the year 2000. Activities undertaken include sculpturing, gardening, knitting, car washing, and hair salons.

Community Development Programmes

251. Most of the programmes in the area of community development were aimed at social and economic empowerment of women, children, and disabled persons.

252. In terms of non-formal education, Government printed test papers in seven local languages which were distributed countrywide. Some learning and teaching materials were distributed through out the country as well. Two hundred new literacy classes were opened during the year 2000. There were 605 literacy instructors in 2000 compared to 585 in 1999.

253. In the area of women development programme, there was a reduction in the number and membership. While there were 4,080 Women's Development Groups in 1998 with a total membership of 139,510 there were only 3,856 Women's Development Groups with a membership of 105,729 in 2000. The reduction in the number of women's clubs was partly a result of the dissolution of women's clubs formed during the implementation of the hammer mill programme. As a result of the failure to maintain the hammer mills, most clubs disbanded. Twenty-four training of trainers sessions in Water Sanitation Health and Education (WASHE) were also done with 30 women trained in leadership skills.

Cultural Services

254. During the year under review Government facilitated 16 Art exhibitions. Both the Visual Arts Council and Zambili de Afrique conducted a number of art works and handicrafts exhibitions. A total of 6000 people were engaged in handicraft production either on a full time or part time basis.

255. A total of 53 traditional ceremonies were held through out the country during the year under review out of which 48 ceremonies were supported with grants from the Government. Government, with the support of cooperating partners, trained 30 unemployed community youths in popular theatre skills.

Outlook

256. The Government will continue with its programmes aimed at poverty reduction and improving the general welfare of Zambians. Apart form continuing with the implementation of existing programmes such as PUSH, PWAS, the Government in 2001 will, within the context of the PRSP, also steamline economic programmes to be in line with the objectives of poverty reduction.

4.14 SPORT, YOUTH AND CHILD DEVELOPMENT

4.14.1 Overview

257. The Government continued to promote youth, child and sports programmes through small scale-enterprises, advocacy for children rights and sporting events. The rights and welfare of children were being improved through provision of child welfare support systems, review of legal frameworks and family education programmes.

258. During the period under review, Government recorded some achievements particularly in its efforts to find alternative sources of funding for sport activities. The national plan of action for the youth, child, orphans and other vulnerable children was in place. A series of stakeholders' workshops and seminars were successively conducted to address some of the policy objectives and sensitisation of the Communities on UN Convention on the Rights of the Child (CRC).

4.14.2 Sector Performance

4.14.2.1 Child Development

259. Under Child Development sub sector, the 1994 National Plan of Action for Children (NPA) was set to address the following specific end of decade goals related to child protection and development:

i). To provide counselling to at least 50 percent of children at risk of "streetism" by year 2000;

ii). To provide services to 50 percent of orphans by year 2000; and

iii). To establish an information system on children in especially difficult circumstances (street children, orphans, children with disabilities and abused children) and set up protocols for interventions.

260. In order to achieve these goals various Government Departments and institutions had specific mandates related to the protection of the child. In this regard, special reference was made to orphans and vulnerable children, street kids inclusive, by addressing the cross-cutting issues under the following areas: basic education; health; food and nutrition; water and sanitation; family welfare and law review.

261. These mandates are being implemented through Government collaboration with donor agencies and NGOs that participated in implementation of objectives laid down in the Policy and National Plan of Action.

262. In relation to child education, Government has put in place community schools to provide chance to out-of- school children that usually drop out due to illnesses, failure to pay fees or due to other forms of vulnerability that hinder them from continuing school. The community schools are ideal because they have pro-poor entry requirements.

263. The number of community schools grew from 373 in 1999 to 416 in 2000. However, there was no corresponding increase in community school enrolment as only 45,646 pupils enrolled in 2000 compared to 47,276 pupils in 1999. Of the enrolled pupils in community schools, orphans accounted for 20 percent in 1999 and 17 percent in 2000.

