



Republic of Zambia

ECONOMIC REPORT 2003

Ministry of Finance and National Planning

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Foreword

On behalf of the Government of the Republic of Zambia, I have the honour to present the 2003 Annual Economic Report. The report lays out the broad economic and social policies pursued during the year under review and reflects on their performance. Developments in the global economy are also analysed to assess their impact on the Zambian economy.

Developments in both the domestic and global economy were mixed. In the former, a higher than programmed fiscal deficit meant that a new Poverty Reduction Growth Facility with the International Monetary Fund could not be concluded and resulted in failure to reach the floating Heavily Indebted Poor Countries completion point. Nevertheless, the favourable weather conditions experienced in the 2002/2003 agricultural season impacted positively on the performance of the economy in 2003. As regards the latter, the increase in global oil prices largely due to the instability in the Middle East contributed to a rise in the price of petroleum products in the country. However, the rise in metal prices at the London Metal Exchange aided growth in the mining sector.

These developments impacted on the macroeconomic situation in 2003. The real Gross Domestic Product grew by 4.3 percent in 2003 compared to 3.3 percent in the previous year. The end-year inflation outturn in 2003 was 17.2 percent against the revised end-year inflation target of 17.1 percent and was lower than the end-year inflation outturn of 26.7 percent in 2002. Continuing the trend of the recent past, non-traditional exports continued to expand in 2003 and amounted to US \$301.9 million or 26.6 percent of total exports. Economic diversification is therefore underway although its pace needs to be accelerated. These favourable developments were underpinned by stability in the exchange rate and falling interest rates.

The economic growth recorded in 2003 translated into positive per capita growth for the fifth consecutive year. The sources of growth arose from agriculture, mining, construction and manufacturing sectors that grew by 8.0 percent, 3.3 percent, 13.9 percent and 6.3 percent, respectively.

In line with Government's focus on poverty reduction, implementation of programmes as articulated in the Poverty Reduction Strategy Paper and the Transitional National Development Plan continued. Furthermore, reforms aimed at enhancing the efficiency, accountability and transparency in the management of public resources as well as enhancing the quality of budget preparation were pursued within the Public Expenditure Management and Accountability Reforms (PEMFAR). Within the PEMFAR framework, the Medium Term Expenditure Framework (MTEF) and Activity Based Budgeting (ABB) modes of budget preparation were propagated and adopted. In this regard, 2004 will see the first time that the national budget is presented in the ABB format alongside a three-year MTEF budget.

Lastly, Government appreciates the continued support of our cooperating partners in Zambia's quest for development. The cooperation from line ministries and Statutory bodies in producing this report is also acknowledged.

Situmbeko Musokotwane (Dr)
Secretary to the Treasury
MINISTRY OF FINANCE AND NATIONAL PLANNING

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CHAPTER 1

1.1 DEVELOPMENTS IN THE GLOBAL ECONOMY

1.1.1 Overview

The global economy continued to recover in 2003 reflecting an expansion of activity and investment in the United States, Japan and some emerging market countries, notably in Asia. Macroeconomic conditions were favourable with inflation remaining subdued especially in advanced economies. Interest rates were also low largely due to the accommodative monetary and fiscal policies.

In the commodities market, prices for crude oil and non-fuel commodities exhibited an upward trend in 2003. For the former, prices increased largely due to the slower than expected recovery in Iraq's oil production while for the latter, the recovery in the global economy contributed to the rise in prices. As for copper, which is Zambia's principal export commodity, the price at the London Metal Exchange increased to US \$0.83 per pound in 2003 from US \$0.68 per pound in 2002. However, prices of agricultural raw materials, which are the major export commodities by developing countries, declined.

1.1.2 World Economy

The global economy was projected to have grown by 3.2 percent in 2003, up by 0.2 percentage points when compared to 2002 largely on account of a recovery in the United States economy. Growth of 1.8 percent, 5.0 percent, and 4.9 percent was recorded for the advanced economies, developing countries and countries in transition, respectively. However, there were variations in growth among countries in the different categories. For the advanced economies, growth was largely accounted for by the United States and Newly Industrialised Asian Economies (Table 1.1).

Monetary conditions in 2003 were generally conducive with inflation falling below 2 percent for the second year running in advanced economies, the

lowest level for 30 years. However, deflation was experienced in Japan. In developing countries, inflation was projected to fall to 5 percent, also a historical low. Nevertheless, inflation in countries in transition was relatively high at 9.7 percent.

In line with the increase in global output, world trade continued to increase although at a slower pace than the 2002 level. The volume of world trade increased by 2.9 percent in 2003 compared to 3.2 percent in 2002 (Table 1.1).

Table 1.1: Overview of the World Economic Outlook

	2001	2002	2003*
	(Annual percent change unless otherwise stated)		
World Output	2.4	3.0	3.2
Advanced economies	1.0	1.8	1.8
United States	0.3	2.4	2.6
Euro area	1.5	0.9	0.5
Germany	0.8	0.2	-
France	2.1	1.2	0.5
Italy	1.8	0.4	0.4
Japan	0.4	0.2	2.0
United Kingdom	2.1	1.9	1.7
Canada	1.9	3.3	1.9
Other Advanced economies	1.6	2.7	1.7
Newly industrialized Asian economies	0.8	4.8	2.3
Developing Countries	4.1	4.6	5.0
Africa	3.7	3.1	3.7
Sub-Sahara	3.5	3.0	3.1
Developing Asia	5.8	6.4	6.4
China	7.5	8.0	7.5
India	4.2	4.7	5.6
ASEAN-4 ²	2.9	4.3	4.1
Middle East and Turkey ³	2.0	4.8	5.1
Western Hemisphere	0.7	-0.1	1.1
Brazil	1.4	1.5	1.5
Countries In Transition	5.1	4.2	4.9
Central and Eastern Europe	3.1	3.0	3.4
Commonwealth of Independent States and Mongolia	6.4	4.9	5.8
Russia	5.0	4.3	6.0
Excluding Russia	9.2	5.9	5.4
<i>Memorandum</i>			
World growth based on market exchange rates	1.3	1.9	2.3
World Trade Volume (goods and services)	0.1	3.2	2.9
Imports			
Advanced economies	(1.0)	2.2	2.8
Developing economies	1.6	6.0	5.1
Countries in transition	11.9	6.3	6.6
Advanced economies	(0.8)	2.2	1.6
Developing countries	2.7	6.5	4.3
Countries in transition	6.0	6.3	5.8
Oil ⁴	(14.0)	2.8	14.2
Non-Fuel (average based on world commodity export weights)	(4.0)	0.6	5.0
Advanced economies	2.2	1.5	1.8
Developing countries	5.8	5.3	5.9
Countries in transition	16.2	11.1	9.7
On US dollar deposits	3.7	1.9	1.3
On euro deposits	4.2	3.3	2.2
On Japanese yen deposits	0.2	0.1	0.1

Source: World Economic Outlook, September 2003

*Projections

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during Jul 1-28,2003

¹Using updated purchasing power-parity weights, summarized in the Statistical Appendix, Table A.²Includes Indonesia, Malaysia, the Philippines and Thailand³Includes Malta⁴Simple 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 \$24.96 in 2002; the assumed price is \$28.50 in 2003, and \$25.50 in 2004

With regard to commodity markets, crude oil prices in dollar terms were projected to have increased by 14.2 percent in 2003 (Table 1.1). This was on account of a slower than expected recovery in Iraq's oil production, persisting tight industrial country inventories and concerns about the sustainability of current production levels in Nigeria. Similarly, non-fuel prices were projected to have gone up by 5.0 percent in 2003, up by 4.4 percentage points (Table 1.2). This was largely due to the global recovery leading to stronger demand for non-energy commodities.

Table 1.2: Non-fuel Commodity Prices¹, 1999 - 2003

	1999	2000	2001	2002	2003*
	<i>(Annual percent change; U.S. dollar terms)</i>				
Non-fuel primary commodities	(6.7)	4.5	(4.0)	0.6	5.0
Food	(11.6)	1.7	2.3	0.8	6.2
Beverages	(21.3)	(15.1)	(16.1)	16.5	6.1
Agricultural raw materials	1.2	4.6	(4.9)	1.6	0.4
Metal	(1.1)	12.2	(9.8)	(2.7)	6.6

Source: World Economic Outlook, September 2003

*Projections

¹Average of world market prices for individual commodities weighted by 1995-97 exports as a share of world commodity exports and total commodity exports for the indicated country group, respectively.

However, prices of agricultural raw materials and food and beverage commodities, which are Africa's major export commodities fell, reflecting the normalisation of prices from the 2002 drought induced peaks. Similarly, prices of vegetable oils, cotton and wool went down in 2003. Cotton prices fell largely due to the weaker demand in the United States. Nevertheless, metal and rubber prices increased on account of increased demand from industrial countries.

1.1.3 Economic Situation in Developed Market Economies

Growth in the developed market economies was estimated at 1.8 percent in 2003 and was the same in 2002. This growth was led by the United States and Newly Industrialised Asian Economies, which grew by 2.6 percent and 2.3 percent, respectively (Table 1.1). The strengthened consumer and business confidence together with eased monetary, fiscal and financial conditions boosted growth in the United States. However, labour markets remained sluggish and excess capacity persisted. In the Newly Industrialised Asian Economies, growth picked up in the second half of 2003 due to the waning effects of Severe Acute Respiratory Syndrome (SARS) and the pick up of activities in industrial countries like the United States.

In contrast to 2002, growth in Canada during the period under review slowed down to 1.9 percent from 3.3 percent (Table 1.1). This was attributed largely to the rapid and sizable appreciation of the Canadian dollar, weaker foreign demand and slower pace of inventory accumulation. This was in addition to the temporary impact of SARS and mad cow diseases.

In the Euro area as a whole, GDP slowed down from 0.9 percent in 2002 to 0.5 percent in 2003. This was due to a sluggish growth in Germany,

France and Italy. Explaining this fall in GDP were the eased levels of household and business confidence, increased unemployment, lower industrial production and unfavourable external trading conditions. In the United Kingdom, growth weakened to 1.7 percent in 2003 from 1.9 percent in 2002, on account of slowed investment and deterioration in external demand.

1.1.4 Developments in Economies in Transition and Emerging Economies of Latin America

GDP growth in economies in transition remained strong in 2003 at 4.9 percent, up by 0.7 percentage points when compared to 2002. This growth was led by Russia and Ukraine. The strong direct investment inflows to European Union (EU) accession countries contributed to the solid growth among these countries.

In the emerging market economies of Latin America, growth in 2003 was highly varied across the region. However, as a whole, real GDP increased to 1.1 percent from a decline of 0.1 percent in 2002. This growth was led by Argentina whose growth was projected at 5.5 percent in 2003. The pick up in exports, stronger global growth, substantial real exchange rate depreciations and expectations of improved policy fundamentals contributed to GDP growth in the emerging economies of Latin America.

1.1.5 Developments in Africa

During the year under review, Africa recorded GDP growth of 3.7 percent, reflecting largely the expansionary effects of the global economy on the African region. This was the third consecutive year that the region registered positive growth. Debt relief from the Highly Indebted Poor Countries (HIPC) Initiative also contributed to growth in some African countries. Internally, improved macroeconomic policies evidenced by lower inflation rates in many African countries aided growth. A number of African countries though, experienced inflationary pressures that dampened growth (Table 1.3). Additionally, adverse local conditions related to weather,

political instability and conflicts in some countries offset the positive gains in the region.

In the Maghreb sub-region, growth was estimated at 5.7 percent during the review period on account of favourable weather conditions, expansionary fiscal policy in Algeria and economic reforms in Morocco and Tunisia. Similarly, in West and Central Africa, GDP in 2003 was on the increase led by Nigeria largely due to a rise in oil production. As for Southern Africa, growth was estimated at 2.6 percent led by Botswana where mining output increased. In South Africa, growth slowed down to 2.2 percent during the review period from 3.0 percent in 2002, on account of temporary effects of policy tightening (Table 1.3).

Table 1.3: Selected African Countries: Real GDP and Consumer Prices, 2001-2003

	Real GDP			Consumer Prices ¹		
	2001	2002	2003*	2001	2002	2003*
Africa	3.7	3.1	3.7	12.9	9.3	10.6
Maghreb	4.3	3.3	5.7	2.6	2.1	2.2
Algeria	2.6	4.1	5.9	4.2	1.4	2.3
Morocco	6.3	3.2	5.5	0.6	2.8	2.0
Tunisia	4.9	1.7	5.5	1.9	2.8	2.5
Sub-Sahara	3.8	3.1	3.6	21.4	12.7	15.7
Horn of Africa	6.1	3.8	2.6	1.8	3.6	10.3
Ethiopia	7.7	1.2	(3.8)	(7.1)	(7.2)	(14.6)
Sudan	5.3	5.0	5.8	4.9	8.3	7.0
Great Lakes	2.4	4.2	3.6	54.4	7.5	8.4
Congo, Democratic. Rep. Of	(2.1)	3.0	5.0	357.9	27.7	9.1
Kenya	1.2	1.0	1.3	4.9	2.0	12.4
Tanzania	6.1	6.3	5.5	5.2	4.6	5.3
Uganda	5.5	6.6	5.4	4.5	(2.0)	5.9
Southern Africa	2.8	2.0	2.6	35.2	38.8	48.8
Angola	3.2	15.3	4.4	152.6	108.9	95.2
Zimbabwe	(8.8)	(12.8)	(11.0)	76.7	140.0	420.0
Zambia**	4.9	3.3	4.3	18.7	26.7	17.2
West & Central Africa	4.0	2.8	4.1	11.6	8.0	8.5
Ghana	4.2	4.5	4.7	32.9	14.8	26.4
Nigeria	2.8	0.5	5.2	18.0	13.7	12.3
CFA Franc Zone	4.9	3.9	3.2	4.1	3.6	2.8
Cameroon	5.3	6.5	4.0	2.8	6.3	2.5
Cote d'Ivoire	0.3	(1.8)	(3.0)	4.4	3.1	3.5
South Africa	2.8	3.0	2.2	5.7	9.1	7.7

Source: World Economic Outlook, International Monetary Fund, September 2003

¹movements in consumer prices are indicated as annual averages rather than as December/December changes during the year, as is the practice in some countries.

*: Projections

** : Figures from the Central Statistical Office and the Ministry of Finance and National Planning

Despite growth in Africa being resilient, it is still far too low to meet the Millennium Development Goals. In sub-Saharan Africa, growth will need to accelerate substantially to about 7 percent a year, if poverty is to be halved by the year 2015.

In this regard, a comprehensive strategy to address Africa's development problems has been developed under the New Partnership for Africa's Development (NEPAD). This includes policies aimed at protecting human rights and improving political governance. The strategy also proposes additional external assistance to accompany domestic policies.

1.1.6 The Impact of the Global Developments on the Zambian Economy

The Zambian economy in 2003 registered a growth of 4.3 percent compared to 3.3 percent in 2002 due to favourable developments in both the domestic and global economy. In the domestic market, a recovery in agriculture from the effects of the drought largely contributed to the positive growth. Globally, the recovery of the world economy pushed the prices of non-fuel commodities up which assisted in the growth of exports. Non-traditional

and metal export earnings went up by 30.2 percent and 30.0 percent, respectively. Export earnings from copper increased by 22.0 percent while that for cobalt was over 100 percent.

However, the rise in global oil prices resulted in petroleum prices going up in Zambia in 2003, thereby contributing to the increase in non-food inflation.

1.1.7 Outlook

World economic output is expected to continue rising in 2004. This growth is largely premised on the continued recovery of the United States economy. Crude oil prices are expected to decline substantially in 2004 and will assist solidify growth in industrial countries. In oil importing countries like Zambia, a fall in crude oil prices will contribute to a stabilisation in petroleum prices thereby reducing production costs associated with petroleum. With a recovery in industrial countries, it is expected that prices of non-energy commodities, which are mostly exported by African countries will increase. This will greatly improve the current account position of African countries.

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CHAPTER 2

2.1 DEVELOPMENTS IN THE DOMESTIC ECONOMY

2.1.1 Overview

Economic performance in 2003 was favourable. Real Gross Domestic Product (GDP) rose to 4.3 percent in 2003 from 3.3 percent in 2002. This expansion in growth was mainly attributed to the recovery of agricultural output from the effects of the 2002 drought. Annual inflation fell from 27.6 percent at end-2002 to 17.2 percent at end-2003, owing to the fall in food prices following a favourable food harvest. In the financial market, commercial bank average lending interest rates, though still prohibitively high, edged downwards from an average of 53.1 percent in 2002 to 48.7 percent in 2003.

In the external sector, merchandise exports rose by 24.0 percent to reach US \$1,137 million with receipts from both metal and non-metal exports rising. Metal export receipts grew by 30.0 percent to US \$730 million as export volumes increased and international metal prices picked up. Non-metal exports continued to record double-digit growth. Receipts from this source are estimated to have risen by 14.0 percent from US \$357 million in 2002 to US \$407 million due to, among others, an expansion in markets following improved access to a number of countries under the regional trade initiatives. Improvements in the business environment as well as increased investment outlays especially in the agri-business sector also provided an impetus to growth in non-metal exports. The value of merchandise imports went up by 14.0 percent from US \$1,204 million in 2002 to US \$1,388 million in 2003. Consequently, the trade balance improved to a deficit of US \$235 million in the review year from US \$288 million in 2002.

The domestic budget deficit widened to 5.1 percent of GDP in 2003 from 4.1 percent in 2002. This was due to higher than expected expenditures such as increased civil service personal emoluments as well as retrenchment packages paid to former Roan Antelope Mining Corporation of Zambia (RAMCOZ) employees. The widening budget deficit destabilized the macroeconomic environment

as domestic borrowing rose sharply. This contributed to the continued prevailing high interest rates and the non-conclusion of a new economic programme with the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). Consequently, the country failed to reach the floating Completion Point of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

2.1.2 Objectives, Policies and Actions

Government's economic policy objectives are anchored in the Poverty Reduction Strategy Paper (PRSP) whose overarching goal is poverty reduction through sustained economic growth and employment creation. In line with this goal, Government in 2003 set out to pursue policies that were aimed at restoring and preserving macroeconomic stability, promote efficiency as well as investing in human development. To this end, the Government set to attain the following broad macroeconomic objectives: (a) achieve real GDP growth of at least 4 percent; (b) reduce the average annual inflation rate to 17.9 percent and end-year inflation to 8 percent; (c) build up gross international reserves equivalent to 1.9 months of imports; (d) ensure food security; (e) raise priority poverty reducing expenditures to 2.2 percent of GDP; (f) reduce the domestic budget deficit to 1.55 percent of GDP; and (g) to reach the Completion Point under the Enhanced HIPC Initiative.

The attainment of the growth objective in 2003 was based on the recovery of agricultural production as well as favourable performance in mining, manufacturing, tourism and services sectors. The projected recovery in agricultural output was premised upon favourable weather conditions and timely delivery and distribution of agricultural inputs. Thus, Government continued implementing the Fertiliser Support Programme targeted at small-scale farmers. During the year, a total of 120,000 small-scale farmers benefited from the programme. Government also facilitated private sector investment especially in the growing of cash crops such as tobacco and cotton. Furthermore, in an

effort to boost maize production through irrigation, ZESCO limited developed a scheme that reduced the electricity demand charge by 50 percent. This enabled farmers to irrigate at reduced cost of electricity. In the mining sector, growth was expected to emanate from a continued rise in mineral output aided by a pick up in world metal prices. With regard to the tourism sector, Government set up the Tourism Credit Development Facility with seed money of K5.0 billion earmarked for indigenous tourism operators. However, by the end of the year, disbursements to beneficiaries had not commenced due to administrative bottlenecks.

During the year, fiscal and monetary policies were focused at reducing inflation and interest rates in order to stimulate economic growth. In particular, fiscal policy was targeted at reducing the domestic budget deficit to 1.55 percent of GDP. In the second quarter of the year, however, the fiscal strategy was undermined by the personal emolument increases awarded to civil servants, which were far in excess of the budget provision. In addition, in an attempt to expedite the privatisation of the Luanshya mine, Government paid retrenchment packages of K167 billion to former RAMCOZ workers, which were not budgeted for. This was financed through domestic borrowing, leading to a rise in Government domestic debt by the end of the year. This was compounded by a rise in expenditures on general government operations. Consequently, Government was unable to conclude a new economic programme with the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF).

Zambia was subsequently placed under an IMF Staff Monitored Programme (SMP). The lack of a PRGF programme with the IMF led to the withholding of programme support by some donors and failure to reach the HIPC completion point. Government, therefore, took a series of corrective measures to bring the fiscal programme back on track. These included re-negotiating with the public service unions on the collective agreement particularly, regarding the payment of housing allowances.

Monetary policy was aimed at reducing end-year inflation to 8.0 percent. However, due to slippages in fiscal policy, the inflation target was revised to 17.1 percent and the outturn at end-year was 17.2 percent. In addition, in an effort to reduce the prohibitive interest rates, in May 2003, the Bank of Zambia completed the conversion of Kwacha statutory reserves on foreign currency deposits into US dollars so as to increase liquidity in the financial system and therefore allow for a reduction in interest rates. Further, statutory reserve requirements ratios were reduced on both Kwacha and foreign currency deposits by 3.5 percentage points to 14.0 percent from 17.5 percent.

In the area of structural reforms, a number of measures were pursued in the financial, energy, mining and transport and communications sectors. In the financial sector, the key initiative related to the sale of Government shareholding in the Zambia National Commercial Bank (ZNCB). In this regard, Government approved the sale of 49 percent shares in ZNCB with management control to a Strategic Equity Partner (SEP). In July 2003, the Bank of Zambia introduced a broad Based Interbank Foreign Exchange System, aimed at addressing the multiple exchange rates exhibited in the various segments of the foreign exchange market. Under this system, the Bank of Zambia no longer auctions foreign exchange on behalf of exporters.

In the energy sector, the process of commercialising ZESCO was underway. With regards to the mining sector, Government endorsed the sale of 51 percent shares in Konkola Copper Mines (KCM) to Sterlite Industries of India.

In September 2003, Government facilitated the privatisation of the mine to the preferred buyer, J&W AG of Switzerland and the sale is expected to be completed in early 2004.

As for the transport sector, Government finalised the concessioning of Zambia Railways to New Limpopo Project Investments. A new company called Rail Systems of Zambia (RSZ) was subsequently formed. Further, Government approved the participation of the private sector in the running of the Tanzania Zambia Railways Authority (TAZARA) and the study on the options

for private sector participation is expected to commence in 2004.

Progress continued to be made in the area of Public Expenditure and Accountability Reforms (PEMFAR). A Commitment Control System (CCS) was installed in line ministries aimed at controlling expenditures. The Medium Term Expenditure Framework (MTFF) mode of budget preparation was adopted in 2003 aimed at improving budget preparation.

Despite the country not reaching the floating Completion Point in 2003, significant progress was made in implementing other HIPC triggers. These included the stepping up of measures to combat HIV/AIDS, increasing the share of education in the discretionary budget to at least 20.5 percent, raising the compensation of teachers in rural areas above the poverty line, implementing and scaling up of the roll back action plan for malaria (Table 2.1).

Table 2.1: Progress on the Implementation of HIPC Triggers, 2003

HIPC Triggers	Status or Comments at end-December 2003
<p>Poverty Reduction</p> <p>The adoption of a PRSP with implementation and monitoring for at least one year</p>	<p>The PRSP was adopted in 2002 following Cabinet approval. Thus, implementation started in 2002. In December 2003, Government prepared the first annual implementation progress report, which was discussed with the civil society and the donors.</p>
<p>Progress in Combating HIV/AIDS</p> <p>Full staffing of secretariat for National HIV/AIDS/TB Council</p> <p>Integration of HIV/AIDS awareness and prevention programmes in the pre-service and in-service programs of at least 10 key ministries</p>	<p>All positions have been filled.</p> <p>Implemented.</p>
<p>Progress in Education Sector Reform</p> <p>Increasing the share of education in the domestic discretionary budget from 18.5 percent in 1999 to at least 20.5 percent</p> <p>Raising the starting compensation of teachers in rural areas</p> <p>Formulating an action plan for increasing student retention</p>	<p>The share was 19.7 percent as at end-December 2003.</p> <p>Implemented.</p> <p>Implemented.</p>
<p>Macroeconomic and Structural Reforms</p> <p>Maintenance of a stable macroeconomic environment</p> <p>Implementation of an Integrated Financial Management Information System (IFMIS) on a pilot basis</p> <p>Implementation of a Medium Term Expenditure Framework (MTEF) prepared by MoFNP and approved by Cabinet</p> <p>Complete the review of entry conditions for the strategy to commercialise ZESCO</p> <p>Conclude negotiations for the sale of the majority (controlling interest) in ZNCB, and approve negotiations with the preferred bidder</p>	<p>New PRGF was delayed largely due to fiscal slippages.</p> <p>Pilot implementation expected to commence in April 2004.</p> <p>Draft MTEF for 2004-2006 is close to completion.</p> <p>Implemented.</p> <p>Negotiations were in progress with the preferred bidder.</p>

Source: Ministry of Finance and National Planning

2.1.3 Macroeconomic Situation

The macroeconomic situation in 2003 generally improved when compared to the previous year. This is reflected in a decline in inflation, a pick in GDP and slower growth in money supply. Annual inflation declined to 17.2 percent in 2003 from 26.7 percent at end-2002 mainly due to a fall in food prices as supply increased. Food inflation declined from 35.5 percent at end-2002 to 13.5 percent at end-2003. However, non-food inflation increased in 2003 to 21.7 percent from 17.2 percent in 2002 (Table 2.2). This outcome was largely attributed to several factors including the strengthening of the South African Rand and the upward adjustments in prices of petroleum products in the first half of the year. This rise in non-food inflation contributed to a slower decline in overall annual inflation and the subsequent revision of the initial end-year inflation target of 8.0 percent. In July, the target was revised to 13 percent and later to 17.1 percent in October as economic conditions changed.

Annual growth in Broad Money Supply (M3) at 13.8 percent in 2003 was lower than the growth in 2002 of 31.4 percent and was lower than the revised target of 24.0 percent.

The domestic budget deficit widened to 5.1 percent of GDP in 2003 compared to 4.1 percent in 2002. This was mainly on account of higher than programmed expenditures. The deficit in 2003 was higher than

the target of 1.55 percent by 3.5 percentage points.

As for funding to priority Poverty Reducing Programmes (PRPs), a total of K212.9 billion out of the budgeted K240.8 billion from the domestic revenues was disbursed. This represented a disbursement of 88.4 percent, an improvement over the previous year's disbursement of 44.0 percent. In 2002, a total of K110.2 billion out of the budgeted K250 billion was disbursed from domestic revenues.

Table 2.2: Targets and Outturn in Key Macroeconomic Variables, 2003

Variable	2002	2003	2003	Difference
	Outturn	Target	Outturn	
		A	B	C=B-A
Real GDP Growth Rate	3.3	4.0	4.3	0.3
Money Supply Growth (annual % change)	31.4	24.0*	13.8	(10.2)
Inflation Rate (end year)	26.7	17.1*	17.2	0.1
Domestic Fiscal Deficit (%GDP)	(4.1)	(1.55)	(5.1)	(3.5)

Source: Ministry of Finance and National Planning

* Revised Targets

2.1.4 The Performance of the Economy in 2003

2.1.4.1 Domestic Output

GDP measured in real terms (1994 prices), rose from K2,707.9 billion in 2002 to K2,824.6 billion in 2003, representing a growth of 4.3 percent compared to 3.3 percent in 2002. The growth in output in 2003 was attributed mainly to the recovery in the agricultural sector. The other key sectors that contributed to growth were mining, manufacturing and construction (Tables 2.3, 2.4 and 2.5).

In the agriculture, forestry and fishing sector, value added increased by 5.0 percent in 2003 compared to a decline of 1.7 percent in 2002. This recovery in agricultural output was mainly as a result of the favourable weather conditions during the 2002/2003 farming season. All major crops recorded an increase in output with the production of staple maize increasing from 601,606 metric tons (Mt) in the 2001/2002 agricultural season to 1,207,000 Mt in the 2002/2003 agricultural season. Other factors that contributed to increased output were the timely distribution of inputs to small-scale farmers as well as increased private sector investments, especially in export crops such as tobacco, coffee and cotton.

As a result of the favourable food crop harvest, the food security position in the country improved significantly. The total food availability was estimated at 2.25 million Mt of cereal equivalent against the national requirement of 1.9 million Mt.

The mining and quarrying sector recorded positive growth for the fourth consecutive year. Value-added was estimated to have increased by 3.3 percent in 2003, as output in both the metal mining sub-sector and the other mining and quarrying sub-sector went up. Value added in the metal mining sub-sector increased by 3.2 percent on account of an increase in both copper and cobalt output. Copper production was estimated at 318,448.4 Mt compared to 312,231.7 Mt in 2002, representing an increase of 2.0 percent. However, cobalt production by declined 12.8 percent from 5,756.0 Mt in 2002 to 5,020.4 Mt in 2003. Although the metal mining sub-sector recorded favourable performance in 2003, this was at a reduced rate when compared to 2002 when the sub-sector grew by 17.2 percent. This slowdown in growth was attributed to several factors, including reduced production at KCM during the first quarter of the year following disruptions in acid supply. As the metal mining sub-sector accounts for a larger share of output in the total mining and quarrying sector, its slowed growth pulled down aggregate growth for the whole sector from 16.4 percent in 2002 to 3.3 percent in 2003.

As for the other mining and quarrying sub-sector, valued added increased by 10.5 percent in 2003 compared to a decline of 13.6 percent in the previous year. This rise in valued added was mainly due to increased demand in construction activities especially with regard to road construction and residential housing developments which led to an increase in quarrying activities.

The manufacturing sector also continued to record favourable performance with value added increasing by 6.3 percent in 2003 compared to 5.7 percent in 2002. All the sub-sectors recorded an increase in value-added. Value-added in the key sub-sectors of food, beverage and tobacco and the textiles, leather

and leather products increased by 6.8 percent and 6.0 percent, respectively. For the food, beverage and tobacco sector, the increase was largely due to the rebound in the agricultural sector. In addition, the expansion in output in these key sub-sectors was on account of improvements in access to export markets especially to the EU and SADC region for commodities such as yarn, sugar and other processed foods. An infusion of new investments in recent years in these two key sub-sectors also provided an impetus for growth. Further, the fiscal incentives provided by government such as the reduction in import duties on inputs boosted production. Overall, value-added in the manufacturing sector increased by 6.3 percent compared to an increase of 5.7 percent in 2002 (Table 2.3 and 2.4).

The construction sector registered a growth of 13.9 percent in 2003. Increased activities in road and bridge construction as well as residential housing construction by private individuals largely contributed to the growth.

A marginal growth of 0.6 percent was recorded in the electricity, gas and water sector compared to a decline of 5.2 percent in 2002 when the country experienced a drought. The increase was on account of growth in the water sub-sector as the electricity segment recorded a decline in production due to the on-going Power Rehabilitation Programme.

The performance of the tertiary sectors, which comprise: the wholesale and retail trade; hotels, restaurants and bars; transport and communications; financial institutions; real estate and business services; and the community, social and personal services was quite favourable. All these sectors recorded positive growth rates with a combined growth rate estimated at 4.2 percent in 2003 compared to 3.8 percent in 2002 (Table 2.3).

Table 2.3: Gross Domestic Product By Kind of Economic Activity at Constant 1994 Prices in (K Billion), 2000-2003

Economic Activity	2000	2001	2002	2003*
Agriculture, forestry and fishing	429.9	418.9	411.7	432.5
Agriculture	212.6	200.0	187.3	202.3
Forestry	134.7	140.5	146.5	152.8
Fishing	82.5	78.4	77.9	77.3
Mining and quarrying	160.4	182.9	212.9	220.0
Metal mining	155.2	178.5	209.1	215.8
Other mining and quarrying	5.2	4.4	3.8	4.2
Primary sector	590.3	601.8	624.6	652.5
Manufacturing	262.7	273.7	289.4	307.6
Food, beverages and tobacco	155.7	164.0	172.8	184.6
Textile, and leather industries	45.8	46.8	49.7	52.7
Wood and wood products	19.2	20.3	21.9	22.9
Paper and paper products	7.5	7.8	8.0	8.2
Chemicals, rubber and plastic products	21.9	22.8	25.1	27.1
Non-metallic mineral products	4.6	4.8	4.9	5.1
Basic metal products	1.4	1.2	1.2	1.3
Fabricated metal products	6.5	6.0	5.8	5.9
Electricity, gas and water	72.9	82.1	77.8	78.3
Construction	123.6	137.8	161.8	184.2
Secondary sector	459.2	493.6	529.0	570.1
Wholesale and retail trade	456.6	481.2	505.4	530.0
Restaurants, bars and hotels	48.2	60.0	62.9	66.7
Transport, storage and communications	157.7	162.1	165.1	173.5
Rail transport	10.3	11.1	11.8	12.2
Road transport	76.8	77.3	78.8	81.9
Other transport and allied services	27.8	30.8	28.2	29.6
Communications	42.7	42.9	46.3	49.8
Financial intermediaries and insurance	205.4	205.6	212.7	220.0
Real estate and business services	238.2	246.6	257.4	267.6
Community, social and personal services	192.8	203.9	207.3	212.2
Public admin. & defence; public & sanitary services	109.4	110.5	109.4	107.9
Education	50.2	57.0	61.0	66.5
Health	12.6	14.7	14.8	15.6
Recreation, religious, culture	8.0	8.8	8.6	8.3
Personal services	12.6	13.0	13.5	13.9
Tertiary Sector	1,298.9	1,359.3	1,410.8	1,470.0
Less: FISIM	- (121.8)	(124.9)	(128.1)	(131.3)
Total Gross Value Added	2,226.7	2,329.9	2,436.3	2,561.3
Taxes on Products	272.4	291.4	271.6	263.4
Total G.D.P. at Market Prices	2,499.0	2,621.3	2,707.9	2,824.6
Real growth rates	3.6	4.9	3.3	4.3
Real GDP per capita (1994 prices)	242,625.7	248,531.5	250,722.7	255,402.3

Source: Central Statistical Office

* Provisional

Table 2.4: Annual Percent Change in Real GDP by Sector, 2000-2003

Economic Activity	2000	2001	2002	2003*
Agriculture, forestry and fishing	1.6	(2.6)	(1.7)	5.0
Agriculture	1.0	(6.0)	(6.3)	8.0
Forestry	4.0	4.3	4.3	4.3
Fishing	(1.0)	(5.0)	(0.7)	(0.7)
Mining and quarrying	0.1	14.0	16.4	3.3
Metal mining	(0.3)	15.0	17.1	3.2
Other mining and quarrying	13.3	(15.0)	(13.0)	9.0
Primary sector	1.1	1.9	3.8	4.5
Manufacturing	3.6	4.2	5.7	6.3
Food, beverages and tobacco	0.6	5.3	5.4	6.8
Textile, and leather industries	2.2	2.3	6.2	6.0
Wood and wood products	(0.3)	5.7	7.5	4.7
Paper and paper products	(1.3)	3.8	2.2	2.3
Chemicals, rubber and plastic products	41.2	4.3	10.0	7.7
Non-metallic mineral products	4.5	3.5	1.7	4.6
Basic metal products	4.3	(18.0)	4.3	4.2
Fabricated metal products	11.3	(8.0)	(4.0)	1.5
Electricity, gas and water	1.2	12.6	(5.2)	0.6
Construction	6.5	11.5	17.4	13.9
Secondary sector	4.0	7.5	7.2	7.8
Wholesale and retail trade	2.3	5.4	5.0	4.9
Restaurants, bars and hotels	12.3	24.4	4.9	5.9
Transport, storage and communications	2.4	2.8	1.8	5.1
Rail transport	3.6	7.6	6.0	3.6
Road transport	1.9	0.5	1.9	3.9
Other transport and allied services	6.3	10.6	(8.4)	5.1
Communications	0.6	0.6	7.9	7.5
Financial institutions and insurance	(0.6)	0.1	3.5	3.5
Real estate and business services	17.0	3.5	4.4	4.0
Community, social and personal services	(0.5)	5.8	1.6	2.4
Public administration & defence/public sanitary services	1.0	(1.0)	(1.4)	
Education	(0.7)	13.5	7.0	9.0
Health	(0.7)	16.5	1.0	5.1
Recreation, religious, culture	(0.7)	10.0	(2.0)	-3.0
Personal services	3.5	3.5	3.5	3.5
Tertiary Sector	4.1	4.7	3.8	4.2
Less: FISIM	2.5	2.5	2.5	2.5
Total Gross Value Added	3.4	4.6	4.6	5.1
Taxes on Products	5.2	7.0	(6.8)	(3.0)
Total G.D.P. at Market Prices	3.6	4.9	3.3	4.3

Source: Central Statistical Office

*: Provisional

Table 2.5: Gross Domestic Product at Current Prices, 2000-2003

Kind of Economic Activity	2000	2001	2002	2003*
Agriculture, forestry and fishing	2,002.2	2,582.0	3,247.4	4,244.6
Agriculture	561.1	627.3	749.8	1,008.2
Forestry	1,285.0	1,778.5	2,274.3	2,960.3
Fishing	156.1	176.3	223.3	276.1
Mining and quarrying	416.1	518.9	575.1	564.4
Metal mining	407.9	511.3	568.8	557.9
Other mining and quarrying	8.2	7.6	6.3	6.5
Primary sector	2,418.4	3,101.0	3,822.5	4,808.9
Manufacturing	1,024.6	1,293.1	1,693.6	2,213.4
Food, beverages and tobacco	613.9	768.4	1,033.4	1,374.1
Textile, and leather industries	180.4	224.2	284.5	362.4
Wood and wood products	64.1	89.9	118.4	154.8
Paper and paper products	40.0	55.1	69.0	88.1
Chemicals, rubber and plastic products	85.8	111.3	142.6	183.7
Non-metallic mineral products	14.3	18.5	21.9	27.4
Basic metal products	3.2	2.9	2.8	2.8
Fabricated metal products	22.9	23.0	21.0	20.2
Electricity, gas and water	328.0	445.3	488.3	596.6
Construction	500.5	728.6	1,067.7	1,523.6
Secondary sector	1,853.1	2,466.9	3,249.6	4,333.6
Wholesale and retail trade	1,879.8	2,340.5	3,004.1	3,855.7
Restaurants, bars and hotels	207.0	315.9	406.8	523.3
Transport, storage and communications	635.7	852.6	1,055.9	1,072.8
Rail transport	54.9	72.7	82.7	101.0
Road transport	255.2	311.3	334.3	393.9
Other transport and allied services	99.0	133.7	129.7	155.8
Communications	226.6	334.9	509.1	422.1
Financial intermediaries and insurance	982.2	1,238.8	1,493.1	1,847.7
Real estate and business services	660.6	832.8	1,041.2	1,340.4
Community, social and personal services	901.9	1,236.1	1,414.4	1,756.5
Public administration and defence	454.1	554.0	587.2	683.0
Education	256.1	394.3	496.9	688.6
Health	107.0	175.5	203.6	252.4
Recreation, religious, culture	33.0	47.9	44.1	26.4
Personal services	51.7	64.4	82.7	106.1
Tertiary Sector	5,267.2	6,816.8	8,415.5	10,396.4
Less: FISIM	(564.4)	(711.9)	(858.1)	(1,061.8)
Total Gross Value Added	8,974.2	11,672.7	14,629.6	18,477.1
Taxes on Products	1,097.7	1,460.0	1,630.8	1,899.9
Total G.D.P. at Market Prices	10,071.9	13,132.7	16,260.4	20,377.1
Growth rates	35	30	24	25

Source: Central Statistical Office

*: Provisional

Table 2.6: Industry Shares of G.D.P. by Kind of Economic Activity at Constant 1994 Prices, 1999-2003

Kind of economic activity	1999	2000	2001	2002	2003*
Agriculture, forestry and fishing	17.5	17.2	16.0	15.2	15.3
Agriculture	8.7	8.5	7.6	6.9	7.2
Forestry	5.4	5.4	5.4	5.4	5.4
Fishing	3.5	3.3	3.0	2.9	2.7
Mining and quarrying	6.6	6.4	7.0	7.9	7.8
Metal mining	6.5	6.2	6.8	7.7	7.6
Other mining and quarrying	0.2	0.2	0.2	0.1	0.1
PRIMARY SECTOR	24.2	23.6	23.0	23.1	23.1
Manufacturing	10.5	10.5	10.4	10.7	10.9
Food, beverages and tobacco	6.4	6.2	6.3	6.4	6.5
Textile, and leather industries	1.9	1.8	1.8	1.8	1.9
Wood and wood products	0.8	0.8	0.8	0.8	0.8
Paper and paper products	0.3	0.3	0.3	0.3	0.3
Chemicals, rubber and plastic products	0.6	0.9	0.9	0.9	1.0
Non-metallic mineral products	0.2	0.2	0.2	0.2	0.2
Basic metal products	0.1	0.1	0.0	0.0	0.0
Fabricated metal products	0.2	0.3	0.2	0.2	0.2
Electricity, gas and water	3.0	2.9	3.1	2.9	2.8
Construction	4.8	4.9	5.3	6.0	6.5
SECONDARY SECTOR	18.3	18.4	18.8	19.5	20.2
Wholesale and retail trade	18.5	18.3	18.4	18.7	18.8
Restaurants, bars and hotels	1.8	1.9	2.3	2.3	2.4
Transport, storage and communications	6.4	6.3	6.2	6.1	6.1
Rail transport	0.4	0.4	0.4	0.4	0.4
Road transport	3.1	3.1	2.9	2.9	2.9
Other transport and allied services	1.1	1.1	1.2	1.0	1.0
Communications	1.8	1.7	1.6	1.7	1.8
Financial institutions and insurance	8.6	8.2	7.8	7.9	7.8
Real estate and business services	8.4	9.5	9.4	9.5	9.5
Community, social and personal services	8.0	7.7	7.8	7.7	7.5
Public administration & defence/public sanitary services	4.6	4.4	4.2	4.0	3.8
Education	2.1	2.0	2.2	2.3	2.4
Health	0.5	0.5	0.6	0.5	0.6
Recreation, religious, culture	0.3	0.3	0.3	0.3	0.3
Personal services	0.5	0.5	0.5	0.5	0.5
TERTIARY SECTOR	51.7	52.0	51.9	52.1	52.0
Less: FISIM	(4.9)	(4.9)	(4.8)	(4.7)	(4.6)
Total Gross Value Added	89.3	89.1	88.9	90.0	90.7
Taxes on Products	10.7	10.9	11.1	10.0	9.3
Total G.D.P. at Market Prices	100.0	100.0	100.0	100.0	100.0

Source: Central Statistical Office

* Provisional

2.2 BUDGET PERFORMANCE

2.2.1 Overview

The 2003 budget objectives, among others, were to reduce the budget deficit to 1.55 percent of GDP while sufficiently investing in the social sectors and poverty reduction programmes.

In this regard, Government had proposed to spend a total of K3,975.0 billion from domestic resources and expected to raise revenues amounting to K3,677 billion, which would result in a deficit of K298 billion. This deficit was to be financed domestically.

Generally, the performance of the budget in 2003 was not satisfactory. This was evidenced by higher than programmed expenditures in some categories of expenditure. However, favourable performance was recorded on the revenue side.

Preliminary figures indicate that total domestic revenues were K3,679.5 billion and exceeded the target by K2.5 billion while total domestically financed expenditure stood at K4,726.7 billion, representing a domestic budget deficit of K1,047.3 billion. Out of the total expenditures K1,164.4 billion or 24.6 percent was disbursed to the social sector while K212.9 billion or 4.5 percent was released for Poverty Reduction Programmes (PRPs).

2.2.2 Domestic Revenue Performance

During the period under review, Government collected a total of K3,679.5 billion in domestic revenues compared to the budget estimate of K3,676.9 billion. Tax revenue collections stood at K 3,546.6 billion and were 2.9 percent above the target of K3,445.7 billion. Non-tax revenue collections amounted to K87.8 billion and were also above the target of K78.0 billion. However, exceptional and miscellaneous revenues fell below their targets by 72.9 percent and 62.1 percent, respectively (Table 2.7 and Table 2.12).

2.2.2.1 Tax Revenue

a) Income Tax

Income tax collections amounted to K1,610.8 billion, exceeding the target by 9.4 percent. This favourable performance was on account of Pay As You Earn (PAYE), which amounted to K1,176.1 billion, against a target of K957.9 billion. The higher collections in PAYE were mainly due to the higher than expected wage adjustment for civil servants that took effect in April 2003. As for the other categories of income tax, collection of withholding tax was above the target of K179.6 billion by 5.3 percent while collections of company income tax were below the target of K327.6 billion by 25 percent.

b) Extraction Royalty

Mineral royalty collections for the year were K10.0 billion compared to the budget estimate of K7.0 billion. This favourable outturn was on account of two main factors. Firstly, considerable arrears that were cleared during the year and secondly, the amendments in the 2003 National Budget that brought the small-scale mining operations in the tax net as well as the increase in the mineral royalty for gemstone miners from 2 to 5 percent.

c) Tax on Domestic Goods and Services

Revenues from taxes on domestic goods and services stood at K872.1 billion, representing an underperformance of 6.8 percent. This outcome was mainly as a result of the poor performance in the opaque beer industry during the first quarter, which was as a result of maize shortages experienced in 2002. Diesel shortages experienced during the months of May and June 2003 also resulted in less collections of excise duty. With regard to domestic VAT, the dismal performance was partly attributed to direct fuel importation as opposed to uplifts from Indeni.