264. As regards children's health, the country is still experiencing high levels of infant and child mortality. However, the child immunisation programmes towards the eradication of polio continued at a stead coverage rate. Out of the targeted number of children to be covered in 2000, 92 percent of them were immunised. The same rate of coverage was attained in 1999.

265. During the period under review Government in collaboration with stakeholders organised child development sensitisation meetings, conferences, field trips, workshops and seminars and commemorated the Day of the African Child, which was observed on June 16^{th} 2000. As a result action was mobilised to address the most serious issues of children's rights and the CRC was better known to both children and adults and established the process of interventions. In addition, child development reforms were strengthened through the incorporation of the provisions of the CRC into the National Action Plan (NAP).

266. Further actions included the drafting of a Bill that proposed the formation of National Council for children. The Cabinet Memorandum recommending the establishment of this Council was still under consideration. Once established, the council would be the implementing agency of national policies on child development. At the same time Government started a process to set up a Child Guidance Centre in Ndola in collaboration with Ndola City Council.

267. The SOS Children's Village, the first of its kind in Zambia was completed in September 1999 and has continued in 2000 to provide secure and loving homes for orphaned children of all races. The village is now providing pre-school, primary school, a clinic and recreational facilities to also cater for surrounding community.

268. Such interventions are inevitable in view of increased numbers of orphaned and vulnerable children (OVCs). During the period under review, 1,153,000 orphaned children were reported in 2000 compared to 961,000 orphans that were reported in 1999.

4.14.2.2 Youth Development

269. The youth development programmes continued to be implemented in 2000 and were aimed at improving the welfare of the youth in accordance with the objectives set in the National Plan of Action for the Youth.

270. Youth employment was one of Government's major concerns during the period under review. Others included skills and entrepreneurship training, provision of credit schemes, promotion of leadership skills and HIV/AIDS awareness for enhancement of youth development. Targeted groups were the less privileged youth in the community which included the early school dropouts and the never-been-to-school. HIV/AIDS awareness campaigns yielded some positive results as health statistics indicated that HIV/AIDS infection rate among the youth aged 15-19 years continued to decline.

271. During the period under review, a total of K182.5 million was released to youth skills training centres and youth organisations such as Commonwealth Youth Centre (CYC) and Outward Bound Association. As at end of 2000, there were more than 450 registered community based youth projects.

272. Government also continued to support youth skills training programmes throughout the country (see Table 4.49). These courses are of 18 months duration and lead to trade certification. However, a number of centres introduced short modular courses ranging from three months to six months. In addition to Government financing, most centres received support from co-operating partners.

Table 4.49: List of Youth Resource Centres

Youth Skills Training Centre	Type of Training Offered						
	Tailoring	Agriculture	Carpentry	Metal Work	Brick Work	Leather Work	Family Life Education
Zangani							
Kachinga	✓	✓	✓	-	✓	-	✓
Manyinga	✓	-	✓	-	-	-	✓
Mufumbwe	-	✓	✓	-	-	-	✓
Mpika	✓	-	✓	-	-	-	✓
Chiyota	✓	-	✓	-	✓	-	✓
Mumbwa	✓	-	✓	-	-	-	✓
Kaoma	✓	-	✓	-	-	-	✓
Zambezi	-	-	✓	-	-	✓	✓
Mbabala	✓	-	✓	✓	-	-	✓
Samfya	✓	-	✓	-	-	-	✓
Chisangwa	-	✓	✓	-	-	-	✓
Mukwela	✓	✓	✓	-	-	-	✓
Katembula	✓	-	✓	-	✓	-	✓
Kalingalinga							✓
Chinsali	✓	-	✓	-	✓	-	✓

Source: Ministry of Sport, Youth and Child Development
✓ Course being offered, - Course not being offered

273. The Adolescent Reproductive Health Consortium which was formed in 1999 with seven NGOs namely, Planned Parenthood Association of Zambia (PPAZ), Family Life Movement of Zambia (FLMZ), Young Women's Christian Association (YWCA), Young African's Welfare Association (YAWA), Girl Child and Adolescent Reproductive Project (GARPH) continued working well during the period under review.