Table 2.7: Revenue Performance, 2003

	Budget Projection (K' Million)	Budget Outturn (K' Million)	Variance (K' Million)
1 Total Domestic Revenue	3,676,955	3,679,450	2,495
Tax Revenue	3,445,709	3,546,568	100,859
Income Tax	1,472,143	1,610,774	138,631
Company Tax	327,577	245,580	(81,997)
Personal Income Tax	1,137,529	1,365,194	227,665
PAYE	957,930	1,176,104	218,174
O/w Medical Levy	3,800	3,480	(320)
Withholding Tax	179,599	189,090	9,491
Extraction Royalty	7,037	9,992	2,955
Domestic Goods and Services	936,073	872,083	(63,990)
Excise duty	513,501	479,412	(34,089)
o/w Fuel Levy	72,000	98,561	26,561
Domestic VAT	422,572	392,671	(29,901)
Trade Taxes	1,037,493	1,053,719	16,226
VAT on Imports	586,024	641,551	55,527
Import Tariff	451,469	412,168	(39,301)
Non Tax Revenue	78,000	87,828	9,828
Miscellaneous Revenue	33,000	12,505	(20,495)
Exceptional Revenue	120,246	32,602	(87,644)

Source: Ministry of Finance and National Planning

d) Trade Taxes

Collections on trade taxes for the year were below target despite the good performance of import VAT where collections stood at K586.0 billion, above the target by 9.4 percent. The good performance on import VAT was mainly due to increased trade and improved compliance. On the other hand, collections on import tariffs fell below target by 8.7 percent. The under collection was mainly as a result of the importers switching from South African goods to goods originating from the COMESA region, which are not subject to import duty on reciprocal basis. In addition, most of the imports in the first quarter were machinery and raw materials, which are either duty free or at the lower rate of 5 percent.

2.2.2.2 Non-tax Revenue

Non-tax revenue collections during the period under review were above the target of K78.0 billion by 12.6 percent. This was mainly on account of good performance by major revenue-collecting ministries. In particular, the computerisation of the Road Traffic Commission and the renewal of work permits largely contributed to this outturn.

2.2.2.3 Exceptional Revenue

Exceptional revenue collections during the year were below the target of K120.2 billion by 72.9 percent. This was mainly due to the poor recoveries from the maize sales and fertilizer loans.

2.2.2.4 Miscellaneous Revenue

During the period under review, collections for miscellaneous revenues were K12.5 billion. This was below the target of K33.0 billion by 62.1 percent. Low collections on dividends from parastatal companies contributed to this outcome.

2.2.3 Domestic Expenditures

Preliminary figures show that total domestically financed expenditures amounted to K4,726.7 billion by end-December 2003, exceeding the target of K3,974.6 billion by K752.1 billion or 18.9 percent. The over expenditures mainly arose from extra budgetary expenditures especially the wage award to the civil service, retrenchment packages paid to RAMCOZ workers and increased general government operations (Table 2.8).

Of the total domestically financed expenditures, current expenditure accounted for 92.0 percent and capital expenditure accounted for 8.0 percent compared to the programmed shares of 90 percent and 10 percent, respectively.

The less than programmed releases for capital expenditure was largely attributed to expenditure switching arising from the more than programmed Recurrent Departmental Charges (RDCs) and external debt payments, compounded by the non-release of balance of payments support by the co-operating partners.

Table 2.8: Domestic Expenditure Performance (in K' Million), 2003

	Budget	Budget Outturn	Variance
Total Expenditures	3,974,608	4,726,733	779,125
Current Expenditures	3,570,958	4,314,354	743,396
Wages & Salaries	1,520,000	1,728,258	208,258
Public Service Retrenchment Programme	63,500	10,000	(53,500)
Recurrent Departmental Charges	465,158	652,685	199,257
Awards and Compensations	22,000	14,610	(7,390)
Domestic Arrears	73,427	52,399	(21,029)
Of which H/Allowance		9,805	9,805
Ordinary Recurrent Departmental Charges	357,731	578,523	220,792
Of which By- Elections		14,756	14,756
Contingency	12,000	6,461	(5,539)
Transfers and Pensions	471,450	361,987	(109,463)
Pension Fund	12,000	4,050	(20,955)
Pension Arrears	24,000	3,045	(7,950)
Domestic Debt Interest	451,780	563,458	31,458
External Debt Payment	312,070	541,949	229,879
Other Current Expenditure	281,000	456,016	175,016
Financial Restructuring	65,000	208,659	143,659
Zambia Revenue Authority	80,000	104,000	24,000
Fertiliser Price Support	50,000	53,500	3,500
Maize Reserve	77,000	77,702	702
Constitutional	6,000	12,155	6,155
Capital Expenditure	516,100	412,380	(103,720)
O/w PRP	240,810	212,952	(27,858)
Fuel Levy	72,000	42,900	(29,100)
Counterpart	68,100	23,145	(44,955)

Source: Ministry of Finance and National Planning

2.2.3.1 Expenditure By Function

a) Wages and Salaries

Expenditures on wages and salaries were K1,728.3 billion as at end-December 2003. This was above the target of K1,520.0 billion by K208.3 billion. The increase in expenditure for wages and salaries was attributed to the salary increments awarded to the civil service workers in April 2003, which was more than the provision in the budget.

b) Public Service Reform Programme

Releases on account of retrenchments amounted to K10.0 billion against the target of K63.5 billion. The amount released mainly catered for retrenchments at the two universities, University of Zambia and the Copperbelt University under the Ministry of Education.

c) Recurrent Departmental Charges

Recurrent departmental charges amounted to K652.7 billion well in excess of the target of K465.2 billion by K187.5 billion or 40.3 percent. This was largely due to increases in government operations especially at Cabinet Office and the defence and security wings. Of the total amount released, K52.4 billion and K14.6 billion was for

the payment of domestic arrears and awards and compensations, respectively.

d) Transfers and Pensions

Funds amounting to K362.1 billion were released to grant-aided institutions and subscription payments to international organisations. This was below the target by K109.5 billion. In particular, releases to the Public Service Pensions Fund stood at K3.0 billion against the target of K12.0 billion while that of pension arrears amounted to K4.1 billion against the target of K24.0 billion.

e) Other Current Expenditures

Total releases to other current expenditures amounted to K456.0 billion against the programme target of K281.0 billion and were above the target by K175.0 billion. This was largely attributed to the releases made towards financial restructuring, which absorbed 64.1 percent of the total releases. Notable among them, were payments to Roan Antelope Mining Company (RAMCOZ) to cover workers retrenchment packages and releases to Zambia Revenue Authority, which stood at K104.0 billion and were above the programmed figure by K24.0 billion.

Other current expenditure included releases to maize reserve and fertilizer price support

amounting to K77.7 billion and K53.5 billion, respectively.

f) Capital Expenditures

Capital expenditure releases during the period under review were less than programmed. By end-December 2003, K412.4 billion was released against the target of K 516.1 billion. Of the total released, K212.9 billion was for poverty reducing programmes and this was less than the target by K27.8 billion. Similarly, releases for counterpart funding were less than the target by K44.9 billion and stood at K23.2 billion. Ordinary capital expenditures, which included road projects accounted for 37.8 percent of the capital expenditures and were over the target by K6.6 billion.

g) External Debt Service

External debt service amounting to K541.9 billion was financed using domestic resources. This was K229.9 billion over the budget estimate of K312.1 billion. The main contributing factor to this outturn was the less than programmed releases of funds by co-operating partners, which are partly used to finance external debt service.

h) Domestic Debt Interest

Interest payments on domestic debt amounted to K563.5 billion and were 24.7 percent above the programmed figure of K451.8 billion. This was attributed to the increase in Government borrowing to meet constitutional expenditures and cover for the shortfall in foreign financing.

Table 2.9: Social Sector Releases (in K' Billion), 2003

Sectoral Expenditure	Budget Provision	Total Releases	Percentage Release Of Discretionary Releases
Total	957.1	1 164.3	33.4
Education	524.8	686.2	19.7
Personal Emoluments	347.1	526.1	
Recurrent Departmental Charges	27.3	19.6	
Grants and Other Payments	124.3	129.8	
Poverty Reduction Programme	5.1	9.6	
Capital Expenditure	21.1	1.0	
Health	392.5	419.2	12.0
Personal Emoluments	214.9	236.5	
Recurrent Departmental Charges	33.5	60.2	
Grants and Other Payments	67.4	67.4	
Poverty Reduction Programme	74.9	48.7	
Capital Expenditure	1.7	6.4	
Social Safety Net	15.6	36.7	1.1
Personal Emoluments	4.7	6.5	
Recurrent Departmental Charges	2.2	1.7	
Grants and Other Payments	8.7	14.5	
Poverty Reduction Programme	-	13.9	
Capital Expenditure	-	-	
Water and Sanitation	23.2	16.3	0.5
Personal Emoluments	0.8	1.8	
Recurrent Departmental Charges	1.5	1.0	
Grants and Other Payments	-	1.3	
Poverty Reduction Programme	13.7	10.3	
Capital Expenditure	7.2	2.0	
Disaster Relief Management	0.9	6.0	0.17
Personal Emoluments	0.3	0.3	
Recurrent Departmental Charges	0.5	0.7	
Grants and Other Payments	0.09	4.5	
Poverty Reduction Programme	-	-	
Capital Expenditure	0.05	0.4	

Source: Ministry of Finance and National Planning

i) Social Sector Expenditures

One of Government's objectives in 2003 was to continue to invest in the social sector by releasing at least 36 percent of discretionary expenditures and also targeting 20 percent of these discretionary expenditures to the education sector. The discretionary expenditures stood at K3,483.3 billion and the total social sector spending amounted to K1,164.4 billion, representing 33.4 percent of the discretionary expenditures (Table 2.9).

The total amount released for the education sector during the period under review stood at K686.2 billion, absorbing 19.7 percent of total discretionary expenditures. The programme targets included provision of school desks, construction of teachers' houses in rural areas and construction of new schools.

In the health sector, programmes focused on the provision of essential health kits, the implementation of the Roll-Back Malaria programme and provision of the Anti-Retroviral (ARV) drugs in hospitals. Other programmes included construction of houses for medical staff in rural areas and construction of health posts throughout the country. The health sector absorbed 12.0 percent of the discretionary expenditures.

Other sub-sectors such as the social safety nets, water and sanitation and disaster management absorbed 1.1 percent, 0.5 percent and 0.2 percent of the total discretionary expenditures, respectively.

j) Poverty Reduction Expenditures

In 2003, the PRPs were aimed at economic empowerment programmes, social safety nets operations and key socio-economic investment projects. The budget allocation for PRPs was K420.7 billion of which K240.8 billion was to be

financed from domestic resources. By end-December 2003, a total of K212.9 billion or 50.4 percent of the total budget was released (Table 2.10).

Of the total budget releases, the rural development programmes absorbed 57.2 percent, which included feeder roads, irrigation and electrification and farmer support programmes such as crop and fertilizer support and animal disease control. As at end-December 2003, K121.93 billion or 64.5 percent of the total allocation had been released.

In the health sector, provisions for PRPs mainly covered purchase of drugs, ARV drugs, Roll-Back Malaria programme and rehabilitation of general and district hospitals. A total of K26.2 billion or 43.9 percent of the allocation was released. Resources were also directed at improving housing for medical staff in the rural areas and an amount of K4.0 billion was released.

Total releases amounting to K18.2 billion against a budget allocation of K13.0 billion went to social safety net programmes. These programmes included the Peri-Urban Self Help programmes and Public Welfare Assistance Schemes.

HIV/AIDS programmes included provision of ARV drugs to public workers in key ministries such as health and education. Public awareness campaigns were also undertaken in 2003. By end-December 2003, a total of K18.0 billion or 58.4 percent of the allocation was released towards HIV/AIDS programmes.

In the education sector, PRPs included construction of classrooms as well as provision of desks in identified schools. By end-December 2003, releases to these programmes amounted to K4.5 billion or 12.4 percent of the total provision. Resources amounting to K3.9 billion were also released to colleges and universities for the rehabilitation of infrastructure.

Table 2.10: Expenditure on Poverty Reduction Programmes (in K' Billions), 2003

	Total Allocation	Total Releases	% Released (%)
Rural Development	189.0	121.9	64.5
Health	59.7	26.2	43.9
Social Safety Net	13.0	18.2	140.0
HIV/AIDS	30.8	18.0	58.4
Education	37.0	4.6	12.4
Industrial Development	11.2	4.4	39.3
Housing Development	22.0	4.0	18.2
Water & Sanitation	9.3	3.9	41.9
Colleges & Universities	17.2	3.9	22.7
Human Rights	14.5	3.4	23.4
Resettlement Programmes	4.7	2.6	55.3
Urban Infrastructure	9.8	1.6	16.3
Youth Development	4	0.1	25.0
Total	420.7	212.9	50.4

Source: Ministry of Finance and National Planning

The water supply and sanitation programmes in rural and peri-urban areas were aimed at improving access to safe and clean water. Out of the allocation of K9.3 billion a total amount of K3.9 billion or 22.7 percent was released.

2.2.4 Financing of Deficit

The outturn in domestic revenues and expenditures during the review period resulted in a domestic budget deficit of K1,047.3 billion. This was above the end-year target by K749.7 billion or 71.6 percent (Table 2.12).

The domestic deficit was largely financed through the banking system. Government borrowing from commercial banks and non-bank sector was mainly in the form of Government securities while borrowing from the Central Bank was mainly in form of domestic currency bridge loans (Table 2.11).

Table 2.11: Financing of Domestic Deficit, 2003.

	K' Millions
Domestic Revenue	3,679,450
Exp & Net Lending	4,726,733
Domestic Balance	(1,047,283)
Domestic Financing	(1,047,283)
Banking	977,510
Non-Banking:	69,773

Source: Ministry of Finance and National Planning and Bank of Zambia

2.2.4 Outlook

In line with Government's policy aimed at maintaining macroeconomic stability, the 2004 budget will be structured in such a way as to restrict domestic borrowing within set targets. Releases will be restricted to programmed levels, placing emphasis on priority growth areas, poverty reduction programmes and social sector spending. Efforts will also be intensified to broaden the domestic revenue base.

Table 2.12: Central Government Domestic Operations (in K' Billions), 1999 - 2003

	1999	2000	2001	2002	2003	
					Target	Budget Outturn
Total Domestic Revenue	1,322.3	1,964.6	2,694.5	2,908.9	3,676.9	3,679.5
Tax Revenue	1,289.6	1,928.9	2,448.7	2,839.5	3,445.7	3,546.6
Income Tax	482.2	632.0	953.2	1,243.7	1,465.1	1,610.7
Company Tax	91.5	125.0	195.8	276.4	327.6	245.6
Personal Income Tax	390.8	504.7	755.1	964.7	1,137.5	1,365.2
Pay-as-you-earn (PAYE)	377.5	434.2	656.3	828.9	957.9	1,176.1
of which: Medical Levy	-	-	-	-	3.8	3.5
Withholding Tax & Other Taxes	....	70.6	98.8	135.8	179.6	189.1
Extraction Royalty	13.3	3.9	2.3	2.6	7.0	10.0
Domestic Goods & Services	469.3	508.9	643.8	764.4	936.1	872.1
Excise Duties	220.9	278.5	366.1	422.7	513.5	479.4
of which :Fuel Levy	23.6	35.5	55.3	90.8	72.0	98.6
Domestic value-added tax (VAT)	248.4	230.4	277.8	341.7	422.6	392.7
Trade Taxes	345.8	597.1	851.6	840.6	1,037.5	1,053.7
VAT on Imports	181.7	344.9	493.7	470.5	586.0	641.6
Import Tariffs	164.2	250.1	333.9	367.1	451.5	412.2
Clearance of ZESCO Arrears	...	191.0	23.4	...	...	...
Non-tax Revenue	32.8	35.7	59.8	60.2	78.0	87.8
Miscellaneous Revenue	...	...	...	...	33.0	12.5
Exceptional Revenue	...	...	...	...	120.2	32.6
Domestically Financed Expenditure	1,251.1	2,174.6	3,007.9	3,583.2	3,974.6	4,726.7
Total Current Expenditure	1,128.1	1,533.8	2,352.4	3,080.4	3,583.0	4,314.3
Wages and Salaries	402.2	538.3	887.6	1,301.2	1,520.0	1,728.3
Public Service Retrenchment	51.0	74.0	19.1	80.0	63.5	10.0
Recurrent Departmental Charges	311.8	392.4	619.2	568.6	465.2	652.7
Of which Domestic Arrears	120.9	91.6	117.1	131.7	73.4	52.4
Contingency	....	81.9	14.5	28.7	12.0	6.5
Transfers and Pensions	180.7	218.8	333.4	411.9	471.5	362.1
Domestic Debt Interest (paid)	88.6	140.3	206.8	449.9	451.8	563.5
External Debt Payment	....	....	...	145.0	312.1	541.9
Agriculture Expenditures	17.4	10.0	...	...	...	...
Other Current Expenditure	76.6	78.1	271.8	95.3	281.0	456.0
Constitutional Posts	....	...	...	...	6.0	12.2
II Domestically Financed CAPEX	122.9	228.3	578.2	416.6	516.1	412.4
of which : PRP	....	440.0	92.5	45.7	240.8	212.9
Net Lending	-	412.5	77.2	86.2	-	-
III Domestic balance	71.2	(210.0)	(315.3)	(674.3)	(297.7)	(1,047.3)
Gross Domestic Product (Current Prices)	7,479.5	10,071.9	13,132.7	16,260.4	-	20,377.1

Source: Ministry of Finance and National Planning

.... Data not available

2.3 DOMESTIC DEBT

In the period under review, total domestic debt stock increased by 29.2 percent from K4.9 trillion in 2002 to K6.3 trillion as at end-December 2003. This rise was attributed to the increase in the stock of Government securities. Government securities went up due to the consolidation of Government's indebtedness to the Central Bank, into a consolidated Government bond amounting to K1.6 trillion and the financing of Government fiscal deficit using both Treasury bills and Government bonds.

Awards and compensations arrears increased by 43.9 percent from K70.0 billion in 2002 to K100.7 billion in 2003.

However, other components of domestic debt declined largely due to the restructuring and repayments of the outstanding arrears. The Public Service Pensions Fund arrears (PSPF) reduced to K263.7 billion in 2003 from K270.7 billion in 2002. Employers' contributions arrears also reduced by 85.2 percent from K6.8 billion in 2002 to K1.0 billion in 2003 (Table 2.13).

2.3.1 Outlook

A Domestic Debt Policy and Reduction Strategy document was drafted and is still undergoing a consultative process. However, some elements of the policies and strategies in the draft document were implemented. In 2004, it is expected that the draft document would be adopted and implementation of all the proposed strategies will commence.

Table 2.13: Domestic Debt (in K' Billions) as at end-December 2003

	December 2002	December 2003	%Change 2003/2002
Government Securities	1,700.1	2,459.7	44.7
Treasury Bills	817.6	1,325.6	62.1
GRZ Bonds	882.4	1,134.1	28.5
GRZ Consolidated Bond	1,675.0	1,907.7	13.9
Suppliers Arrears	433.6	636.8	46.9
Capital	140.5	313.2	122.9
PE's & RDC's	293.1	323.7	10.4
Pension Arrears	270.7	263.7	(2.5)
Employees Contributions	262.7	262.7	
Employer's Contributions	6.8	1.0	(85.3)
Loans to GRZ	1.2	-	(100.0)
Awards & Compensations	70.0	100.7	43.9
Grand Total	4,853.7	6,269.2	29.2

Source: Ministry of Finance and National Planning

*Preliminary Figures

2.4 MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

2.4.1 Overview

The principal focus of monetary policy in 2003 was to achieve an end-year inflation target of 8.0 percent and maintaining gross international reserves at US \$283.1 million. The achievement of these objectives was based on a broad money growth not exceeding 6.6 percent and a disbursement of balance of payments support on assumption of a new Poverty Reduction and Growth Facility with the International Monetary Fund, respectively. Further, the achievement of the inflation target was premised on good agricultural sector performance, given the adequate seed and fertiliser distribution, as well as favourable rainfall. The programmed broad money growth was to be achieved through indirect monetary instruments, including open market operations, primary auctions of Government securities and Repurchase Agreements (REPOs).

By the middle of 2003, macroeconomic targets were revised, largely due to extra-budgetary expenditures that resulted in loose monetary conditions. The inflation target was revised to 13.0 percent while gross international reserves were projected to decline to US \$177.0 million. Due to unprecedented expenditures in the third quarter of the year, the inflation target, however, was revised to 17.1 percent and gross international reserves to US \$155 million. Consistent with the revised inflation targets, annual growth in broad money was adjusted upwards to 16.9 percent and later to 24 percent.

Preliminary data indicate that overall inflation in 2003 closed at 17.2 percent while broad money supply, as at end-November grew by 13.8 percent.

2.4.2 Monetary Developments

During 2003, Government continued to implement appropriate monetary policies to achieve the end-year inflation objective. In this vein, it continued employing market-based instruments to manage liquidity. Further, statutory reserve requirement ratios were employed.

2.4.2.1 Monetary Conditions

In 2003, monetary conditions were loose. This was largely driven by the higher than expected Government borrowing, which was necessitated by the need to import maize and agricultural inputs. This followed the negative impact of the adverse weather conditions in the 2001/2002

agricultural season. In addition, the conversion of Kwacha statutory reserves on foreign currency deposits into US Dollars and the reduction of statutory reserve requirements ratio from 17.5 percent to 14.0 percent in 2003 contributed to the loose conditions.

2.4.2.2 Broad Money

Preliminary data indicate that M_3 growth slowed down in 2003, increasing by 13.8 percent by November compared to 31.4 percent growth in the same period in 2002. Excluding foreign currency deposits, M_3 grew by 17.1 percent in 2003, compared with 28.2 percent in 2002. As a proportion of GDP, broad money declined to 20.2 percent in 2003 from 22.3 percent in 2002. However, in absolute terms, M_3 increased to K4,120.5 billion in November 2003 from K3,619.7 billion in December 2002 while in real terms it declined by 5.2 percent in 2003 compared to a real growth of 4.8 percent in 2002 (Table 2.14).

The growth in M_3 was mainly due to a rise in the banking sectors' lending to the central Government, private sector and households, which contributed 24.7 percent, 5.8 percent and 3.4 percent, respectively.

2.4.2.3 Domestic Credit

During the period under review, total banking system credit rose by 43.1 percent to K4,090.2 billion in 2003 from K3,590.8 billion in 2002. This was 13.8 percentage points above the programmed target of 29.3 percent. The rise in domestic credit was largely attributed to the increase by 51.2 percent in bank lending to the central Government. Lending to the private enterprises, households, non-bank financial institutions and public enterprises increased by 24.8 percent, 77.6 percent, 42.6 percent and 1.3 percent to K1,059.0 billion, K282.5 billion, K16.5 billion and K94.8 billion, respectively (Table 2.14).

Table 2.14: Monetary Developments in (K' Billion, unless otherwise stated), 1999 -2003

(End of period)	1999 Dec	2000 Dec	2001 Dec	2002 Dec	2003 Dec*
Net foreign assets	(2,338)	(3,419)	(2,648)	(3,159)	(3,591)
Bank of Zambia	(2,807)	(4,347)	(3,455)	(4,332)	(4,543)
Assets	1,984	2,851	2,828	4,272	4,492
Liabilities	(4,791)	(7,198)	(6,283)	(8,604)	(9,035)
Commercial banks	469	928	807	1,173	952
Assets	530	996	894	1,272	1,088
Liabilities	(61)	(68)	(87)	(99)	(137)
Net domestic assets	3,766	5,905	5,403	6,779	7,712
Net domestic credit	1,506	2,570	3,177	2,857	4,090
Net claims on Gov't	693	1,350	1,789	1,744	2,637
Claims on Gov't	1,073	1,875	2,677	2,617	3,693
Government deposits	(380)	(525)	(888)	(873)	(1,056)
Claims on non-Gov't	813	1,220	1,388	1,113	1,453
o/ w: Claims on private sector	556	861	946	1,019	1,358
Claims on public enterprises	257	359	442	94	95
Other items (net)	2,260	3,335	2,226	3,922	3,622
Broad money (excluding foreign exchange deposits)	894	1,315	1,709	2,191	2,566
Broad money (including foreign exchange deposits)	1,428	2,486	2,755	3,620	4,121
Narrow money	504	761	1,015	1,324	1,533
Quasi-money	924	1,725	1,738	2,296	2,588
Time and savings deposits	391	555	694	867	1,033
Foreign exchange deposits	534	1,171	1,045	1,429	1,555
			<i>(Twelve-month %age change)</i>		
Net foreign assets	(2.0)	(46.2)	22.6	(19.3)	(13.6)
Net domestic assets	8.0	56.8	(8.5)	255	13.0
Net domestic credit	33.6	70.7	23.6	(10.1)	40.4
Net claims on Government	20.4	94.8	32.5	(2.5)	46.7
Claims on non-Government	47.4	50.1	13.8	(19.8)	30.6
Other items (net)	(3.9)	47.6	(33.3)	76.2	(7.1)
Broad money	29.2	74.1	10.8	31.4	13.8
Narrow money	26.7	51.0	33.4	30.3	15.6
Quasi-money	30.6	87	0.8	32.0	10.5
Of which: foreign exchange deposits	35.0	119.3	(10.8)	36.7	8.6
Memorandum items:					
Foreign exchange deposits (in % of broad money)	37.3	47.1	38.0	39.5	38.1
Money multiplier (Kwacha only)	2.6	2.4	2.1	2.0	2.5
Money multiplier (Total deposits)	4.2	4.5	3.4	3.2	4.0
Currency (in % of Kwacha deposits)	119.0	108	117	95	122
Consumer price inflation (end-December)	20.6	30.6	18.7	26.7	17.2
Nominal retail selling exchange rate (end-period, K/US \$)	2,689.6	4209.8	3,890.7	4,334.40	4,741.07
Weighted lending rate (end-period, in %)	51.3	45.9	54.6	50.0	44.8
Weighted savings rate for less than K100, 000	7.6	10.2	4.1	8.1	7.6

Source: Bank of Zambia

* Data up to end-November 2003 for some monetary variables

2.4.3 Overall Inflation

The annual overall inflation rate slowed down to 17.2 percent in December 2003 from 26.7 percent in December 2002 (Chart 1 and Table 2.15). The decline in overall inflation was mainly attributed to the reduction in food prices following the 2002/2003 favourable crop harvest.

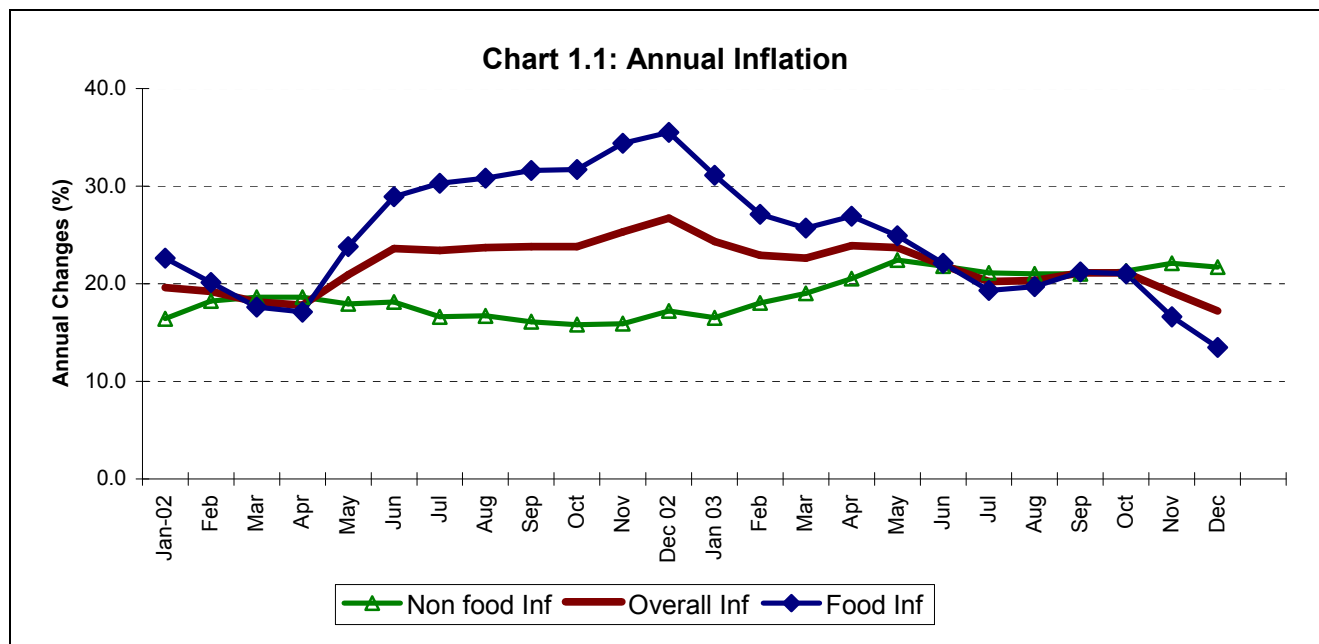
2.4.3.1 Food Inflation

The annual food inflation rate declined by 22.0 percentage points to 13.5 percent in December 2003 from 35.5 percent in December 2002. This development reflected the effects of the improved food supply situation following the favourable weather in the 2002/2003 agricultural seasons. Consequently, the national average price of a 25 kg bag of roller meal and breakfast meal decreased by 23.8 percent and 44.6 percent to K24,204.00 and K30,819.00 in December 2003 from K40,461.00 and K43,562.00 in December 2002, respectively.

2.4.3.2 Non-Food Inflation

Annual non-food inflation rose by 4.5 percentage points to 21.7 percent in December 2003 from 17.2 percent in December 2002. The build-up in the non-food inflationary pressures were mainly attributed to the increases in prices of petroleum products, furniture and household goods, clothing as well as footwear items. The national average pump prices of diesel and petrol went up by 18.1 percent and 11.1 percent to K3,524.00 per litre and K4,073.00 per litre at end-December 2003 from K3,279.00 per litre and K3,902.00 per litre at end-December 2002, respectively. In addition, the impact of the upward adjustment in electricity tariffs by 5.3 percent in the period under review translated into high production and operational costs.

Furthermore, a 13.8 percent annual growth in M₃ and the depreciation of the Kwacha, particularly against the South African Rand, contributed to the increase in non-food inflation. The Kwacha depreciated by 33.7 percent against the South African Rand from K528.42 at end-December 2002 to K706.38 at end-December 2003.



Source: Central Statistical Office

Table 2.15: Inflation Developments (in Percent), December 2001 – December 2003

	Overall Inflation		Food Inflation		Non-food Inflation	
	Monthly	Annual	Monthly	Annual	Monthly	Annual
December 2001	3.5	18.7	5.4	20.2	1.4	17.1
January 2002	4.3	19.6	6.7	22.7	1.7	16.4
February	2.9	19.2	3.7	20.1	2.0	18.2
March	1.0	18.1	0.4	17.6	1.7	18.6
April	(0.8)	17.8	(1.6)	17.1	0.1	18.6
May	1.0	20.9	1.2	23.8	0.9	17.9
June	1.2	23.6	1.0	28.9	1.4	18.1
July	1.3	23.4	1.7	30.2	1.0	16.6
August	1.3	23.7	1.6	30.8	1.0	16.7
September	1.5	23.8	1.9	31.6	1.1	16.1
October	1.8	23.8	2.5	31.7	1.0	15.8
November	3.8	25.3	5.7	34.4	1.5	15.9
December	4.6	26.7	6.3	35.5	2.5	17.2
January 2003	2.3	24.3	3.2	31.1	1.1	16.5
February	1.7	22.9	0.5	27.1	3.3	18.0
March	0.8	22.6	(0.7)	25.7	2.6	19.0
April	0.2	23.9	(0.7)	26.9	1.3	20.5
May	0.9	23.7	(0.4)	24.9	2.5	22.4
June	(0.2)	21.9	(1.3)	22.1	0.9	21.8
July	(0.1)	20.2	(0.6)	19.3	0.5	21.1
August	1.4	20.3	1.9	19.7	1.0	21.0
September	2.2	21.1	3.2	21.2	1.1	21.0
October	1.8	21.1	2.4	21.0	1.2	21.3
November	2.0	19.1	1.9	16.6	2.2	22.1
December	2.9	17.2	3.5	13.5	2.2	21.7

Source: Central Statistical Office, Food Reserve Agency and Bank of Zambia

2.4.4 Interest Rates Developments

During the period under review, nominal interest rates continued to decline. The yield rates on Government securities fell. In particular, the yield rates on the 91-day and 182-day Treasury bill portfolios declined to 19.3 percent and 20.8 percent in December 2003 from 32.0 percent and 32.9 in December 2002, respectively. Similarly, the yield rates on the 12-month and 18-month Government bonds fell during the review period to 28.8 percent and 31.6 percent from 41.0 percent and 41.5 percent in 2002, respectively (Table 2.16).

Consequently, commercial banks interest rates edged downwards. The weighted average lending

base rate and the average lending rate decreased to 38.0 percent and 45.6 percent at end-December 2003 from 42.5 percent and 50.0 percent at end-December 2002, respectively. The average savings rate for amounts above K100,000 and the 30-day rate for deposits above K20.0 million fell over the same period to 7.6 percent and 18.0 percent from 8.1 percent and 19.5 percent in 2002, respectively. The general downward trend in interest rates was attributed to loose liquidity conditions in the system, which resulted from the conversion of foreign exchange statutory reserves held in Kwacha into US dollars and the reduction of the statutory reserves ratio on both foreign currency and Kwacha deposits.

Table 2.16: Interest Rates Developments (in Percent), 1999 - 2003

	Year - End					End - Quarter 2003			
	1999	2000	2001	2002	2003	Mar	Jun	Sep	Dec
28-day Treasury bill	36.1	11.0	41.5	25.3	24.8	24.7	24.2	23.4	24.8
91-day Treasury bill	36.2	34.0	50.5	32.0	19.3	34.4	32.4	32.8	19.3
182-day Treasury bill	36.4	36.7	50.4	32.9	20.8	34.3	33.7	34.1	20.8
273-day Treasury bill	-	38.7	46.4	33.2	22.1	35.1	34.3	34.7	22.1
WATBR	36.2	33.8	48.2	31.7	21.6	33.3	33.0	33.4	21.6
12-month Bond	48.1	38.7	54.1	41.0	28.8	43.7	37.0	33.6	28.8
18-month Bond	49.2	43.3	54.9	41.5	31.6	44.4	39.9	37.1	31.6
24-month Bond	-	45.8	55.4	41.6	33.3	44.6	40.9	39.0	33.3
WALBR	42.4	37.5	46.7	42.5	37.2	42.8	40.2	38.8	37.2
ALR	51.5	45.9	54.6	50.0	44.8	51.2	47.8	46.4	44.8
ASR	11.2	11.5	8.7	8.1	7.6	8.3	7.4	7.6	7.6
Deposit >K20 m (30 days)	19.5	17.8	19.8	19.5	17.8	18.3	18.2	17.8	17.8

Source: Bank of Zambia

Key: WATBR =Weighted average Treasury bill rate
 ALR = Commercial banks' simple average lending rate
 ASR = Commercial banks' simple average rate for savings above K100, 000
 WALBR= Commercial banks' weighted average lending base rate

2.4.5 Foreign Exchange Market Developments

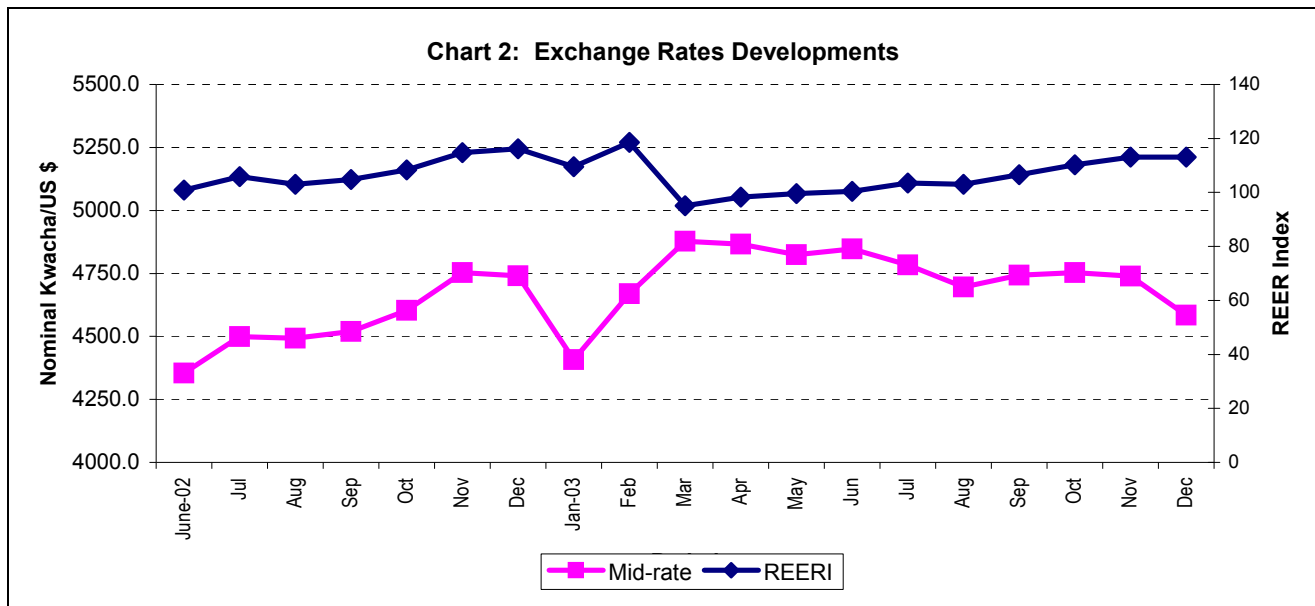
In 2003, the performance of the Kwacha against major trading currencies was mixed. In nominal terms, the BoZ mid-exchange rate showed that the Kwacha appreciated by 3.3 percent from K 4,740.05 per US dollar in December 2002 to K4,583.88 per US dollar in December 2003. In contrast, the Kwacha depreciated by 33.7 percent against the South African Rand from K528.42 at end-December 2002 to K706.38 at end-December 2003.

In the first half of 2003, there was an improvement in the supply of foreign exchange to the market that contributed to the slow down in the rate of depreciation of the Kwacha. A total of US \$137.1 million was supplied to the market compared with US \$97.4 million in the first half of 2002. Subsequently, the Kwacha showed some measure of resilience over the first six months of 2003 with the BoZ mid-exchange rate depreciating by 2.3 percent from K4,740.05 in December 2002 to K4,847.04 per US dollar in June 2003 compared with a

depreciation of 14.0 percent over the same period in 2002.

In the second half of 2003, the broad-based inter-bank foreign exchange system was introduced and the Bank of Zambia dealing window closed. At the advent of the broad-based inter-bank foreign exchange system in July 2003, the Kwacha generally appreciated. Consequently, the Bank of Zambia mid-exchange rate closed the year at K4,583.88 per US dollar, an appreciation of 3.3 percent over the December 2002 level of K4,740.05 per US dollar (Chart 2).

With regard to the Real Effective Exchange Rate (REER), the REER index appreciated by 6.3 percent from 116.2 in December 2002 to 113.1 in December 2003. The appreciation in the REER emanated mainly from a rise in the domestic Consumer Price Index and the appreciation of the Zambian Kwacha against most of the currencies of Zambia's major trading economies. This outturn was against a depreciation of 40.8 percent experienced during the same period in 2002.



Source: Bank of Zambia

2.4.6 Banking Sector Development

The overall financial condition and performance of the banking sector, for the 11-months ended 30 November 2003 was satisfactory as indicated by an improvement in capital adequacy, asset quality, earnings and liquidity condition.

The banking sector continued to be adequately capitalised. Primary capital for the industry increased by 5.9 percent to K529.9 billion at end-November 2003 compared to K500.6 billion at end-December 2002. During the same period, regulatory capital also increased by 4.4 percent to K590.9 billion from K565.9 billion at end-December 2002. The increase in both primary and regulatory capital was attributed to the net profit of K198.5 billion recorded in the period under review. Primary and regulatory capital to risk weighted assets ratios were 21 percent and 24 percent in 2003 compared to 25 percent and 28 percent at end-December 2002, respectively. The reduction in the capital ratios could be attributed to banks holding assets with a higher risk weight. All banks complied with the minimum capital requirements at end-November 2003.

Total liabilities amounted to K4,693.5 billion at end-November 2003 compared to K4,102.7 billion at end-December 2002. Deposits continued to account for the largest proportion of liabilities at 70.0 percent of total liabilities. Demand deposits accounted for the largest proportion of deposits, accounting for 49.0 percent of total deposits while

savings deposits and time deposits accounted for 11.0 percent and 10.0 percent, respectively.

The asset quality of the banking sector was satisfactory. Total assets increased by 13.3 percent to K5,298.9 billion in November 2003 from K4,676.3 billion in December 2002 (Table 2.17). Earning assets accounted for 75 percent of total assets compared to 72 percent at end-December 2002. The major source of asset growth was registered in Loans and Advances, which grew by 39 percent to K1,240.5 billion at end-November 2003 from K892.7 billion at end-December 2002. Investments in Government securities and loans and advances accounted for 30 percent and 24 percent of banking sector's assets compared to 22 percent and 19 percent, respectively at end-December 2002. Balances with banks abroad declined significantly and only accounted for 19.0 percent of total assets compared to 28.0 percent at end-December 2002.

The quality of the loan portfolio continued to be satisfactory, with non-performing loans declining by 36.0 percent to K74.1 billion from K111.0 billion at end-December 2002. The decline in non-performing loans was mainly on account of recoveries made on previously classified loans. As at end-November 2003, non-performing loans accounted for 5.5 percent of total loans compared to 11.4 percent at end-December 2002. Non-performing loans were provided for adequately, with provisions standing at 88.0 percent of non-performing loans compared to 74.0 percent at end-December 2002.

Table 2.17: Banking Sector Asset Structure, 2001 - 2003

Asset	Dec 2001	Dec 2002	Nov 2003
		(K' Million)	
Balances with Bank of Zambia	370, 635	616, 014	672, 070
Balances with financial institutions in Zambia	126, 885	183,401	127, 559
Balances with financial institutions abroad	866, 656	1,226,355	1,023,901
Investments in Government securities	620,976	1,047,443	1, 310, 318
Loans and advances	955,996	892,680	1,240, 543
Other assets	518,623	710,417	624,556
Total Assets	3,459,771	4,676,311	5,298,893
		(Percentage)	
Balances with Bank of Zambia	11	13	13
Balances with financial institutions in Zambia	4	4	2
Balances with financial institutions abroad	25	26	19
Investments in Government securities	18	22	30
Loans and advances	28	19	25
Other assets	14	16	11
Total Assets	100	100	100

Source: Bank of Zambia

The earnings performance of the banking sector was satisfactory. The sector recorded a profit after tax for the 11-month period to 30 November 2003 amounting to K198.5 billion compared to K212.2 billion for the year to end-December 2002. Return on Assets and Equity were 6.0 percent and 53.0 percent compared to 7.0 percent and 56.0 percent, respectively, for the preceding year (Table 2.18).

Total interest income for the 11-month period to 30 November 2003 amounted to K659.7 billion, 7.0 percent lower than the interest income of K642.2 billion, recorded in the preceding year. Interest income on GRZ securities amounted to K358.7 billion compared to K302.9 billion recorded for the 12-month period to 31 December 2002. Interest expenses amounted to K209.6 billion which was a 17 percent increase, compared to K179.4 billion for the preceding year. As a result, the banking sector recorded net interest income of K450.1 billion, 2.7 percent lower than K462.8 billion for the year ended December 2002.

On the other hand, non-interest income for the period under review amounted to K338.1 billion compared to K329.6 billion for the preceding year. Non-interest expenses amounted to K527.0

billion, representing a 13.6 percent increase over that recorded in 2002. Salaries and employee benefits continued to account for the largest component of total non-interest expenses at 44.3 percent.

Table 2.18: Banking Sector Earnings (in K' Billion), 2001 - 2003

	Dec 2001	Dec 2002	Nov 2003
Interest income	515,882	642,234	659,658
Interest expense	169,172	179,436	209.6
Provisions	68,079	26,166	(1,496)
Non-interest income	225,773	329,573	338.1
Non-interest expenses	356,496	463,596	527.0
Net income before tax	147,908	302,610	262.6
Tax	64,562	90,398	64.1
Profit after tax	83,346	212,212	198.5

Source: Bank of Zambia

During the year under review, the banking industry's liquidity position was favourable. At end-November 2003 and throughout the period, the ratio of liquid assets to total deposits and short-term liabilities was 75 percent compared to 79 percent at end-December 2002. This ratio was above the prudential minimum of 50 percent throughout the period. The high liquidity ratios in the banking sector were on account of the highly liquid assets in which the banks invested their funds. As a proportion of total assets, liquid assets accounted for 66 percent at end-October 2003 compared to 69 percent at end-December 2002.

2.4.7 Non-bank Financial Institutions Sector Development

During the period under review, the formal non-bank financial sector under the supervisory ambit of the Bank of Zambia comprised of seven leasing companies, three building societies, 30 bureaux de change, a savings and credit bank, a development bank and two micro-finance institutions. Of

these sub-sectors, the leasing sector, the micro-finance and bureaux de change sector and the development bank registered satisfactory performance as they were adequately capitalised and had favourable asset quality, earnings and liquidity. However, the performance of public financial institutions was not satisfactory.

2.4.7.1 Leasing Sub-sector

The overall performance of the leasing sub-sector was considered fair. On average, leasing companies maintained adequate capital while asset quality was satisfactory. In addition, the sub-sector's performance on earnings and liquidity was fair (Table 2.19).

Table 2.19: Performance Rating for the Leasing Sub-sector as at 31 October 2003

Performance Category	Capital Adequacy No. of Leasing companies	Asset Quality No. of Leasing Companies	Earnings No. of Leasing companies	Liquidity No. of Leasing companies
Strong	4	3	1	2
Satisfactory	1	0	1	1
Fair – Needs Improvement	0	1	3	1
Marginal	0	0	1	2
Unsatisfactory	2	3	1	1
Total	7	7	7	7

Source: Bank of Zambia

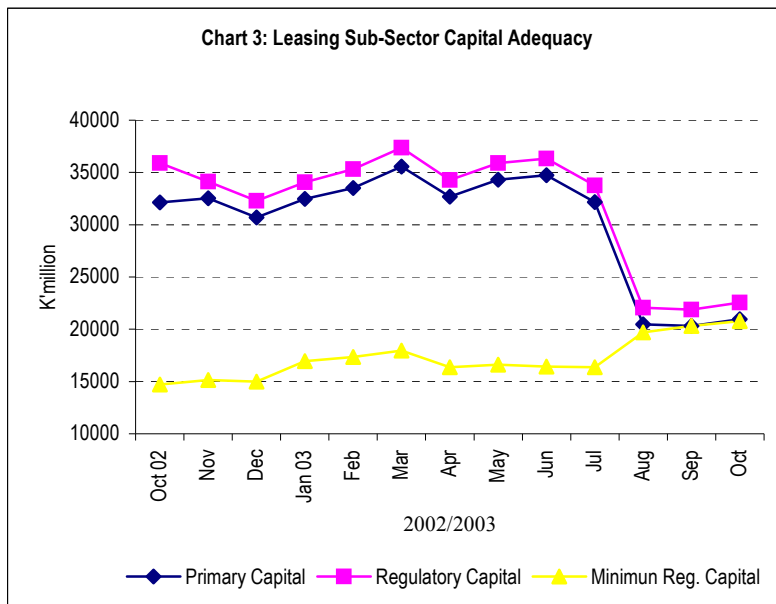
A five-tier system for analysis is used as follows:

1. Strong (Excellent performance in all parameters);
2. Satisfactory (Good performance in most of the parameters) ;
3. Fair (average performance and meets minimum statutory requirements) ;
4. Marginal (Below average performance in some of the parameters); and
5. Unsatisfactory (Poor performance in most parameters and violates minimum statutory requirements)

The leasing sub-sector was adequately capitalised in 2003 with aggregate regulatory capital of K22.5 billion. The minimum aggregate regulatory capital increased by 41.5 percent from K14.7 billion in 2002 to K20.8 billion in 2003.