274. Youth Week Celebrations played a key role in providing a platform for young people's interests to be brought at the centre of development. To further facilitate such initiatives, Government released Constituency Youth Development Fund (CYDF) whose total disbursement in 2000 amounted to K754.2 million compared to K1.5 billion, which was disbursed in 1999.

4.14.2.3 Sports Development

275. Sport in Zambia has been recognised as an important element for nation building because of mass participation by people from all walks of life. As such, the current national sports policy is designed to make sport more and more accessible to a larger population. During 2000, there were a number of constraints that hindered desirable levels of participation. The critical ones being limited funding and inadequate investment in sport, especially in infrastructure.

276. Since 1999, Government opened up sport to more private sector participation. This resulted in a series of consultative discussions on how best the Government and the private sector can work together in developing sport in the country. The focus of these consultative discussions have been to find means of securing long term financing of sports development, establishing strong partnership between the government and private sector regarding the development of modern sports infrastructure and working out a new sports development strategy for the nation.

277. Significant achievements in sport were recorded in the review period, and among these achievements were:

ii) Sports for all programmes became increasingly self sustaining. This was partly attributed to the increased number of volunteers in sports development and administration. The other factor is the strong partnership that has developed between the sports department and Ministry of Education on one hand and between Government and the private sector on the other hand. The partnership with the Ministry of Education resulted in the recruiting of provincial school physical education (PE) co-ordinators in all provinces and the amalgamation of schools sports association to give it a firm foundation. These measures have improved sporting activities in schools;

- All constituencies benefited from Sports equipment, which was purchased from the Constituency Development Fund;

- A number of consultative meetings were held with Members of Parliament and in three provinces, coaching clinics were held in collaboration with area Members of parliament; and

- There was also an improvement in the number of international awards received in minor sports.

4.14.3 Outlook

278. Government envisages continued effort to seek new ways of financing sporting activities on a sustainable basis in order to ease pressure for sports resources from the Treasury.

279. In 2001, Government will endeavour to enhance the operations of the youth resource centres, which are major sources of employment for youth. Efforts will be made to establish a facility to provide capital for the youth graduates to help them undertake business ventures. Hence, create jobs through self-employment.

280. A mechanism will also be put in place for connecting these youths to net works of NGOs and Government programmes that exist for the purpose of promoting/enhancing youth development in areas of employment, trade, small scale business and micro-financing.

281. Research efforts will be intensified in identifying and understanding situations that lead to all forms of child vulnerability both in the family and in the community. This will enable institutions responsible for child protection and development introduce more effective interventions. However, since child protection and development are cross-cutting issues, for the programmes to succeed, co-ordination will be strengthened.

4.15 GENDER AND DEVELOPMENT

4.15.1 Overview

282. In the year 2000, Government accelerated efforts to fulfil it's commitment of ensuring that both women and men have equal opportunities at all levels of development. In this regard, gender mainstreaming continued to be the major strategy for ensuring the attainment of equality and equity between women and men and towards achievement of sustainable development. The power relations between men and women has over time led to skewed access to and control of productive resources in favour of men. Though this has been the status for some time, it has been found imperative to revisit it so as to promote sustainable development.

283. The major achievements during the year include the adoption of the National Gender Policy (NGP); development of Gender and Development Management Programme; formulation of the Strategic Plan for the Implementation of NGP; and establishment of a Technical Committee on Gender Violence. The Government also successfully carried out surveys on Training Needs Assessment for Gender mainstreaming in Zambia and on Gender and Rural Transport.

4.15.2 Sector Performance

4.15.2.1 Adoption of the National Gender Policy

284. During the year under review, Government adopted the NGP. The policy aims at guiding actions by Government ministries, other institutions and stakeholders by ensuring that development was gender responsive. The major objectives of the policy are:

i). Engendering the national policy and programming processes;
ii). Enhancing awareness and knowledge on gender;
iii). Enhancing the institutional capacity for gender mainstreaming in Zambia;
iv). Strengthening the co-ordination, monitoring and evaluation mechanisms on gender; and
v). Establishing the Gender Consultative Forum.