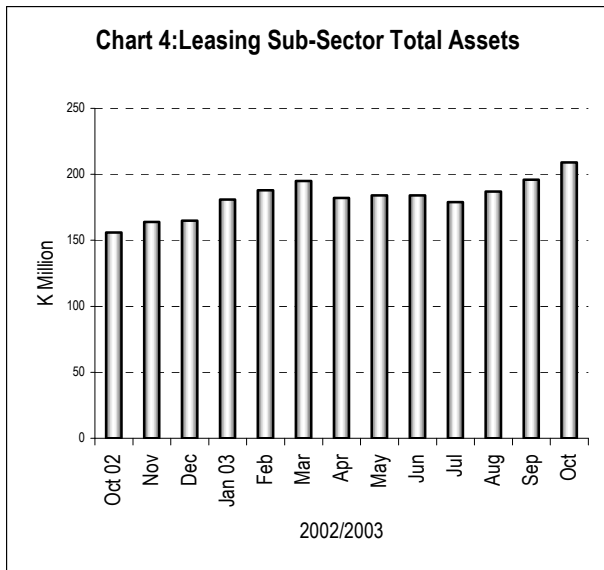
All leasing companies met the minimum regulatory capital requirement of K250 million or 10 percent of the total risk-weighted assets (Chart 3). The increase in the sub-sector's minimum regulatory capital ratios was due to an increase in the sub-sector's total risk-weighted assets from K139.6 billion in 2002 to K203.8 billion in 2003.

total loans and leases amounting to 14.0 percent of total assets. The level of earning assets to total assets remained stable and averaged 77.0 percent in 2003 compared to 79.0 percent at end-October 2002



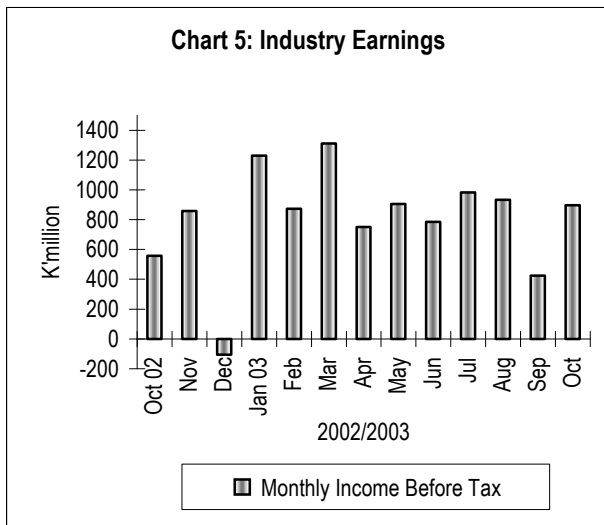
Source: Bank of Zambia

At end-October 2003, total assets of the leasing sub-sector increased by 33.9 percent to K209.0 billion from K156.1 billion in October 2002 (see Chart 4). The sub-sector's asset quality remained satisfactory, with non-performing loans and leases to



Source: Bank of Zambia

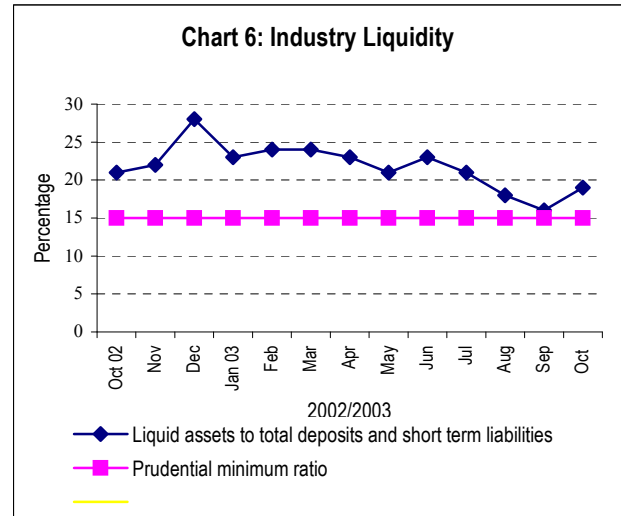
The earnings performance of the leasing sub-sector in the year to October 2003 was fair. The sub-sector recorded an average rate of return on assets of 4.0 percent in 2003 compared to 2.0 percent in 2002. The cumulative earnings before-tax of K9.8 billion was 15.0 percent above the profit figure for 2002 (Chart 5). The increase in earnings was largely attributed to a rise in interest income. This followed an improved disbursement from the Enterprise Development Fund.



Source: Bank of Zambia

Liquidity as measured by the ratio of liquid assets to total deposits and short-term liabilities was 19.0 percent as at end-2003 compared to 21.0 percent at October 2002 and was above the 15.0 percent

prudential minimum ratio stipulated for non-bank financial institutions (Chart 7).



Source: Bank of Zambia

2.4.7.2 Micro-finance Institutions

As at end-October 2003, two micro-finance institutions were registered under the Banking and Financial Services Act (BFSA). In addition, there were approximately 98 micro finance operators. Out of this number, only 19 were registered with the Association of Micro-finance institutions in Zambia, while the rest continued to operate in an unregulated market. The main micro-finance operators consists of co-operatives, various non-governmental organisations and other community based savings and credit associations.

2.4.7.3 Bureaux de Change

The financial condition and performance of the bureau de change sub-sector was fair. The sub-sector recorded an aggregate profit before tax of K459.2 million in the year to October 2003 and remained adequately capitalised. Most of the operating bureaux de change met the minimum capital of K40 million, with only three out of the 30 operating bureaux de change not meeting this requirement as at end-October 2003. Aggregate assets and capital for the sub-sector stood at K7, 126 million and K4,693 million in 2003 compared to K6,739 million and K4,196 million in 2002, respectively.

2.4.8 Other Developments

The preparation of the Financial Sector Development Plan (FSDP) continued in 2003. The plan is aimed at broadening and deepening financial intermediation. One of the elements of the FSDP is to establish an appropriate legislative framework that will provide effective regulation and supervision of all the Non-Bank Financial Institutions (NBFIs).

The process of developing the draft micro finance regulations also continued aimed at deepening the financial market by creating a link between the formal financial sector and the micro-finance institutions. The process was consultative involving stakeholders such as the donor community, the Association of Micro-finance Institution of Zambia and the public at large. Provincial and district consultations were also conducted.

Another development in 2003 was the repealing of Statutory Instrument No. 44 of 1994, which was replaced by Statutory Instrument No. 38 of 2003. The new legislation is expected to facilitate enhanced performance of the bureau de change and

also improve effective regulation and supervision of the bureau market.

Furthermore, the Bank of Zambia, in an effort to strengthen its co-operation with other financial sector supervisory authorities, namely, the Pensions and Insurance Authority (PIA) and the Securities and Exchange Commission (SEC) entered into Memoranda of Understanding (MoU) on 5 May 2003. The Memoranda promotes the sharing of information between the regulatory authorities.

2.4.9 Outlook

In 2004, inflation is expected to decline. This expectation is derived from the fact that inflationary pressures will be subdued on account of adequate food supply, stable exchange rates and energy prices. The exchange rate stability observed in 2003, following the introduction of the broad-based inter-bank foreign exchange system would be sustained.

Once the Government signs a new PRGF arrangement with the IMF, this will boost balance of payments inflows, international reserves and confidence in the foreign exchange market.

2.5. CAPITAL MARKET DEVELOPMENTS

2.5.1 Overview

The performance of the stock market in 2003 was favourable. This was evidenced by an upward trend in all performance indicators at the Lusaka Stock Exchange (LuSE). Market capitalization measured in Kwacha terms increased to K3,438.2 billion in 2003 from K1,060.6 billion in 2002, while the volume of shares increased from 82.8 million shares in 2002 to 311.4 million shares in 2003.

Major developments in the review period included the quotation of 114.7 million and 2 million ordinary shares for Zambeef Plc and Barclays Bank Zambia Plc, respectively. This increased the number of quoted companies to 10 in 2003 from eight in 2002. In addition, Shoprite Holdings Limited was listed on the LuSE as part of the dual listing of Shoprite on the Johannesburg Stock Exchange (JSE). In this regard, blocks of 2.7 million ordinary shares were placed on the LuSE market. The LuSE also entered into partnership with the Association of National Numbering Agencies to become the sole national securities numbering agency for Zambia.

2.5.2 Lusaka Stock Exchange Performance Indicators

The performance of the LuSE was favourable as evidenced by an upward trend in performance indicators such as market capitalization, number of trades, volume, turnover and the total number of companies on the stock market.

Measured in Kwacha terms, market capitalization increased to K3,438.2 billion in 2003 from K1,060.6 billion in 2002. In dollar terms, capitalization increased from US \$246 million in 2002 to US \$768 million in 2003. The increase in market capitalization was largely attributed to the dual listing of Shoprite Holdings of South Africa on both the LuSE and the JSE.

The number of trades increased by 34 percent from 1,565 in 2002 to 2,103 in 2003. This increase was largely on account of the mandatory offer of shares in the Zambian Breweries Plc by South African Breweries (SAB) to minority shareholders. Other

contributing factors included the transactions on the dual listing of Shoprite Holdings.

The volume of shares in the review period increased to 311.4 million shares from 82.8 million shares in 2002. Similarly, the turnover increased to K49.4 billion in 2003 from K10.9 billion in 2002. The increase in both the volume of shares and the turnover was attributed to the dual listing of Shoprite Holdings on the LuSE and the JSE and the quotation of Zambeef Plc shares on LuSE.

In terms of the number of companies listed and quoted on the LuSE, there was a marginal increase in the period under review. The number of quoted companies increased from eight in 2002 to 10 in 2003, arising from the quotation of Zambeef and Barclays Bank Plc shares on the stock market, while the number of listed companies did not change. Consequently, the total number of companies on the stock exchange increased to 21 in 2003 from 19 in 2002.

As a result of the upward trend in the performance indicators, the LuSE All Share Index reached an all time high of 431.97 points in 2003 up from 336.6 points in 2002.

Table 2.20: LuSE Performance Indicators, 1999 - 2003

	1999	2000	2001	2002	2003
Market Capitalization					
US\$ Million	280	236	248	246	768
Kw Billion	767.2	978.5	966.1	1,060.6	3,438.2
Number of Trades	1,905	1,826	2,141	1,565	21032
Volume (millions)	133	183	9.9	83	311
Turnover					
Kw million	32,989.8	25,292	89,683.7	10,886.02	49,443.9
US\$ '000	13,347.7	6,095	52,664.3	2,394.69	10,745.23
No of Listed companies	9	9	10	11	11
No of Quoted companies	6	7	7	8	10
Total No of companies	15	16	17	19	21
Net Foreign Capital inflows US\$	12.5	(0.9)	7.5	(0.3)	2.3
LuSE All Share Index	195.38	305.28	303.41	334.75	431.97

Source: Lusaka Stock Exchange

Foreign participation on the LuSE improved in 2003 compared to 2002. There was a net inflow of US \$2.3 million compared to the net foreign outflow of US \$260,000 in 2002 arising from a block transaction of 34 million shares in ZAMBEEF.

2.5.3 Secondary Market Development

Trading in GRZ bonds on the LuSE continued to be favourable. The number of trades in GRZ bonds increased from 390 in 2002 to 434 in 2003. The face value of these trades increased by 84 percent to K123.5 billion in 2003 from K67.2 billion in 2002.

The Repurchase Agreement (REPO) market in GRZ bonds recorded 47 trades in 2003 as compared to 63 transactions in 2002. Despite the lower number of transactions, the face value of these trades was higher in 2003 at K28.7 billion compared to K17.2 billion in 2002, representing a 67 percent increase.

2.5.4 Constraints

During the year under review, the stock market continued to be under utilised largely due to ignorance of the stock market and its activities, which was compounded by lack of buoyancy in the economy.

2.5.5 Outlook

In 2004, it is hoped that the institutional investment guidelines will be approved and made into law which will lead to increased activity on the LuSE. Furthermore, the electronic link project between the LuSE and the JSE is expected to be completed leading to improved liquidity of the capital market through increased participation by international investors.

In addition, the LuSE is looking at the establishment of a framework for Small and Medium Scale Enterprises (SMEs). This activity will provide cheap capital to SMEs, who represent the majority of the private sector and whose main constraint has been lack of access to cheap capital.

CHAPTER 3

3.1 EXTERNAL SECTOR DEVELOPMENTS

3.1.1 EXTERNAL DEBT

3.1.1.1 Overview

The main objective of the Government in 2003 was to reach the Enhanced Highly Indebted Poor Countries (HIPC) initiative's Completion Point and secure maximum debt relief as provided for under the HIPC initiative. This could not materialise, as there were slippages in the economic programme with the IMF, a key trigger. However, Government accessed debt relief through the implementation of provisions of the Eighth Paris Club Agreed Minute of September 2002. The Agreed Minute provided debt relief for the consolidation period¹ 1st January 2001 to 31st March 2003.

3.1.1.2 External Debt Stock

Preliminary data show that the stock of external debt reduced by 9 percent from US \$7,140.3 million at end-2002 to US \$6,495.1 million at end-December 2003. The decline was attributed mainly to the implementation of the Eighth Paris Club Agreed Minute of September 2002 where Paris Club bilateral creditors provided debt relief of up to 90 percent for the consolidation period 1st January 2001 to 31st March 2003. Although the Agreed Minute provided for debt relief of up to 90 percent, a number of Paris Club creditors provided 100 percent debt write-off for the consolidation period. Debt repayments amounting to US \$112.8 million during the year under review also contributed to further reduction in the debt stock.

Of the total external debt stock, Government accounted for US \$5,948.5 million (92 percent) while the private sector and parastatals accounted for US \$546.6 million (8 percent). The debt composition in the year under review further revealed that the major share of the external debt, US \$3,703.1 million, or 57 percent is owed to multilateral institutions. Bilateral creditor debt stood at US \$2,245.4 million, representing 35 percent (Table 3.1).

Table 3.1: External Debt Stock by Creditor Type in (Millions of US \$), 2000 - 2003

	2000	2001	2002	2003
Multilateral	3,446.8	3,313.7	3,855.1	3,703.1
ADB/ADF	316.7	318.7	296.2	217.2
World Bank	1736.4	1837.1	2,491.0	2,294.4
IMF	1245.4	948.2	965.9	1,065.1
Others	148.3	209.7	102.0	126.3
Bilateral	2,390.2	3,091.8	2,614.8	2,245.4
Paris Club	2131.4	2713.9	2,343.1	2,000.0
Non Paris Club	258.8	377.9	271.7	245.4
Total Government Debt	5,837.0	6,405.5	6,469.9	5,948.5
Private and Parastatal	473.5	717.5	670.4	546.6
Total External Debt	6,310.5	7,123.0	7,140.3	6,495.1

Source: Ministry of Finance and National Planning

Notes:

1/ Government Debt figures for 2003 are actual as at end October, 2003 plus projections for November and December

2/ Private and Parastatal debt and IMF from BOZ is as at September 2003

3/ Debt Stock at-end 2002 is different from reported figure in 2002 Economic Report due to database update and reconciliation. Assumed debt relief also only occurred in 2003.

4/ Total external debt stock for 2003 is preliminary

3.1.1.3 External Debt Service

In 2003, a total of US \$112.8 million was paid in debt repayments against the projection of US \$104.7 million. Of this amount, US \$64.9 million was principal repayments, US \$47.6 million was interest repayments, while the balance was attributed to other charges and exchange rate variations. The disparity in the projected debt service and the actual at end-2003 was attributed to exchange rate variations and other charges such as late penalty interest charges.

3.1.1.4 The Enhanced HIPC Initiative and Debt Relief

Zambia expected to reach the Completion Point under the HIPC initiative by the end of 2003. However, due to slippages in the economic programme with the IMF, the floating Completion Point was not attained. Currently, Zambia is on a Staff Monitored Programme (SMP). The successful implementation of the SMP would culminate in Zambia getting back on the Poverty Reduction Growth Facility (PRGF) with the IMF, which is a pre-condition for reaching the floating Completion Point. Thus, being on track on the PRGF Programme will lead to Zambia reaching the Completion Point thereby accessing maximum debt relief amounting to US \$3.8 billion. However, if Zambia does not reach the completion point,

¹ Consolidation Period refers to the period when Paris Club creditors write off maturities falling due.

substantial amounts of debt service, especially owed to the IMF will have to be made leading to what is

referred to as the 'hump' problem. This would lead to continued debt unsustainability.

Table 3.2 : Delivery of HIPC Relief as at end-December 2003

Multilateral Creditor	HIPC Relief Delivery
International Monetary Fund (IMF)	Interim Relief Provided
International Development Assistance (IDA)	Interim Relief Provided
AfDB/AfDF	Interim Relief Provided
Arab Bank for African Economic Development (BADEA)	Relief would be provided at completion point
European Investment Bank (EIB)	Interim Relief Provided
European Development Fund (EDF)	Relief provided
European Union (IDA Administered)	Interim Relief Provided
International Fund for Agriculture Development (IFAD)	IFAD only providing relief at Completion Point
Oil Producing and Exporting Countries (OPEC) Fund	OPEC signed an agreement to refinance debt service
Bilateral Creditors	
Paris Club	
Austria	Eighth Paris Club Agreed Minute of September 2002
Brazil	85 percent relief provided-Agreement not finalised
Canada	Schedules and Agreement not provided
France	Agreement signed, CWB 100 percent relief, EDC partial relief
Germany	Agreement signed 100 percent write off
Italy	Agreement signed 100 percent write off
Japan	Agreement signed 100 percent write off
Russia	Relief provided Agreement not signed
United Kingdom	Not Applicable (Not participating)
United States America	Agreement signed 100 percent write off
Non Paris Club Debt	
Bulgaria	85 percent write off, 15 percent buyback option
Czechoslovakia	-
India	100 percent write off official debt & 50 percent write off on commercial debt
Romania	67 percent write off
Yugoslavia	53 percent write off
China	May consider further debt relief

Source: Ministry of Finance and National Planning

3.1.1.5 Outlook

External debt is expected to decline in 2004 premised on Zambia reaching the HIPC completion point. In addition, prudent debt management would continue to be the underlying commitment to further debt reduction and debt procurement. Government strategy would continue to be accessing only highly concessional loans mostly through the multilateral institutions on IDA terms only.

3.1.2 BALANCE OF PAYMENTS

3.1.2.1 Overview

The balance of payment position improved . This was largely due to narrowing of the current account deficit and an increase in the capital and financial position.

3.1.2.2 Current Account

The current account deficit narrowed by 7.0 percent to US \$608 million in 2003 from a deficit of US \$652 million recorded in 2002. This was due to a higher growth in exports than imports and higher receipts than payments in both the Service and Income accounts. As a percentage of GDP, the current account deficit (excluding grants) narrowed to 17.1 percent in 2003 compared to 17.6 percent in 2002.

3.1.2.3 Merchandise

Preliminary data show that total export earnings increased by 24 percent, to US \$1,137 million in 2003, from US \$916 million in 2002, with earnings of both metal (copper and cobalt) and non-metal (non-traditional exports) rising. The growth in total export earnings was higher than the increase in imports by 15.3 percent to US \$1,388.0 million in 2003 from US \$1,204 million in 2002.

The increase in metal export earnings emanated from a rise in export volumes and increased prices of both metals. The increase in non-metal earnings was as a result of increased export volumes of cotton lint, copper slag, copper rods and cables, scrap metals, tobacco and petroleum products.

The rise in the import bill in 2003 was on account of increased import volumes of food, building materials, paper and paper products, fertilizer, chemical products, plastic and rubber products, iron and steel products, nuclear reactors, boilers,

machinery and mechanical appliances, electrical equipment and vehicles.

3.1.2.3 Services and Income Accounts

The services account deficit narrowed to US \$235 million in 2003 from US \$245 million in 2002, on account of an increase in receipts of trade-related services by 22.6 percent to US \$168 million.

Similarly, a deficit on the income account narrowed by 5.0 percent to US \$148 million in 2003 from US \$155 million in 2002. This outcome was on account of an increase in receipts and a decline in payments. Income receipts increased by 19 percent to US \$32 million in 2003, while payments for income decreased to US \$163 million in 2003.

3.1.2.4 Capital and Financial Account

The capital and financial account balance increased by 55 percent to US \$320 million in 2003 from US \$207 million in 2002. This was due to an increase in project grants by 2.0 percent to US \$240 million, from US \$236 million, and an increase in Foreign Direct Investments (FDI) from US \$82 million in 2002 to US \$100 million in 2003.

3.1.2.5 Overall Balance and Financing

During the period under review, the deficit on the overall balance narrowed by 16.0 percent to US \$325 million in 2003 from US \$383 million in 2002. The deficit in the overall balance was financed from reserves amounting to US \$100 million, debt relief of US \$387 million and an increase in debt service arrears of US \$35 million. In addition, there was balance of payment support loans amounting to US \$20 million and balance of payments grants of US \$32 million.

Table 3.3: Balance of Payments in (US \$ million), 2000 - 2003

	2000	2001	2002	2003*
Current Account Balance	(622)	(758)	(652)	(608)
Trade balance	(232)	(369)	(288)	(251)
Exports, f.o.b.	746	884	916	1,137
Metal sector	497	590	560	730
Non-metal	249	295	357	407
Imports, f.o.b.	(978)	(1,253)	(1,204)	(1,388)
Metal sector	(177)	(310)	(194)	292
Non-metal	(801)	(943)	(963)	1092
Goods procured in ports by carriers	11	27	28	29
Services (net)	(225)	(228)	(245)	(235)
Receipts	115	144	137	168
Payments	(340)	(372)	(398)	(403)
Income (net)	(158)	(168)	(155)	(148)
Of which: interest payments	(155)	(144)	(137)	(131)
Current Transfers (net)	(18)	(20)	7	(3)
Of which Official Transfers	0	0	27	(20)
Capital Account	153	222	236	240
Project grants (capital)	153	222	236	240
Debt Forgiveness				
Financial Account	49	213	(29)	80
Official loan disbursement (net)	(140)	(96)	(122)	(133)
Disbursement	93	136	111	109
Project loans	166	93	136	139
Amortization (-)	(233)	(233)	(234)	(242)
Change in net foreign assets of commercial banks	(89)	9	(53)	60
Private capital (net)	278	301	147	153
Foreign direct investment	122	72	82	100
Errors and omissions, short term capital	(4)	(75)	62	(37)
Overall balance	(416)	(399)	(383)	(325)
Financing	416	399	383	325
Change in net international reserves of Bank of Zambia (- incr)	(49)	(124)	(225)	(144)
Gross official reserves of BoZ	(68)	0	(169)	100
BoZ liabilities	(7)	(5)	(6)	(6)
IMF (net)	26	(119)	(50)	(238)
Other foreign assets of BoZ	30			
Debt Relief	217	436	437	387
Debt relief (non-HIPC)	217	170	171	154
Debt relief (HIPC, including IMF)	.....	266	266	232
of which IMF	.....	150	153	167
Paris Club		65	64	16
Other Debt Related Items	42	(19)	21	(11)
Net change in arrears (+ incr)	(10)	31	12	35
BOP support grants	32	31	68	33
BOP support loans	154	44	79	20
Multilateral	154	44	79	20
Bilateral	0	0	0	0
Financing gap (+)	0	0	0	0
Memorandum items:				
Nominal GDP (millions of US \$)	3,239	3,640	3,774	4,239
Current account balance (% of GDP)	(18.9)	(20.0)	(16.3)	(14.3)
Export volume (percentage change)	(5.1)	26.6	12.4	24.1
Import volume (percentage change)	4.7	31.8	(8.8)	15.3
Terms of trade (percentage change)	2.7	(3.5)	(8.8)	(7.1)
Copper volume (MT.'000)	234	297	349	361
Copper price (US\$/lb)	0.82	0.78	0.70	0.83

Source: International Monetary Fund and Bank of Zambia

*Projections

3.1.3 EXTERNAL RESOURCE MOBILISATION

3.1.3.1 Overview

The Government's objective during the year was to raise resources amounting to US \$804.0 million to meet the financing gap in the 2003 budget. Of the total amount, US \$600.0 million was to be sourced in form of project support while the balance of US \$204.0 million was expected to come in the form of programme support. This was to be achieved through a consultative process with co-operating partners. To complement this process, Government continued to pursue measures aimed at improving the management of public resources through the PEMFAR and PRSP. In addition, Government continued its crusade against corruption.

On their part, co-operating partners considered the possibility of providing direct budget support. To this end, a study on direct budget support to Zambia was undertaken. The findings of the study were still under consideration by stakeholders. The year also witnessed concerted efforts towards harmonising procedures in aid management through the Harmonisation In Practice (HIP) initiative.

3.1.3.2 Measures for Mobilising External Assistance

During the year under review, measures for improving external resource mobilisation were focussed on enhancing stakeholder consultations. In this regard, post-Consultative Group (CG) meetings were held aimed at following up on the commitments made at the main-CG of 2002 and discussions on Government's economic programmes. In addition, Government engaged into individual bilateral and multilateral meetings, which resulted in the signing of a number of financing agreements in various sectors.

During the year, growing discussions on aid management and coordination between the Government and cooperating partners led to the signing of a Memorandum of Understanding on Harmonization in Practice (HIP) with seven major donors, namely Norway, Sweden, Finland, Denmark, Netherlands, United Kingdom and Ireland.

The aim of the HIP initiative is to enhance aid effectiveness in achieving poverty reduction and Millennium Development Goals (MDGs) by increasing donor co-ordination and alignment of donor aid procedures with Government procedures. The initiative is designed to reduce the proliferation of uncoordinated donor projects, which place overwhelming stress on Government implementation structure. Under the HIP initiative, Government embarked on the process of preparing an aid policy, which will serve as a framework for mobilising external assistance.

In addition, a study on donor coordination arrangements in Zambia was undertaken in 2003 based on the realisation that there was poor aid coordination. The objective of the consultancy was to review the existing frameworks for donor coordination in Zambia.

3.1.3.3 External Aid Disbursement

At the 2002 CG meeting, co-operating partners pledged assistance of US \$1.3 billion to Zambia for the period 2002 to 2003. For 2003, a total of US \$572.0 million was expected as external assistance. Of the expected amount, a total of US \$404.5 million was received by end-December 2003. This represents a reduction from 2002 when the country received US \$746.1 million. The less than expected disbursement was mainly due to non-fulfilment of conditionalities such as the absence of the PRGF in the second quarter of 2003, inadequate release of counterpart funding to donor-aided projects and slow progress in the implementation of PEMFAR.

Project support for 2003 was US \$347.7 million, comprising US \$183.1 million as bilateral support and US \$164.6 million as multilateral support (Table 3.4).

Table 3.4: Project Financing in (US \$' Million) 2000 - 2003

	Actual 2000	Actual 2001	Proj. 2002	Actual 2002	Proj. 2003	Actual 2003
Bilateral Total	110.55	204.64	284.38	274.06	316.44	183.08
Multilateral Total	135.30	185.77	278.10	161.02	300.00	164.60
Total	245.85	390.41	562.48	435.08	616.44	347.68

Source: Ministry of Finance and National Planning

This assistance was mainly targeted at financing the PRSP/TNDP programmes such as economic governance, HIV/AIDS interventions and roads construction and rehabilitation as well as capacity building in the public service.

Government also received US \$56.8 million in the form of programme support. Of this amount, US \$2.0 million was received from the bilateral donors while US \$54.8 million was received from multilateral donors (Table 3.5).

Table 3.6: Balance of Payments Support (US\$' Million) 2000 - 2003

	Actual 2000	Actual 2001	Actual 2002	Actual 2003
United Kingdom	21.7	0.0	0.0	0.0
USAID	1.5	0.0	0.0	0.0
Netherlands (Fifth Dimension)	8.4	20.6	0.0	0.0
France	0.0	0.0	0.0	0.0
China	0.0	0.0	0.0	2.0
Germany	0.0	0.0	0.0	0.0
Total Bilateral Financing	31.6	20.6	0.0	2.0
World Bank	140.3	43.9	56.3	19.9
Internal Monetary Fund	26.5	95.3	172.8	0.0
European Union	0.0	10.5	68.7	34.9
African Dev. Bank	13.3	0.0	13.2	0.0
Total Multilateral Financing	180.0	149.6	312.0	54.8
Total BOP Financing	211.6	170.2	312.0	56.8

Source: Ministry of Finance and National Planning/Bank of Zambia

This assistance was mainly used in building up international reserves, meeting debt service commitments, supporting commodity imports and agricultural equipment and machinery.

CHAPTER 4

4.1 AGRICULTURE, FORESTRY AND FISHING SECTOR

4.1.1 Overview

The Government's objectives in the sector in 2003 focused on improving food security through the provision of input subsidies to small-scale farmers and food crop diversification as well as promotion of non-traditional exports. Other programmes included road rehabilitation in agricultural areas, irrigation development and controlling livestock diseases through provision of drugs and promotion of good management practices.

Value added in the agriculture, forestry and fishing sector increased by 5.0 percent from K411.7 billion in 2002 to K432.5 billion in 2003. This was largely due to growth in agriculture owing to the favourable weather conditions experienced in the 2002/2003 agricultural season as well as the timely provision of inputs by Government. Generally, normal rainfall was received in most parts of the country that supported favourable agricultural production.

4.1.2 Sector Performance

4.1.2.1 Input Supply

During the review period, Government continued to play a role in the supply of agricultural inputs through the Fertiliser Support Programme (FSP) and the Food Security Pack Programme (FSPP). In this regard, a total of 48,000 Mt of fertiliser and 2,400 Mt of seed were distributed to the farmers during the 2002/2003 agricultural season. The FSP distributed fertilizer and various types of seed to approximately 120,000 small-scale farmers while for the FSPP, 125,000 farmers received inputs.

4.1.2.2 Crop Production

During the 2002/2003 agricultural season, crop production improved significantly (Table 4.1). This was largely on account of the favourable weather conditions, improved input supply as well as improved access to agricultural areas.

a) Maize

Maize production increased to 1,207,202 Mt in the 2002/2003 agricultural season compared to 601,606 Mt in the 2001/2002 agricultural season. The average national yield rate increased by 58 percent from 1.1 Mt per hectare for the 2001/2002

agricultural season to 1.7 Mt per hectare for the 2002/2003 agricultural season.

b) Wheat

Wheat production registered an increase of 82 percent from 74,527 Mt in the 2001/2002 agricultural season to 135,968 Mt in the 2002/2003 agricultural season. The recorded increase in output was largely attributed to the favourable prices of wheat obtaining locally as well as reduced competition from wheat imports.

c) Mixed Beans

Output of mixed beans increased by 45 percent from 16,619 Mt in the 2001/2002 agricultural season to 24,097 Mt in the 2002/2003 agricultural season. The increase in production was as a result of an increase in yield rates and the area planted. Yield rates increased by 22 percent from 0.5 Mt per hectare during the 2001/2002 agricultural season to 0.6 Mt per hectare during the 2002/2003 agricultural season, mainly due to improved rainfall.

d) Sugar production

Total sugar production increased to over 233,000 Mt in 2003 from 199,000 Mt in 2002. This was attributed to an increase in demand and new investments.

Table 4.1: Crop Production in Tonnes, 2000-2003

Crop	2001/2002	2002/2003	% Change
Maize	601,606	1,207,202	100.7
Sorghum	16,801	20,300	20.8
Millet	37,615	35,331	(6.1)
Paddy Rice	11,645	10,743	(7.7)
Wheat	74,527	135,968	82.4
Cassava	850,627	981,757	15.4
Groundnuts	41,421	82,549	99.3
Mixed Beans	16,619	24,097	45.0
Seed Cotton	47,394	47,326	(0.1)

Source: Ministry of Agriculture and Cooperatives and Central Statistical Office

4.1.2.3 Livestock

(a) Cattle

The cattle population was projected to have increased by 1.5 percent to 2,522,896 in 2003 compared to 2,485,612 in 2002. This increase was partly attributed to the reduction in the spread of diseases due to wide spread vaccination and treatment programmes carried out.

(b) Dairy Production

The dairy sub-sector also saw an increase in the production of milk in 2003, which rose to 190 million litres from 147 million litres in 2002. This was partly attributed to a number of programmes aimed at promoting dairy production as well as a reduction in livestock diseases.

(c) Poultry

The demand for poultry increased during 2003. Production of broilers in 2003 increased by 25 percent to 20 million birds from 16 million birds in 2002. This was attributed to a slight reduction in the supply of beef thereby pushing up the demand for broilers.

4.1.2.4 Other Developments

In order to promote the development of viable small and large-scale commercial agricultural production, Government facilitated support programmes among agri-business enterprises such as: out-grower schemes; commercial farmers input suppliers; processors; traders; financial institutions and smallholder farmers. In this regard, the following programmes were implemented:

(a) Irrigation

During the period under review, Government conducted a review of the National Irrigation Policy and Strategy. This was aimed at the development of irrigation for both small and large scale farming countrywide. In addition, irrigation projects aimed at increasing food production and incomes were implemented. This included the Small-scale

Irrigation Project and construction, rehabilitation and irrigation scheme development. For the construction, rehabilitation and irrigation scheme development, ten projects were implemented of which six were completed in 2003.

(b) Extension Services

The Government continued to employ strategies within the framework of Participatory Extension Approaches (PEA) to enhance the delivery of extension services. This included upgrading of technical skills of extension staff, dissemination of key seasonal information to farmers, private sector complementarity and the prioritisation of high potential technology. In addition, demonstrations of proven technologies at agro-ecological zone level as well as at farmer category level were conducted.

4.1.2.5 Crop Marketing

In 2003, Government continued with the importation of maize following the deficit experienced during the 2001/2002 agricultural season. In this regard, a total of 41,609 Mt of maize was imported while local maize purchases stood at 51,514 Mt. The local maize purchase programme started in July 2003 and continued through December 2003. As at end-December 2003, the FRA had sold 26,308 Mt of maize to the World Food Programme.

4.1.2.6 Food Security Position in the 2003/2004 Consumption-Year

The food security position in the 2003/2004 consumption-year is favourable due to increased domestic production. The Country had surplus maize production amounting to 120,000 Mt and the Government issued permits for the export of the surplus.

Overall, the food surplus was 425,412 Mt with maize and cassava accounting for 120,000 Mt and 348,592 Mt, respectively. However, wheat availability was below the national requirements by 2,032 Mt despite an increase in wheat production (Table 4.2).

Table 4.2: Food Balance Sheet for 2003/2004 (In Mt), Based on the 2002/2003 Crop Forecast

	Maize	Sorghum/ Millet	Rice	Wheat	Cassava	Other tubers	Total
A. Opening stocks (1 st May 2002)	100,156	-	0	2,000	-	-	92,493
B. Production (2002/2003)	1,157,861	55,632	10,744	135,968	958,113	132,026	2,120,854
C. Urban Production (2002/2003)	49,341						44,407
C. Total Availability (A+B)	1,307,358	55,632	10,744	137,968	958,113		2,257,753
D. Staple food requirements							
1. Human consumption	981,298	52,850	16,707	131,702	589,359	125,425	1,616,699
2. Food reserve stocks (net)	55,700	-	-	-	-	-	51,058
3. Stock feed	50,000	-	-	-	-	-	45,000
4. Breweries	35,000	-	-	-	-	-	27,000
5. Seed	10,000	1,000	-	1,500	-	-	10,983
7. Losses	60,360	2,782	537	6,798	19,162	6,601	81,602
Total requirements	1,187,358	56,632	17,244	140,000	609,521	132,026	1,832,341
E. Surplus/deficit	120,000	0	(6,500)	(2,032)	348,592	0	425,412
F. Food relief requirements	0	-	-	0	-	-	0
G. Commercial import requirements	0	0	(6,500)	(2,032)	0	0	0

Source: Ministry of Agriculture and Cooperatives

4.1.3 Constraints

The performance of the sector continued to be adversely affected by high interest rates, limited credit facilities, inadequate markets, poor infrastructure and inadequate access to agro-services.

4.1.4 Outlook

Weather conditions over Zambia for the 2003/2004 agricultural season are expected to be normal and therefore conducive for most agricultural activities. In addition, it is expected that provision of inputs will expand in 2004 thereby catering for more

farmers. Further, it is anticipated that irrigation activities will be intensified. In light of the above, agricultural production is expected to continue increasing.

However, there is need for Government to set aside funds to cater for the 60,000 households that will need food assistance up to May 2004.

Progress is also expected to be made regarding the implementation of the Agriculture Commercialisation Programme during 2004.

4.2 MINING AND QUARRYING SECTOR

4.2.1 Overview

Government's objective in 2003 was to facilitate the exploitation of the mineral potential by, among other things, attracting new and increased investment into the mining sector. In this regard, programmes such as the establishment of the gemstone exchange, introduction of the plant hire scheme, and the creation of a credit facility for small-scale miners began. In addition, Government concluded the search for a strategic partner for KCM and negotiations with the preferred buyer of RAMCOZ commenced. Further, the feasibility study to facilitate the development of the Lumwana Joint Venture Copper Project was completed while a contract to construct a new power line with increased capacity to service the two mines was awarded to ZESCO.

The sector recorded a growth of 3.3 percent in 2003, which was a slow down when compared to 16.4 percent in 2002. The growth in the sector was mainly due to increases in copper production coupled with favourable international metal prices.

4.2.2 Sector Performance

4.2.2.1 Metal Mining Sub-Sector

The metal mining sub-sector recorded a growth of 3.2 percent in value added in 2003 compared to 17.1 percent in 2002. The growth was as a result of increased copper production, which stood at 318,448.4 Mt, as at November 2003, representing an increase of about 2.0 percent over the same period in 2002 (Table 4.3).

The increase in copper production was due to the continued operation of Konkola Copper Mine above the breakeven point and increased supply of malachite ore. In addition, the increase in the price of copper at the London Metal Exchange (LME) boosted production.

On the other hand, cobalt production recorded a decline of 12.8 percent to 5,020.38 Mt during the period January to November 2003, from 5,756.0 Mt during the same period in 2002 (Table 4.3). The decline was attributed to the low concentration of cobalt in metal ores.

Table 4.3: Metal Production (in Mt), 2000 – 2003

Period	2000	2001	2002	2003*	% Change 2003/2002
Copper	256,884	298,150	312,231.69	318,448.40	1.9
Cobalt	3,538	4,376	5,756.0	5,020.38	12.8

Source: Bank of Zambia and Ministry of Finance and National Planning

*Figures up to end-November for 2002 and 2003

4.2.2.2 World Metal Prices

There was an increase in metal prices in 2003. The average price of copper increased from US \$0.68 per pound in November 2002 to US \$0.83 per pound in November 2003. Similarly, the average price of cobalt went up from US \$4.68 per pound in November 2002 to US \$10.97 per pound in November 2003 (Table 4.4).

Table 4.4: Average Copper and Cobalt Prices in (US\$ per pound), 2000-2003

Period	2000	2001	2002	2003*
Copper	0.83	0.72	0.70	0.83
Cobalt	11.80	13.40	7.30	10.97

Source: Bank of Zambia

*Average Price quoted is for November 2003

4.2.2.3 Other Mining and Quarrying

The other mining and quarrying sub-sector recorded a growth of 9 percent in 2003 compared to a decline of 13 percent in 2002. Growth in the sub-sector was due to increased activities in the construction industry, especially residential housing and road construction. Coal production, as at end-November 2003, stood at 71,814 Mt, slightly higher than the total production of 2002, which was at 71,700 Mt.

4.2.2.4 Other Developments

- a) **Status on the Resale of RAMCOZ Assets**

The sale of RAMCOZ assets neared completion with the signing of a Memorandum of Understanding between the Zambian government and J&W AG of Switzerland in September 2003. The sale agreement is expected to be completed by early 2004.

Assets being sold are the Luanshya and Baluba mines, smelter and concentrator. However, Muliashi North is not part of the sale agreement of the RAMCOZ assets, as it will be sold separately. Some non-core assets like residential houses and the hospital were offered to J&W for sale. The total purchase price of these assets is US \$7.3 million.

b) Development of Kansanshi and Lumwana Ore bodies

The Kansanshi Copper Project commenced the construction phase in September 2003. Once in production, the company will develop an open pit mine and a copper processing plant which will be producing about 85,000 Mt of copper per annum. Out of this, 60,000 Mt per annum will be finished cathode and 25,000 Mt will be in concentrates during the first three years. It is expected that thereafter, the company will increase its production to 110,000 Mt per annum.

To facilitate the development of a major mining and processing operation, the Lumwana Joint Venture Copper Project completed a US \$13 million bankable feasibility study. The study revealed substantial deposits with approximately 24 years of production. Pre-strip mining is expected to commence in April 2005 and

commercial production in November 2006. In addition, the Government through the Energy Regulation Board awarded a contract to ZESCO to construct a new power line with increased capacity to service the new mines.

C) Status on the Mining Sector Diversification Programme

The Mining Sector Diversification Programme (MSDP) is a 30 million Euros initiative designed to offer technical assistance, affordable credit and training to small-scale miners. Under the credit facility, 16.5 million Euros is expected to be disbursed over the project life. However, due to stringent conditions, the facility was dormant until revisions were made. In this regard, one small-scale mining company accessed the credit in 2003.

4.2.3 Constraints

The continued closure of RAMCOZ and the failure to get an equity partner for KCM in good time adversely affected the performance of the sector. In the small-scale sector, the continued use of inappropriate equipment and difficulties in accessing both credit and markets hindered the development of the sector.

4.2.4 Outlook

Output in the mining sector is expected to improve. This is premised on the re-opening of the closed RAMCOZ mine and increased investment in KCM following conclusion of negotiations with the buyer (J&W AG of Switzerland) and equity partner (Sterlite) for RAMCOZ and KCM, respectively.

The future of the small-scale mining sub-sector is promising with the improvement of conditions for accessing credit under MSDP. It is also expected that the gemstone exchange will be established, which will contribute to the growth of the sub-sector.

4.3 ENERGY

4.3.1 Overview

The Government in 2003 continued to implement key reforms aimed at improving the efficiency, reducing distribution cost and encouraging private sector participation in the energy sector. These reforms included the amendment of the Electricity and Energy Regulation Act and the Rural Electrification Act.

In the period under review, the energy sector performance was favourable. The sector's real output increased marginally by 0.6 percent from K77.8 billion in 2002 to K78.3 billion in 2003. However, electricity generation declined due to the on-going rehabilitation at the main hydro-power stations.

The supply of petroleum products was disrupted during the first half of 2003 due to the cancellation of the Trans Sahara Trading (TST) contract by Government. This resulted in a critical shortage of petroleum products in the country.

4.3.2 Electricity Sub-Sector

4.3.2.1 Electricity Generation

Preliminary figures indicate that electricity generation declined marginally in 2003 by 8.6 percent. The generation of electricity in the period from January to November 2003 was 7,630,000 MWh compared to 8,350,000 MWh in the same

period in 2002. This decline was due to continued rehabilitation works at the main hydro power stations (Table 4.5).

Table 4.5: Electricity Generation (in '000' MWh), 2000- 2003

Station	2000*	2001	2002	2003*
Main Hydro stations	7,758	9,061	8,297	7,568
Mini Hydro stations	24	41	36	46
Diesel Stations	16	18	17	16
Total	7,798	9,120	8,350	7,630

Source: ZESCO Limited

*2002 and 2003 figures are for the period January to November

During the period January to September 2003, total domestic electricity consumption increased by 8.7 percent to 5,042,756 MWh from 4,460,729 MWh in the same period in 2002 (Table 4.6). The increase in total domestic electricity consumption was due to increased demand of electricity in almost all the sub-sectors.

Table 4.6: Electricity Consumption by Sector (in MWh), 2000 - 2003

	2000	Jan-Sept 2001	Jan-Sept 2002	Jan-Sept 2003*	% Change 2003/2002
Residential	1,266,837	789,475	888,353	962,694	8.4
Commercial	142,592	103,485	121,253	126,403	4.3
Industrial	880,310	666,501	739,693	936,324	26.6
Social Services	182,306	129,350	150,334	157,239	5.0
Mining (CEC)*	3,244,731	2,528,870	2,739,094	2,860,096	4.4
Total	5,716,777	4,217,681	4,640,729	5,042,756	8.7

Source: ZESCO Limited

*Preliminary data

The rise in electricity consumption in the commercial and mining sub-sectors was due to increased activities in these sub-sectors. The increase recorded in the residential sub-sector was on account of increased number of household connections. The number of households using electricity increased by 9.7 percent in 2003 to 252,757 households from 230,408 households in 2002 (Table 4.7).

Table 4.7: Number of Households using Electricity, 2000-2003

	2000	2001	2002	2003*
Households Connected	184,858	212,358	230,408	252,757
Percentage Change	5.9	14.9	8.5	9.7

Source: ZESCO Limited

* Preliminary Figures

4.3.2.2 Exports

In 2003, volume of electricity exports declined by 29.5 percent to 530,871MWh in the period January to September 2003 from 753,335 MWh in the same period in 2002. This was due to reduced electricity generation resulting from on-going hydro power station rehabilitations. In value terms, electricity exports however, increased by 3.5 percent from US \$5.5million in the period January to September 2002 to US\$ 5.65 million in the same period in 2003 (Table 4.8).