285. The adoption of the NGP had economic implications especially for women, who for a long time had difficulties to access productive resources because of gender irresponsive policies. Mainstreaming gender into national policies and programmes which require legal and institutional reforms was intended to facilitate the access to productive resources by women. Enhancing awareness and knowledge and capacity building on gender was intended to empower women to be knowledgeable about their economic rights such as access to loans without unnecessary discriminatory impediments based on their gender. The policy thrust also aimed at making women able to better manage larger resources just like men.

286. In recognition of the cross-cutting nature of gender issues and the need to have broad out reach, including among illiterates and semi-literates of the Zambian population, the NGP was simplified and translated into seven main local languages. The languages are Cinyanja, Citonga, Icibemba, Kikaonde, Lunda, Luvale and Silozi. The simplification and translation process was a strategy aimed at equipping both women and men on the need for gender responsive development. This would enable women and men to make informed decisions that have an impact on poverty.

4.15.2.2 Gender and Development Management Programme

287. The adoption of NGP also resulted in the development of the Gender and Development Management Programme (GDMP) as an immediate strategy for co-ordinating and facilitating the implementation of the National Gender Policy. The GDMP is a five year comprehensive programme intended to guide and facilitate the co-ordination of the implementation of NGP. As an instrument for operationalising the NGP, it was intended to strengthen financial management and gender technical skills for major actors involved in the implementation of the policy. The implementation of the NGP will require a lot of resources and in line with Government financial management systems, capacities are required for sound financial management of the implementation process.

4.15.2.3 Strategic Plan for the Implementation of the National Gender Policy

288. Following the adoption of the National Gender Policy, Government embarked on the formulation of a strategic plan for it's implementation. The strategic plan will employ a number of strategies to ensure that the policy is effectively implemented. Some of the key measures and interventions of the strategic plan are:

i). Reviewing and harmonising existing legislation to make them gender responsive and to incorporate provisions of international and regional instruments to which Zambia is a signatory;

ii). Adoption of affirmative action to enhance the participation of women in politics and decision-making;

iii). Adoption of fiscal and monetary policies that enhance the productive capacities of women and men;

iv). Developing criteria to ensure that national resource allocation (national budget) is gender responsive;

v). Mainstreaming gender into all poverty reduction strategies including the Poverty Reduction Strategy Paper; and

vi). Enacting and amending legislation; strengthening enforcement mechanisms and support systems for combating gender violence;

4.15.2.4 Capacity Building for Gender Mainstreaming

289. To strengthen capacity for gender mainstreaming a snap survey on Training Needs Assessment for Gender Mainstreaming covering over ten ministries and other institutions was conducted. The Survey revealed that the institutional framework for gender mainstreaming was characterised by the following:

i). limited gender programming;
ii). monitoring and evaluation instruments not engendered;
iii). insufficient levels of gender awareness;
iv). limited gender analytical skills; and
v). insufficient productive resources.

290. The above factors have posed serious challenges to the effective implementation of the NGP.

4.15.2.5 Gender Violence

291. In recognising that gender violence has been one of the major impediments towards women's socio-economic empowerment, Government formed a Technical Committee to facilitate and co-ordinate, in conjunction with other law enforcement agencies, the strengthening of laws, enforcement mechanisms and support systems relating to gender-based violence especially against women and children. Gender violence has inhibited the effective participation of women in economic affairs of the nation because of it's impact on the victim. Victims of gender violence are often unable to realise their individual potential.

4.15.2.6 Gender, Rural Transport and Travel

292. A survey on Gender and Rural Transport in Zambia was conducted in the year 2000. The outcome of this study was an action plan for mainstreaming gender in rural transport and travel in Zambia and revealed that :

i). women make frequent trips to the fields for different cultivation activities;

ii). Women make frequent trips to the fields to collect crops such as cassava, millet, sweat potatoes and maize;

iii). Women's transport burden is related to their reproductive and domestic responsibilities; and

iv) Gender concerns have not been addressed in most rural travel and transport programmes in Zambia.