Table 4.8: Electricity Exports, 2000-2003

Country	Jan-Sept 2001		Jan-Sept. 2002		Jan-Sept 2003		% Change 2003/2002
	MWh	US\$	MWh	US\$	MWh	US\$	
DRC	3,073	299,017	4,185	349,848	1,396	294,721.5	(15.8)
Tanzania	4,874	514,534	6,725	741,683	3,249	121,176.0	(83.7)
Botswana	9,522	403,130	11,312	482,641	2,694	381,733.8	(20.9)
Namibia	15,756	416,255	16,236	362,482	5,324	684,194.73	88.8
Zimbabwe	10,290	207,619	2,662	286,879	840	85,954.8	(70.0)
S/ Africa	1,110,705	6,034,212	712,215	3,242,254	491,925	4,087,223.97	26.1
Total	1,154,220	7,874,767	753,335	5,465,787	530,871	5,655,004.8	3.5

Source: ZESCO Limited

4.3.2.3 Imports

During the year 2003, a total of 98,083 MWh of electricity was imported from SNEL (Congo DR), ESKOM (South Africa) and Hydro Cabora Bassa (Mozambique) to make up for the shortfall experienced as a result of the rehabilitation works being undertaken at Kafue Gorge and Kariba North Bank Power Stations.

4.3.2.4 Other Developments in the Electricity Sub-sector

In 2003, the Energy Regulation Board (ERB) gave consent to ZESCO to put up a 330KV power grid to facilitate mining activities at the Lumwana and Kansanshi projects and opening up electricity supply in North-Western province.

Further, the Government successfully facilitated the signing of a Memorandum of Understanding (MoU) between ZESCO Limited and SINOHYDRO Corporation of China. Through this MoU, the two firms will co-operate in the development of the Kafue Gorge Lower hydro-power and the hydro-power projects in the North-Western Province.

4.3.3 Petroleum

The supply of Petroleum products was disrupted during the first half of 2003 due to the cancellation of the TST contract by the Government. This resulted into inadequate supply of petroleum products. In order to improve the supply situation, Government mandated INDENI to import crude oil. This led to the improvement in the supply of petroleum products in the second half of the year.

The liberalisation in the pricing of fuel by Government through the Energy Regulation Board (ERB) also led to the entry of new Oil Marketing Companies (OMC's) who are now permitted to set their own pump prices which are subjected to what is known as an ex-poste review. In 2003, OMCs continued to uplift their petroleum products from INDENI Oil Refinery. The preliminary figures for 2003 on the total uplift from INDENI show an increase of 7.3 percent to 311,873 Mt from 290,804 Mt in 2002 (Table 4.9).

Table 4.9: Petroleum Supply to the Market (in Mt), 2000-2003

Product	2000		2001		2002		2003*
	Imported	Uplifts from INDENI	Imported	Uplifts from INDENI	Uplifts from INDENI	Uplifts from INDENI	
Premium	133,127	82,751	32,998		87,617		93,761
Unleaded Petrol	-	-	-		249		
White Gasoline	13	-	-		-		
Ind. Kerosene	2,103	-	1,366		128		527
Dom. Kerosene	15,005	573	11,129		8,498		13,902
LSGO	-	-	-		-		1,392
Diesel	211,915	119,086	70,545		163,442		146,893
LFO	1,255	-	457		32		839
HFO	54,519	-	68,172		7,210		42,692
Lubes	8,874	-	7,298		1,270		-
Bitumen	2	-	-		-		341
LPG	39	-	12		19,212		1,507
Solvents	46	-	209		34		-
Avgas	1,334	-	1,338		135		
Jet-A1	38,806	-	37,153		2,977		10,222
Total	467,038	202,410	230,677		290,804		311,873

Source: Energy Regulation Board and Ministry of Energy and Water Development

*Imported Petroleum Products not included

Furthermore, Government commissioned a study on the options for setting up a Petroleum Strategic Reserve aimed at protecting the country from the effects of interruptions in supply.

4.3.3.1 Petroleum Pump Prices

The pump prices in Lusaka for the most part of the year 2003 were unstable. The fluctuation in the pump prices was due to the interruptions in the supply of petroleum products. The highest price increment was recorded in March with petrol and diesel increasing by 8 percent and 9 percent, respectively. However, the price of kerosene was stable (Table 4.10).

Table 4.10: Changes in Fuel Pump Prices, 2003

	Petrol	Diesel	Kerosene
(In Kwacha)			
1 st January	3,526.00	2,910.00	2,350.00
13 th January	3,599.00	2,998.00	2,449.00
February	3,770.00	3,099.00	2,537.00
March	4,061.00	3,367.00	2,537.00
June	3,993.00	3,513.00	2,465.00
July	3,937.00	3,310.00	2,464.00
11 th August	3,816.00	3,218.00	2,416.00
29 th August	3,754.00	3,193.00	2,400.00
(In percent)			
1 st January			
13 th January	2	3	4
February	5	3	4
March	8	9	0
June	(2)	4	(3)
July	(1)	(6)	0
11 th August	(3)	(3)	(2)
29 th August	(2)	(1)	(1)

Source: Energy Regulation Board

4.3.4 Outlook

The signing of the MoU between ZESCO Limited and SINOHYDRO of China is expected to enhance the process of the development of the Kafue Gorge Lower hydro-power projects and those in the North Western Province. A total of about US \$600 million is expected to be invested in the projects over a period of two to three years. The power rehabilitation programme of the main hydro-power stations aimed at enhancing the efficiency in the electricity sub-sector, will continue in 2004.

It is expected that the supply and price of petroleum will be stable in 2004. This is premised on the implementation of the MoU facilitated by the Zambian and Iranian governments and the maintenance of petroleum strategic reserves.

4.4 TRANSPORT, STORAGE AND COMMUNICATIONS

4.4.1 Overview

During the period under review, value added in the transport, storage and communication sector grew by 5.1 percent as compared to 1.8 percent in 2002. This was largely attributed to the rise in demand in the communications sub-sector and the resurgence of activities in the other transport and allied services sector.

Following the approval of the Transport Policy in 2002 and subsequent enactment of the Public Roads Act, National Road Fund Act and the Road Traffic Act, institutional and financial studies were initiated during the year under review in order to operationalise the reforms. In addition, Government developed draft policies on the Information and Communications Technology (ICT) and Meteorology through a consultative process.

The major development in the sector was the concessioning of Zambia Railways Limited (ZRL) to Zambia consortium comprising Spornet, New Limpopo Bridge Project Investments and Canarail International Inc. Further, Government approved the participation of the private sector in the running of the Tanzania-Zambia Railways Authority (TAZARA) and the study on the options for private sector participation is expected to commence in 2004.

4.4.2 Sector Performance

4.4.2.1 Road Transport Sub-sector

Real output in the road transport sub-sector rose to 3.9 percent in 2003 from 1.9 percent in 2002. This was largely due to an increase in passenger services in 2003. The number of bus operators rose from 5,117 in 2002 to 7,478 in 2003. The increase was concentrated in Lusaka province where 6,340 were registered as compared to 3,620 in 2002. Other provinces registered modest increases, except for the Copperbelt Province where a fall was registered. This was attributed to the declined level of economic activity in the province (Table 4.11).

Table 4.11: Total Number of Bus Operators by Province, 2001-2003

Province	2001	2002	2003
Lusaka	2,940	3,620	6,340
Copperbelt	989	1,434	1,031
Southern	49	36	60
Western	7	5	8
Eastern	11	7	12
Luapula	7	5	12
Northern	7	5	7
North-Western	7	5	8
Total	4,017	5,117	7,478

Source: Ministry of Communications and Transport

The number of vehicles registered during the year under review grew by 35.6 percent as compared to 15.2 percent in 2002 (Table 4.12). The rise was attributed to the increase in demand for re-conditioned vehicles, which accounted for up to 96 percent of the vehicles registered.

Table 4.12: Number and Category of Vehicles Registered, 2001 - 2003

Category	2001	2002	2003	% Change 2003/2002
Saloon Car	3,792	4,589	5,133	24.9
Buses	105	251	209	(10.5)
Mini-buses	3,693	812	2,197	30.4
Trucks	304	1,149	1,992	10.4
Trailers	199	500	369	(56.8)
Motor-Cycles	115	566	1,442	51.3
Tractors	120	454	272	(41.8)
Vans	654	2,025	2,179	17.2
Total	8,982	10,346	13,793	35.6

Source: Ministry of Communications and Transport

The computerisation project under Zambia Traffic Information Systems (ZAMTIS) reached an advanced stage in Lusaka with two modules namely, the road tax and driving licence, being installed and activated. As a result of computerisation, data capture for national traffic management improved.

4.4.2.2 Rail Transport Sub-sector

Growth in the rail sub-sector slowed down to 3.3 percent in 2003 from 6.8 percent in 2002. This was largely attributed to a fall in both volumes of goods and passengers transported by rail. Overall, cargo transport declined by 20.8 percent from 1,887,000 Mt in 2002 to 1,494,000 Mt in 2003 for Zambia Railways while TAZARA recorded a decline of 8.1 percent from 577,560 Mt in 2002 to 520,000 Mt in 2003.

Export cargo on Zambia Railways line declined from 321,000 tonnes in 2002 to 272,000 tonnes in 2003, while on Tanzania Zambia Railways Authority (TAZARA), the down turn was from 189,916 Mt in 2002 to 172,364 Mt in 2003 (Tables 4.13 and 4.15).

Passenger traffic on the other hand increased for ZRL by 39 percent in 2003 as compared to a 54 percent decline in 2002 (Table 4.14). This was due to increased demand following a drop in passenger fares and streamlined passenger train operations.

Table 4.13: Goods Transported (in Mt) by Zambia Railways Limited, 1998 - 2002

Year	Local Goods	Exports	Imports	Transit	Total	% Change
1998	817,313.0	235,439.0	270,398.0	89,580.0	1,412,730.0	
1999	897,003.0	262,456.0	248,682.0	203,727.0	1,611,868.0	14.1
2000	715,224.0	208,621.0	320,001.0	213,399.0	1,457,245.0	(9.6)
2001	784,073.0	309,790.0	323,626.0	248,519.0	1,666,008.0	14.3
2002	830,000.0	321,000.0	455,000.0	281,000.0	1,887,000.0	13.3
2003	712,000.0	272,000.0	317,000.0	193,000.0	1,494,000.0	(20.8)

Source: Ministry of Communications and Transport

Table 4.14: Passengers Transportation by Zambia Railways Limited, 1997 - 2002

Year	Ordinary Train	Zambezi Train	Mulobezi Train	Total	% Change
1997	856,152	98,117	62,898	1,017,167	...
1998	470,006	114,594	29,167	641,416	(36.9)
1999	605,711	155,959	55,134	816,804	27.3
2000	404,879	173,908	44,067	622,854	(23.7)
2001	285,556	120,846	15,362	421,764	(32.2)
2002	89,502	93,503	10,900	193,905	(54.0)
2003	-	-	-	270,000	39.2

Source: Ministry of Communications and Transport

Table 4.15: Goods Transported (in Mt) by Tanzania - Zambia Railways Limited, 2002-2003

Year	Local Goods	Exports	Imports	Total
2002	192,165	189,916	195,479	577,560
2003	172,544	172,364	185,672	530,580

(Jan-Nov)

Source: Ministry of Communications and Transport

However, the number of passengers transported by TAZARA declined by 13.2 percent from 1,068,287 in 2002 to 927,366 in 2003. This was due to stiff competition from road transport (Table 4.16).

Table 4.16: Passengers Transportation by Tanzania - Zambia Railways Authority, 2002 - 2003

Year	Zambian Region	Tanzanian Region	Total
2002	365,431	702,856	1,068,287
2003*	302,607	624,759	927,366

Source: Ministry of Communications and Transport

*Figures from January to November

4.4.2.3 Other Transport and Allied Services

Other transport and allied services registered a 4.9 percent growth in 2003 from a 0.2 percent decline in 2002. This was attributed to a recovery in demand for air transport services and the improved flow of oil imports through TAZAMA pipelines.

4.4.2.4 Air Transport

During the period under review, aircraft movements rose by 13.1 percent to 19,958 compared to 17,646 (Table 4.17).

Table 4.17: Aircraft Movements in Domestic and International Takeoffs, 1999 - 2002

Airport	1999	2000	2001	2002	2003
Lusaka	10,694	10,030	7,825	9,272	9,979
Ndola	3,387	3,545	2,934	2,890	5,502
Livingstone	1,465	1,350	1,517	2,172	2,874
Mfuwe	1,395	1,467	1,429	1,310	1,602
Total	16,941	16,392	13,705	17,646	19,958

Source: Ministry of Communications and Transport, 2003

This increase in aircraft movements, however, was against the backdrop of the adverse effects of the Severe Acute Respiratory Syndrome (SARS) epidemic in the Far East, the Iraq conflict and the September 11, 2001 event, which still continued affecting the civil aviation industry worldwide. In effect, Zambia experienced a second successive year-to-year 18.4 percent decline in the number of passengers carried by both domestic and international carriers from 472,453 in 2002 to 385,504 in 2003 (Table 4.18). Only Mfuwe International Airport

experienced a modest increase in passenger throughput from 9,524 in 2002 to 10,983 in 2003.

Table 4.18: Passengers Carried by Air (Domestic and International), 2000 - 2003

Airport	2000	2001	2002	2003
Lusaka	361,832	376,027	337,515	261,714
Ndola	57,958	72,948	59,456	48,946
Livingstone	8,962	35,246	63,956	63,861
Mfuwe	11,540	11,455	9,524	10,983
Total	440,292	497,677	472,453	385,504

Source: Ministry of Communications and Transport 2003

4.4.2.5 Water Transport

During the period under review, inland water transport continued to play an important role in the fight against poverty especially in Northern, Luapula and Western Provinces where movement of people and goods and services is largely dependent on canals and waterways. In this regard, K750 million was spent on poverty reduction programmes of canal development in these provinces.

Despite its importance in the three provinces, inland water transport had significant setbacks in 2003. Three fatal shipping accidents were recorded at Kazungulu, Lake Mweru and Lake Tanganyika where six, 27 and 25 people perished, respectively.

In addition, ZAMPOST operations on Lake Mweru were halted as a result of lack of water-worthy vessels while operations at Lake Bangweulu and Zambezi river were reduced to half capacity. However, 485 vessels were registered in 2003.

In 2003, the total cargo shipment at Mpulungu Harbour increased to 70,814.4 Mt from 53,230 Mt in 2002. Passenger throughput stood at 3,562. Mulamba Harbour in Mongu, which is the second largest harbour, handled 8,336 passengers and 1.9 Mt of cargo, mainly relief food destined for Kalabo.

4.4.2.6 Communications Sub-sector

Value added in the communications sub-sector increased by 7.5 percent in 2003 although it slowed down when compared to a 7.9 percent increase in 2002. This growth was attributed to the entry of Cell Z, a mobile phone provider unit of Zamtel, into the GSM market. The entry of Cell Z resulted in competition among mobile service providers. This in turn led to a drop in per unit charges of about 25 percent as well as improvements in value added services provided. There was significant investment in communication infrastructure with services expanded to rural provincial centres such as Chipata, Kasama and Mansa.

During the period under review, the number of mobile phone subscribers increased from 121,200 in 2002 to 191,289 representing an increase of 58 percent. Cell Z registered a significant increase in the number of subscribers of up to 55,000 in 2003 from 2,969 in 2002 when Zamtel's mobile phone services were still utilising an analogue system.

In 2003, the subscriber base for Internet increased largely due to increasing demand and the entry into the market of more Internet Service Providers (Table 4.19).

4.4.3 Outlook

In 2004, it is expected that the Information and Communications Policy will be finalized and submitted to Parliament for consideration. The policy is expected to promote investment in ICTs as well as easy access to ICTs. It is expected that the mobile phone service providers will expand their installed capacities. This will, in turn, increase the coverage areas.

The air transport sub-sector looks bright due to expected positive developments taking place in other sectors such as tourism, trade and commerce and agriculture, particularly floriculture and horticulture.

Table 4.19: Operations and Subscribers by Type of Service Provided, 1999-2003

		1999	2000	2001	2002	2003	% Change 2003 / 2002
Zamtel	PSTN	72,639	73,186	76,165	83,688	84,956	1.5
Zamtel/Cell Z	Mobile	5,161	4,691	3,853	2,969	55,000	1,752.5
Telecel	Mobile	20,300	35,000	42,869	45,231	45,151	(0.2)
Celtel	Mobile	-	17,467	50,000	73,000	91,138	24.8
Zamnet	Internet			3,733	3,505	3,529	0.9
Zamtel	Internet	249	524		3,073	3,983	26.0
Coppernet	Internet			210	1,980	3,913	97.6
Microlink	Internet					329	-
Uunet	Internet					221	-
Tele-two Africa	FPPS			29	29	29	-
Telecenter	Mixed			271	394	445	(12.9)

Source: Ministry of Communications and Transport

4.5 MANUFACTURING

4.5.1 Overview

In 2003, Government continued to offer incentives to the local manufacturers in an effort to enhance the competitiveness of the manufacturing sector. In this regard, customs and excise duties on certain inputs were reduced. Further, Government continued to undertake measures aimed at improving the business environment in the country. This included the expediting of VAT refunds and implementing measures to stabilise the exchange rate.

Preliminary data indicate that value added in the manufacturing sector increased from K289.4 billion in 2002 to K307.6 in 2003, representing a growth of 6.3 percent. Its share in overall GDP was 10.9 percent compared to 10.7 percent in 2002. The growth in this sector was largely from the food, beverages and tobacco and the textiles and leather sub-sectors.

4.5.2 Sector Performance

In 2003, all the manufacturing sub-sectors recorded positive growth. The food, beverages and tobacco sub-sector, which accounts for 60 percent of the manufacturing GDP, recorded a growth of 6.8 percent from K172.8 billion in 2002 to K184.6 billion in 2003 (Table 4.20). This growth was attributed to the rebound in the agriculture sector and increased investment in food processing coupled with the reduction of duty on inputs.

The textiles and leather sub-sector rose by 6.0 percent. This growth was largely on account of improved investments in cotton ginneries. This led to increased exports of lint cotton.

Similarly, growth of 8.3 percent and 7.9 percent was registered in the basic

metal products and the chemicals, rubber and plastics sub-sectors, respectively. The growth in the basic metal products sub-sector was attributed to the increased exports of copper rods and copper cables to South Africa, under the SADC Trade Protocol. For the chemicals, rubber and plastics sub-sector, the growth emanated from increased investment outlays in the sector.

Table 4.20: Manufacturing GDP by Sub-sector at 1994 Prices (in K' Billion), 2001-2003

Sub-sector	2001	2002	2003*	% Change 2003/2002
Food, beverages and tobacco.	155.7	172.8	184.6	6.8
Textiles, leather and leather products	45.8	49.7	52.7	6.0
Wood and wood products	19.2	21.9	22.9	4.6
Paper and paper products	7.5	8.0	8.2	2.5
Chemicals, rubber and plastics	21.9	25.1	27.1	8.0
Non-metallic mineral products	4.6	4.9	5.1	4.1
Basic metal products	1.4	1.2	1.3	8.3
Fabricated metal products	6.5	5.8	5.9	1.7
Total Manufacturing	262.7	289.4	307.6	6.3
Total GDP	2,621.3	2,707.9	2,824.6	
Share of manufacturing in Total GDP	10.5	10.7	10.9	

Source: Central Statistics Office

*Preliminary data

4.5.2.1 The Impact of AGOA, COMESA and SADC on the Manufacturing Sector

In 2003, Zambia actively participated in the global and regional trading arrangements under AGOA, COMESA and SADC. Under the AGOA facility, Zambia's exports increased although the majority of the products were through third-countries.

In the region, Zambian manufacturers continued to benefit from the COMESA-Free Trade Area (FTA) and the SADC Trade Protocol. Under the COMESA-FTA, most manufacturers switched from sourcing their inputs from South Africa to the COMESA-FTA mainly due to the appreciation of the Rand.

In the case of SADC, the benefits were mainly on exports of textile products under the South Africa Customs Union – Malawi, Mozambique, Tanzania and Zambia (SACU-MMTZ) textile arrangement, which were given duty free market access into the South African market.

In addition, exports of sugar, copper rods and copper cables increased because of the implementation of the SADC Trade

Protocol. The SADC Trade Protocol gave these products duty free market access into the South African market.

agro and horticultural products to be exported directly to the US.

4.5.3 Constraints

The major constraints in the sector continued to be the high cost of energy, capital and communication.

4.5.4 Outlook

It is anticipated that the manufacturing sector will continue to grow in 2004. With Government still focused on revamping agriculture, it is envisaged that agro-processing activities will increase in the coming year. It is also expected that exports of cement, sugar, copper rods and copper cables will increase in 2004. For AGOA, it is anticipated that the pest risk assessment Certification will be passed in 2004 thereby allowing

4.6 TOURISM

4.6.1 Overview

The tourism sector measured by tourist arrivals and room and bed occupancy rates continued to register positive growth in 2003. The facelift of the Livingstone International Airport and the consequent increase in the air-traffic contributed to the increase in tourist arrivals, which was aided by a marked improvement in marketing and tourism infrastructure. In addition, the hosting of the Africa Travel Association (ATA) and the associated promotional activities boosted growth in the sector.

The major development in the sector was the finalisation of the Support for Economic Expansion and Diversification (SEED) project aimed at developing infrastructure at the Kafue National Park, Lower Zambezi/Siavonga, the North and the South National Parks. In addition, the opening of the Copperbelt/North Western Regional Tourism Development Office in Ndola further decentralised the co-ordination and monitoring of tourism projects at provincial level.

4.6.2 Sector Performance

4.6.2.1 Tourist Arrivals

Preliminary data show that during the year under review, the number of tourist arrivals increased by 2.2 percent increase from 565,082 in 2002 to 577,527 in 2003. A breakdown of the data indicates that the majority of the tourists originated from South Africa and Europe (Table 4.21).

Table 4.21: Tourist Arrivals by Area of Origin, 2000 - 2003

Area of Origin	2000	2001	2002	2003
Southern Africa	217,572	234,017	268,782	274,701
East Africa	32,191	34,624	39,768	40,644
North Africa	529	569	654	668
West Africa	1,131	1,216	1,397	1,428
Central Africa	43,056	46,310	53,190	54,361
Europe	105,409	113,376	130,219	133,087
America	27,469	29,545	33,934	34,682
Asia and Oceania	30,062	32,334	37,138	37,956
Total	457,419	491,991	565,082	577,527

Source: Ministry of Tourism, Environment and Natural Resources

4.6.2.2 Tourist Categories

In terms of tourist categories, preliminary data shows that the number of tourists coming for holidays increased from 151,656 in 2002 to 153,070 in 2003, representing an increase of 1.7 percent. Those coming for business increased from 247,821 in 2002 to 250,132 in 2003 indicating a 2.0 percent increase. Similarly, an increase of 0.9 percent was registered in the category of those Visiting Friends and Relatives (VFR) from 85,175 in 2002 to 85,969 in 2003 (Table 4.22).