4.15.3 Outlook

293. The Government intends to accelerate the gender mainstreaming process by ensuring that the translated and simplified version of the NGP is disseminated throughout the country. The dissemination of the NGP will combine with the consolidation and implementation of the strategic plan. The dissemination will be done through print and electronic media, workshops, seminars as well as pear-group discussions.

294. The Government plans to establish and fully operationalise the Gender Consultative Forum (GCF) that will provide policy advise to Government and other stakeholders on gender and development programmes. In addition the Government, with support from co-operating partners intends to carry out an in depth study on the delivery of social services to Zambian women in the context of decentralisation. This study will consolidate the foundation for law and institutional reforms to address existing gender inequalities.

295. As a matter of priority, Government intends to establish the Gender and Development Resource Centre to be run by the Gender In Development Division at Cabinet Office. In addition to providing a fully automated resource base, the Centre will provide training facilities to all development agents and other stakeholders involved in gender and development programmes in Zambia.

CHAPTER FIVE

5.1 ECONOMIC PROSPECTS IN 2001

5.1.1 Overview

1. The economic outlook for Zambia in 2001 is promising. This positive outlook is made against a background of continued buoyancy in the global economy. This buoyancy was due to high output growth, generally low inflation rates given a projected drop in the global oil prices and a slight increase in the non-fuel commodity prices in 2001. On the domestic front, the macroeconomic conditions are expected to be stable. This stability is premised on favourable weather conditions, and an expected growth of output in the major sectors of the economy namely; agriculture, mining, manufacturing, wholesale and retail trade and tourism. Also, private sector investment is expected to flourish. In addition, continued structural reforms and a reduction in prices of crude oil are projected to contribute to the expected drop of the annual inflation to below 20 percent by the end of 2001.

2. However, there are a number of policy challenges that may constrain economic performance during the year. These challenges include an unanticipated upswing in international oil to prices in the range of US$22-28 a barrel. Such a development would keep domestic energy prices relatively high. Other challenges include continued civil wars in neighbouring countries and the negative impact this may have on foreign direct investment, and hence on the projected real GDP growth during the year.

5.1.1.1 Global Economic Prospects and Policy Challenges

3. Global output growth is expected to slowdown from 4.7 percent recorded in 2000 to 4.2 percent in 2001. This slowdown assumes that the growth of GDP and demand in the USA will slow towards potential output growth. However, economic expansion in Europe is expected to continue and the recovery in Japan's economic activity is expected to gather strength[8].

4. As regards the USA, monetary policy tightening in 2000 as well as higher energy prices are expected to exert a contractionary effect on economic activity in 2001. Real GDP growth is forecast to fall from 5.2 percent in 2000 to about 3.2 percent in 2001. In addition, fiscal surplus, estimated at 1.5 percent of GDP in 2000 will restrain demand pressures.

5. In the Euro area, GDP growth is projected at nearly 3.5 percent in 2001, same as that recorded in 2000, with unemployment declining. In Japan, economic growth was estimated at 1.4 percent in 2000 and is projected to pick-up to 1.8 percent in 2001.

6. Economic fundamentals are expected to continue to improve in the emerging markets, with external current account positions projected to strengthen in all major geographical areas. Growth in

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[8] Based on assessment made by the International Monetary Fund, World Economic Outlook, September 2000.

Latin America and the Caribbean Region was being fuelled by buoyant exports, especially to the US, and recovery in consumer confidence and spending. Real GDP, which was flat in 1999, is estimated to have expanded by 4.25 percent in 2000 and to grow by 4.3 percent in 2001. Inflation will remain in single digits in most countries.

7. In Asia, after the financial crises of 1997-98, real GDP was projected to have risen from 6 percent in 1999 to 6.5 percent in 2000 and by the same growth rate (6.5 percent) in 2001. Accounting for this growth were the monetary and fiscal stimulus, and increase in external demand, especially of electronics. In 2001, continuing demand for information technology goods, private domestic demand, and robust growth in China and India are expected to propel growth in 2001.

8. Developments in the Middle East and African countries have primarily been shaped by external factors. These include changes in commodity prices and increase in OPEC oil production quotas in the second half of 2000. In the oil-exporting countries, the rise in oil prices and oil output led to stronger fiscal and external balances, improved confidence and greater domestic demand. Many of the non-oil exporting countries, however, faced substantial terms of trade losses, and negatively affected the trade balances. This was exacerbated by generally depressed export price of non-fuel commodities and other primary goods.

9. Nevertheless, growth in a number of non-oil exporting developing countries rebounded, largely due to implementation of appropriate macroeconomic policies and reforms, and stronger export market growth.

10. However, in other countries that adopted inappropriate policies and suffered adverse shocks (including armed conflicts and droughts), economic performance was poor. Moreover, poverty is the greatest challenge faced by these countries. In these countries, further reforms are expected to liberalise and diversify their economies and to encourage broad-based and labour-intensive growth led by the private sector. To this end, much stronger support from the international community by fully funding the Enhanced HIPC Initiative, allow for debt relief in a way that achieves poverty reduction and additional assistance to help address the HIV/AIDS pandemic will be needed.

11. In Africa, output growth was projected at 3.4 percent in 2000 and is expected to further rise to 4.4 percent in 2001. This growth of output was spurred by rebounds in South Africa, oil-exporting countries and other smaller economies. In South Africa, output was projected to grow by 3-4 percent in 2000 and 2001 mainly as a result of strengthening of public finances, improvements in external competitiveness and expansion in world demand.

12. Adverse shocks and, in some instances, inappropriate policies adversely affected economic prospects, with economic activity projected to have remained sluggish in a number of countries in Africa. In 2000, adverse shocks included weak export prices (for example, weak cocoa prices), a significant slowdown in disbursements of external assistance, wars, drought and political turbulence. It is expected that efforts will be made by the international community to stop armed conflicts and restore political stability. In addition, reform efforts aimed at macroeconomic stability, openness to trade (such as the launch of the Free Trade Area in COMESA on 31 October 2000), and efficient

investments in infrastructure, education, and health will be expanded to broaden development and support growth and poverty reduction.

5.1.1.2 Commodity Prices

13. The average price of oil on the global market was estimated at US$26.5 a barrel in 2000, an increase of 47.5 percent over the average price of US$17.9 a barrel in 1999 (see Table 5.1). In 2001, the oil price was projected at US$23.0 a barrel, and is expected to remain unchanged in real terms over the medium-term. It is worth noting that the OPEC target band for oil price is US$22.3 a barrel. However, caution has to be exercised on expected oil prices in 2001. Given strong global demand and low oil inventories, the oil prices could go up. A rise in the price of oil would seriously affect trade balances, economic activity and higher inflation and interest rates. This could lead to monetary tightening in order to control inflationary pressure.

Table 5.1: Projections*

	2000	2001
World output	**4.7**	**4.2**
USA	3.9	2.9
Japan	1.4	1.8
Industrial countries	3.9	3.0
Developing countries	5.6	5.7
Africa	3.4	4.4
World trade volume (goods and services)	**10.0**	**7.8**
Imports	10.3	7.9
Exports	9.9	7.6
Commodity prices (in US$)		
Oil (simple average in US$) 1/	26.53	23.00
Oil (annual % change)	47.5	-13.3
Non-fuel (annual % change)	3.2	4.5
Consumer prices (% change)		
Advanced countries	23.	2.1
Developing countries	6.2	5.2

Source: World Economic Outlook, International Monetary Fund, September 2000.
**** Annual Percent Change Unless Otherwise Noted***
Notes: 1/ The average price of oil in US dollars a barrel was $17.98 in 1999; the assumed price was $26.53 in 2000 and $23.00 in 2001. However, latest data from Global Economic Prospects 2001 by the World Bank, dated 5 December 2000, give average oil prices a barrel as US$28 in 2000; US$25 in 2001 and $21 in 2002.

14. As regards non-fuel commodity prices in 2001, it is assumed that a moderate price rise would occur relative to 2000 levels. Both agricultural and metal prices are expected to increase, but to levels below those recorded over the period 1995-97. This is largely due to high stock levels.

5.1.1.3 Regional Economic Prospects

15. Economic prospects in the SADC region are generally promising. The expected decline in the global oil price of about 13.3 percent in 2001, from US$26.5 a barrel in 2000 to US$23.0 a barrel in 2001 is projected to positively contribute to growth of output in most of the SADC countries. In addition, a projected increase in the prices of non-fuel commodities would lead to improvements in the current account balances, lower inflation and probably a reduction in interest rates. These developments are expected to further boost economic activity in the region, with real GDP growth rising above the estimated 4.4 percent recorded in 2000.

16. Similarly, in the COMESA region, economic activity is projected to increase. This is expected to arise largely from the launch of the COMESA Free Trade Area on 31 October 2000.

17. However, the Southern African region still continues to face some setbacks, such as continued civil wars and inappropriate economic policies in some of the countries. Should these challenges remain unresolved, they will impact negatively on the region's ability to fully gain from favourable economic factors that are projected in the year.

5.1.1.4 Domestic Economic Prospects

18. From the foregoing, domestic economic conditions are likely to be very favourable. The global demand is expected to remain high, although slightly lower than that attained in 2000. As a result, the price of copper and cobalt are projected to pick-up, in line with that of other non-fuel commodities on the global market. Other external factors, such as weather conditions are forecast to be favourable for improved food output. Such an outcome is likely to dampen inflationary pressures emanating from food prices in the country. Moreover, low inflation is expected to contribute to further investments and higher GDP growth.

19. As regards mining activities, completion of the privatisation of ZCCM's major asset packages has led to a subsequent recapitalisation of the existing mines and investments in new projects for processing of metals. These developments are projected to result in an increase in metal output and export volumes. Coupled with higher global metal prices, metal export receipts are expected to increase in 2001.

20. The launch of the COMESA Free Trade Area last year is projected to improve the market size of the country's non-traditional exports to other COMESA member states. This has created a challenge for local manufacturing companies to improve the quality and output of their products destined for the COMESA market.

21. Gross international official reserves, expressed in months of imports cover, are projected to increase by the end of 2001 from the level attained at end 2000. This projected improvement is predicated on an increase in export receipts, net foreign direct investments as well as improvements in the disbursements of balance of payments support from the co-operating partners. A steady supply of foreign exchange will contribute to a stable exchange rate, that will in turn, contribute to lower inflation and hence a restoration of macroeconomic stability.

22. Zambia's accession to the Enhanced HIPC Initiative is expected to result in a substantial external debt relief. As a result, projected external debt service will drop substantially from about US$ 440 million before Enhanced HIPC Initiative to about US$ 167 million in 2001. The savings arising from this debt relief will enable the country to invest in priority programmes. This is expected to raise economic growth, improve provision of social sector services, reduce the incidence of poverty in the country, and intensify programmes aimed at reducing the prevalence of the HIV/AIDS pandemic.

23. Given favourable economic conditions arising from the above, real economic activity is projected to increase from 3.8 percent recorded in 2000 to 5 percent in 2001. The expected major sources of economic growth are mining, tourism and manufacturing activities. In addition, economic activity in agriculture, wholesale and retail trade, real estate and business services and in the other sectors is projected to contribute to economic growth. Furthermore, continued improvement of physical infrastructure is expected to encourage private sector investments, and hence growth of economic activity.

24. Domestic inflation is expected to fall by the end of 2001 from end-2000 annual inflation of 30.1 percent. This is premised on the stability of domestic prices of petroleum products, high production of food crops, appropriate monetary and fiscal policies, a stable exchange rate and stable electricity tariffs.