Table 4.22: International Tourists by Nature of Visit, 1998 - 2003

Nature Of Visit	2000	2001	2002	2003
Holiday	122,762	147,350	151,656	153,070
Business	200,605	201,325	247,822	250,132
VFR	68,947	76,679	85,175	85,969
Other	65,105	66,638	80,430	88,356
Total	457,419	491,992	565,082	577,527

Source: Ministry of Tourism, Environment and Natural Resource

4.6.2.3 Occupancy Rates and Employment Levels

Room and bed occupancy rates in the year under review rose to 53.2 percent and 44.1 percent from 50.4 percent and 43.3 percent in 2002, respectively. Similarly, the levels of employment also went up by 9.4 percent from 14,996 in 2002 to 16,548 in 2003 (Table 4.23).

Table 4.23: Occupancy Rates and Employment Levels, 2000 - 2003

	2000	2001	2002	2003	% change 2003/2002
Number of Rooms	4,744	4,822	5,060	5,202	2.7
Number of Beds	7,920	8,136	8,601	8,774	2.0
Room Occupancy Rates	46.4	51.1	50.4	53.2	5.3
Bed Occupancy Rates	36.5	43.8	43.3	44.1	1.8
Employment	11,892	13,444	14,996	16,548	9.4

Source: Ministry of Tourism, Environment and Natural Resources

4.6.2.4 Revenues

Preliminary data show that there was an increase in revenue of 9.7 percent from about US \$134.3 million in 2002 to US \$148.8 million in 2003. The largest share of revenue was from accommodation arising from the establishment of new hotels and other types of accommodation (Table 4.24).

Table 4.24: Revenues (in US \$ Million), 2000 – 2003

Sector	2000	2001	2002	2003
Accommodation	41.8	44.1	50.7	56.1
Travel	32.9	34.7	40.0	44.2
Tours	19.3	20.4	23.4	26.0
Car Hire	11.0	11.6	13.2	14.72
Other	5.8	6.2	7.1	7.9
Total	110.8	117.1	134.3	148.9

Source: Ministry of Tourism, Environment and Natural Resources

4.6.2.5 Tourism Development Credit Facility

The Government in 2003 released K5.0 billion to the Tourism Development Credit Facility (TDCF) setup in 1997 to allow indigenous Zambians to participate in the tourism business. By November 2003, about 921 applied for the fund out of which 92 passed the checklist. However, the funds could not be utilised on time, as the TDCF modalities were not yet finalised.

4.6.2.6 Wildlife Conservation and Management Programmes

During the period under review, the Zambia Wildlife Authority (ZAWA) continued to undertake programmes aimed at preserving the country's natural heritage, ecological system and biodiversity for present and future generations. In this regard, resource protection and monitoring of wildlife species in South Luangwa National Park and the surrounding Game Management Areas (GMA), Kafue National Park and the Mosi-o-tunya National Park were undertaken.

Further, Government continued to implement the ADMADE programme aimed at upholding community participation in the management of wildlife. About K2.3 billion was given to the communities out of the K4.7 billion realised from the hunting licence fees.

In addition, Nyamaluma Community Based Natural Resources Management (CBNRM) College continued to offer tailor-made courses to various participants especially those from GMAs. One of the notable courses that were conducted was the alternative skills livelihood to reformed poachers.

Furthermore, the ZAWA continued to coordinate the implementation of the village scout bridging support project. The project financially supported Community Resource Boards (CRB) in maintaining village scouts who compliment the ZAWA police officers in enforcing the Wildlife Act.

4.6.2.7 Wildlife Stock Situation

ZAWA continued to undertake surveys of animal populations in the national parks and GMAs. Preliminary data indicate that there were about 5,000 buffaloes in Kafue National Park, 15,000 in North Luangwa National Park, around 8,500 in the South Luangwa National Park and 6,000 in the Lower Zambezi National Park.

The national elephant surveys estimated a total population of between 22,000 and 25,000 animals by end-2003. In addition, the Kafue lechwe was estimated to be 40,000 while the black lechwe was about 33,000.

4.6.2.8 Hunting Concessions

The ZAWA in collaboration with the local communities of various GMAs signed Hunting Concessional Agreements (HCAs) for 13 prime hunting blocks and six secondary hunting blocks for a period of 10 years. In addition, six HCAs for a period of 15 years were signed for under-stocked areas. As a result, a total of K9.3 billion was earned compared to K2.8 billion in 2002.

4.6.2.9 Constraints

The major constraint faced by the sector was the poor infrastructure in most tourist areas. In addition, inadequate marketing hindered development of the sector.

4.6.3 Outlook

The tourism sector is poised for growth in 2004. This is premised on increased tourist arrivals as the world economy recovers. In addition, the implementation of the TDCF will result in a rise in investments in the sector.

4.7 BUILDING AND CONSTRUCTION

4.7.1 Overview

During the period under review, the construction sector continued to register positive growth, although it slowed down compared to 2002. Value added increased by 13.9 percent in 2003 compared to 17.4 percent growth in 2002. This growth was largely driven by public infrastructural works, road rehabilitation as well as residential construction activities by private individuals.

4.7.2 Sector Performance

4.7.2.1 Building Construction

Government continued with the construction of supportive infrastructure at the new Chirundu bridge in 2003. However, progress was slow due to limited financial resources as only K6.0 billion was released against the planned requirement of K35.0 billion. Works at the Government complex continued with remaining works being installation of telephone and high speed lifts. In addition, housing projects were implemented in the country by the National Housing Authority (NHA) and the Africa Housing Fund (AHF). A total of 265 housing units were completed by NHA in 2003 compared to 413 in 2002. In 2003, a total of 178 and 87 low and high cost units were completed, respectively (Table 4.25). Under the AHF, 212 houses were constructed in 2003 compared to 176 in 2002. Non-governmental organisations were also involved in the construction of houses for the vulnerable people.

The market rehabilitation and development programme implemented jointly with cooperating partners continued during the period under review. The markets that were rehabilitated included Libala, Chilenje and Nyumba Yanga markets.

About K8.0 billion was released as counterpart funding for the rehabilitation of the three markets. Additionally, funds amounting to €19 million from the cooperating partners were spent on these markets. Construction of shades at the markets were also done using HIPC funds amounting to K500 million.

At Libala market, 80 percent of the works were done. The remaining works involve electrical power and lighting fittings, installation of refuse collection system and water supply connections and painting. With regards to Chilenje market, civil works were completed with progress being rated at 50 percent.

Table 4.25: Housing Projects Development by NHA, 2002-2003

		2002		
Year	Location	Project Description	No. of Units	Status
	Lusaka, Mpongwe, Ndola, Chiengi, Shangombo, Kazungula, Chavuma, Twapia	Low cost	355	Completed
	Lusaka	Medium cost	64	In-progress
	Lusaka	High cost	77	In-progress
	Lusaka	High cost	58	Completed
	Lusaka	High cost	51	In-progress
		2003		
Year	Location	Project Description	No. of Units	Status
	Lusaka	Low cost houses	178	Completed
	Ndola	Low cost houses	78	In-progress
	Lusaka	Medium Cost	63	In-progress
	Lusaka	High cost	87	Completed
	Lusaka	High cost	5	In-progress

Source: Ministry of Works and Supply

4.7.2.2 Road Construction

Works in the road sector were focused on construction, rehabilitation and maintenance of trunk, main and district roads. In this regard, Government through the Road Sector Investment Programme (ROADSIP) continued to fund various road works which amounted to about K15.0 billion in 2003. Works on the Mutanda-Kasempa road were almost completed while for the Choma-Namwala and Kasama-Luwingu roads, works stalled due to inadequate resources (Table 4.26).

Table 4.26: Status on GRZ funded Road Projects, 2003

Project Name	Distance (Km)	Cost	2003 Estimate K'Million	2003 Funding K'Million	Status
Mutanda-Kasempa Road	147	US \$15,400,000	5,000.0	4,000.00	146km Completed
Kashikishi-Lunchinda Road	132	USD 33,935,476.84	1,000.0	1,000.00	14km of sub-base completed
Kasama- Luwingu Road	150	US\$28,453,697.78	5,000	1,000.00	4km completed Ongoing
Mansa – Luwingu Road	185	N/S		2,000.00	Ongoing
Luanshya Mpongwe – Luansobe Road	117	ZMK14,532,482,005	4,000.00	4,000.00	66km completed 51km Stalled
Mumbwa-Landless Corner Rd	115	N/S	0	2,775.75	Ongoing
Choma-Namwala Road	80	US\$19,000,000	6,000.0	0	Stalled
Total			10,000	14,775.8	

Source: Ministry of Works and Supply

In addition, a total of K36.2 billion was released for rural roads development under the poverty reduction programme.

status on the various donor funded projects is provided in Table 4.27.

4.7.2.3 Donor Funded Projects

Co-operating partners continued to work closely with Government in the road sector in 2003. The

Table 4.27: Status on Donor Funded Projects in 2003

Project	Donor	Status
Technical Assistance (Capacity Building)	BADEA	On going
Lusaka - Mongu road	Dannida	On going
Technical Assistance (Capacity Building)	EU	On going
Monze – Zimba	EU	Completed
Kabwe - Kapirimposhi/Chisamba Roads	EU	On going
Livingstone - Sesheke road	KFW	On going
Katimamulilo Bridge	KFW	On going
Technical Assistance (Capacity Building)	KUWAIT	On going
Mongu - Kalabo road	KUWAIT/BADEA/OPEC	On going
Institutional Support (Roads Training School)	NORAD	On going
Axle Load Control	NORAD	On going
Lusaka City Roads	JICA	Nearly Complete
Technical Assistance (Capacity Building)	IDA	On going
Chingola - Kasumbalesa road	IDA	On going
Design Package I (Consultancy) Lusaka - Chirundu and Zimba - Livingstone roads	IDA	On going
Design Package II (Consultancy) Ndola - Mufulira - Mwambeshi, Mufulira - DRC Border and Kafulafuta - Luanshya roads	IDA	On going
Lusaka - Makeni road	IDA	On going
Makeni - Kafue road	IDA	On going
Lusaka - Kabwe road	IDA	On going
Serenje - Mpika road	IDA	Completed
Siavonga road	IDA	Completed
Mpika - Chinsali road	IDA	Completed

Source: Ministry of Works and Supply

4.8 PRIVATE SECTOR DEVELOPMENTS

4.8.1 Overview

In 2003, Government pursued policies aimed at supporting growth and development of the private sector. In this regard, Government continued to offer incentives to the private sector. As a result, the private sector activities increased in the review period as evidenced by the growth in the manufacturing sector, wholesale and retail trade sector and Non-Traditional Exports (NTEs).

4.8.2 Investment Promotion

In the review period, Government continued with its efforts of attracting both domestic and foreign investment. To this effect, several promotional activities to market Zambia were undertaken, including participation in the two main domestic commercial shows and trade fair. Further, to facilitate the promotion of both domestic and foreign investment in Zambia, Government launched the Zambia Investment Advisory Council. Another major development was the establishment of the Zambia Export Processing Zones Authority.

4.8.3 Export Performance

Preliminary data show that the value of NTEs increased by 27.2 percent from US \$237.3 million covering the period January to October 2002 to US \$301.9 million in the same period in 2003. The major products that led to this increase were copper slag, copper rods, cotton lint, tobacco, petroleum oils, electrical cables, cement and coffee (Table 4.28). The huge increase in the value of exports of copper slag was due to the increase in the volume of copper dumps being exported for further processing abroad. The rise in the value of exports of copper rods and cables

was as a result of the duty free market access to the South African market under the SADC Trade Protocol.

South Africa continued to be the largest market for Zambia's NTEs in the review period. The other major markets were the Democratic Republic of Congo (DRC), India, the United Kingdom (UK), Malawi, Finland, Switzerland and USA. The SADC Trade Protocol allowed a good number of Zambian products into South Africa because of the duty free market access arrangement. The United Kingdom and the Netherlands were the major markets for almost all of Zambia's fresh vegetables and flowers. Malawi was the major importer of Zambia's tobacco while Finland and India provided markets for Zambia's sugar and gemstones, respectively.

Table 4.28: Major NTE Products (in US \$ Million), January to October, 2002-2003

Product	2002	2003	% Change
Copper Slag	30.9	32.8	6.1
White spoon Sugar	29.9	28.5	-4.7
Fresh Fruits/Vegetables	23.4	23.8	1.9
Copper Rod	11.6	23.8	104.5
Cotton Lint	20.4	22.5	10.1
Gemstones	21.7	20.3	-6.3
Cotton Yarn	16.9	17.0	0.6
Burley Tobacco	11.5	16.4	42.3
Fresh Flowers	22.5	16.0	-29.2
Petroleum Oils	4.7	14.6	210.4
Electrical Cables	4.1	13.3	225.8
Gold/Bars Bullion	19.2	8.2	-57.2
Cement	4.0	5.8	44.2
Coffee	3.8	5.6	44.6
Total of Major Products	224.8	248.6	10.6
Grand Total	237.3	301.9	27.2

Source: Zambia Export Board and Bank of Zambia

4.8.4 Development Financing

In 2003, Government continued to mobilise medium and long-term finance in order to expand private sector participation in the economy. The two major financing programmes to the private sector were the Mining Sector Development Programme (MSDP) and Matching Grant Scheme (MGS). With regard to the MGS, a total of 63 companies in various sectors accessed grants out of which, 24 were in the manufacturing sector, 16 in the service sector while nine were in the agriculture sector (Table 4.29). The total value of the grants disbursed to the 63 companies was US \$1.5 million.

Table 4.29: Beneficiaries under the Matching Grant Scheme, 2003

Sector	Number of Companies	Percentage
Agriculture	9	14
Construction	2	3
Financial Services	4	6
Manufacturing	24	39
NGO's	4	6
Services	15	24
Tourism	4	6
Transport	1	2
Total	63	100

Source: Ministry of Commerce, Trade and Industry

4.8.5 Performance of Medium and Small Enterprises (MSEs)

In 2003, Government in conjunction with cooperating partners carried on with the promotion of the activities of the MSEs. The major activities undertaken related to training of MSEs in different business ventures such as tailoring, carpentry and joinery, metal fabrication, leather works, stone crushing, oil extraction, block making and handcrafts. Furthermore, Government continued to facilitate the participation of MSEs at the domestic commercial shows and the international trade fair.

4.8.6 Status of Privatisation and Parastatal Reform Programme

In the review period, Government continued with the privatisation policy and a total of 259 companies and units had been privatised as at December 2003 out of a total working portfolio of 314. The remaining companies were at various stages of the privatisation process (Table 4.30 and 4.31).

Table 4.30: Privatisation Programme Status, 2000-2003

	2000	2001	2002	2003
Completed privatisation deals (cumulative)	245	251	256	259*
Negotiations completed	3	5	3	0
Heads of agreement signed	0	0	0	0
Companies/units privatised (cumulative)	248	256	256	259
Companies under negotiation	6	2	1	1
Companies under preparation	26	22	22	24
Commercialisation of govt. Departments	31	31	31	31
Total working portfolio	280	311	313	314

Source: Zambia Privatisation Agency

*ESCO properties not included until all properties have been sold

The major developments in 2003 were the concessioning of the freight and passenger operations of the Zambia Railways Limited and the conclusion of the sale of the RAMCOZ Mine. The concession of Zambia Railways Limited will run for a period of 20 years.

Table 4.31: Status of Privatisation Transactions in 2003

Company Name	Status
Zambia Railways Limited	Has been concessioned to the consortium comprising the New Limpopo Project Investment and Spoomet both of South Africa. The concession is to run for 20 years.
Zambia National Commercial Bank	ABSA emerged the preferred bidder following the evaluation of the bids received for the sale of 49 percent Government shares. Negotiations with ABSA have reached an advanced stage and the transactions for the privatisation of ZNCB are expected to be completed during the first quarter of 2004.
ZESCO Limited	The commercialisation process is underway.
TAZAMA	Studies on the privatisation of the TAZAMA Pipeline were completed in early 2002 and expressions of interest for concessioning were invited in June 2002. By the end of the year, the Zambian and Tanzanian Governments were progressing with concession option.
Ndola Lime	Advertised in June 2002, tender closed on 31 st October 2002. Three (3) bids were received and are under evaluation.
INDENI Petroleum Refinery	The privatisation has been effected.
TAZARA	The study on options for the private sector participation will be commissioned by January 2004 following approval of the study by the Joint Council of Ministers of Zambia and Tanzania.
ESCO	Cabinet approved privatisation guidelines. Government would retain pontoons, while the other assets have been offered to Zambians.
Monarch Zambia Limited	The ZPA is negotiating with the preferred bidder for the sale of the company's assets. However, this will depend on successful resolution of the company's liabilities particularly settlement of employee liabilities.
Zambia National Oil Company	The company is still under liquidation.
Contract Haulage	The ZPA has made recommendations to Government on the mode of privatisation and awaits the cabinet decision.
Kafue textiles Zambia (KTZ) Limited	Negotiations have commenced with the preferred bidder.
Mukuba Hotel Limited	The Government, through the Ministry of Commerce, Trade and Industry is considering recommendations for the mode of sale.
Zambia Clay Industries Limited	The privatisation has been completed following the sale of the company's core assets by the receiver. The assets were sold to a Consortium of Poseidon Construction and Union Gold and a new company called Kalulushi Clay Blocks is now operational.
Zambia Telecommunications Limited	The Government through the Ministry of Communications and Transport has requested ZPA to examine the commercialisation options for further consideration to Government.

Source: Zambia Privatisation Agency

4.9 ENVIRONMENTAL PROTECTION AND CONSERVATION

4.9.1 Overview

In the year under review, Government continued to implement the forestry conservation, pesticides and toxic hazardous waste control, solid waste management, water and air pollution control and environmental management programmes. In this regard, environmental monitoring and enforcement programmes to ensure compliance were undertaken. Additionally, monitoring the importation of unregistered hazardous chemicals was done.

4.9.2 Sector Performance

4.9.2.1 Forest Management

Under forest management, projects were focused on promoting sustainable use of forest resources, which included forest resources management and integrated land use assessment projects. These projects were aimed at increasing the incomes of the poor and assessing the status of land use countrywide.

Furthermore, new forest licenses continued to be issued at provincial level. In this regard, the saw milling and pitsawing concession licences were re-issued. In the year under review, there was a ban on the export of timber, which was later lifted in September. Although there was a ban, the revenue realized from the sale of timber as at July 2003 increased by 19 percent to K901million compared to K757million collected in the same period in 2002.

4.9.2.2 Pesticides and Toxic Substances/Hazardous Waste Control

The major focus in addressing issues of pesticides and toxic substances were the implementation of the National Plans for Persistent Organic Pollutants, Chemical Hazard Communication (CHC), Chemical Information Network (CIEN) and the Industrial Pollution Prevention Programme (IPPP). In this regard, inspections of facilities for pest control were conducted in Central, Southern and Lusaka Provinces. Furthermore, Government participated in

the Globally Harmonised System (GHS) of classification and labelling of chemicals, which was aimed at promoting a common and consistent criteria worldwide of categorising chemicals according to their hazards.

Government in conjunction with ZCCM Investment Holdings continued to implement the Copperbelt Environmental Project. This project is aimed at addressing the environmental and social problems resulting from mining operations. The enforcement of regulations on hazardous waste also continued to be effected in textiles, asbestos, mining and other related industries.

4.9.2.3 Solid Waste Management

In line with the mandate to regulate and enforce the provisions of the waste management regulations, Government through the Pollution Control Inspectorate conducted a number of activities to manage the solid waste materials. These included:

- Impromptu patrols and inspections with the aim of curtailing indiscriminate disposal of waste; and
- Compliance monitoring trips regarding the disposal of recyclable industrial waste in residential areas in pre-secure premises.

4.9.2.4 Water and Air Pollution Control

The Government continued to effect measures to reduce water and air pollution. These included the enforcement of a notice to Classic Candy to improve the quality of air emitted to the environment, closure of Chat B industries due to the uncontrollable emissions from the boiler, ground water sampling at Chunga dumpsite and inspections at King Quality Meat Factory and Amanita Premier Oils. Water sampling exercises were also undertaken in North Western, Western and Northern provinces from rivers and lakes to determine prevailing baseline information.

4.9.2.5 Environmental Management

Government continued undertaking activities focused on managing the environment through monitoring and environmental education. These included environmental impact assessment surveys involving designing of RAMSAR sites; collaboration with Southern African Research and Documentation Centre – I.M.Environment Resource Centre for Africa (SARDC-IMERSCA) aimed at enhancing awareness locally and abroad on the state of the environment on the Zambezi basin and the production of quarterly newsletters. This was done in order to educate the public on environmental issues.

4.9.3 Constraints

Inadequate infrastructure for waste disposal such as collection and landfill and sewerage sites negatively affected the state of sanitary conditions in the country. This was exacerbated by lack of enforcement of various legislation on the management of solid waste. In addition, the sector lacked equipment to test the levels of pollution.

4.9.4 Outlook

It is expected that the Forestry department will be transformed into a semi-autonomous forest commission leading to efficient management of the forest resources. Additionally, the revision in the licensing structure will boost the revenue base.

The Government through the Environmental Council of Zambia will ensure that environmental concerns are integrated in development and investments projects.

4.10 EDUCATION

4.10.1 Overview

In 2003, Government continued to target the achievement of the “Education for All.” One of the major developments in the education sector in 2003 was the finalisation and subsequent implementation of the strategic plan aimed at addressing major challenges facing the sector.

There was an increase in access to education in the basic and secondary education sectors during the year under review. The rise in access to basic and secondary education was evidenced by the increase in pupil enrolments. Basic school enrolment increased to 2,030,714 in 2003 from 1,865,677 in 2002. The increase in basic school pupil enrolments in 2003 was attributed to the Free Basic Education Policy that was effected in 2002 and the construction of new schools and additional classrooms to the existing schools.

Similarly, secondary school pupil enrolment increased to 210,061 during the year under review from 205,393 in 2002. However, the number of teachers declined.

At tertiary level, teacher training student enrolment also declined to 5,529 students in 2003 from 5,779 in the previous year.

4.10.2 Sector Performance

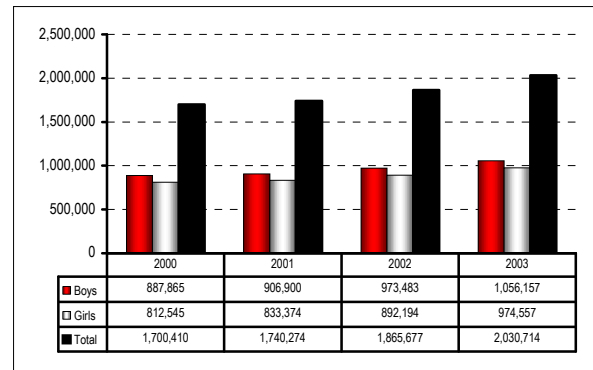
4.10.2.1 Basic Education Sub-sector

a) Basic School Enrolment

During the year under review, out of the basic school going age population of 2,558,898 (Grades 1-9), 79 percent were absorbed in the school system compared to 75 percent in 2002. Out of the total pupils enrolled, 48 percent were females while 52 percent were males in 2003 (Figure 1). A total of 165,037 more pupils were enrolled in 2003 above the 2002 enrolments.

At basic school level, 350,292 orphans (179,536 males, 170,756 females) and 25,626 physically impaired children were absorbed in the system in 2003 compared to 235,515 orphans (120,153 males, 115,362 females) and 19,761 impaired children in 2002.

Figure 1: Basic School Enrolment (Grade 1 - 9), 2000 - 2003

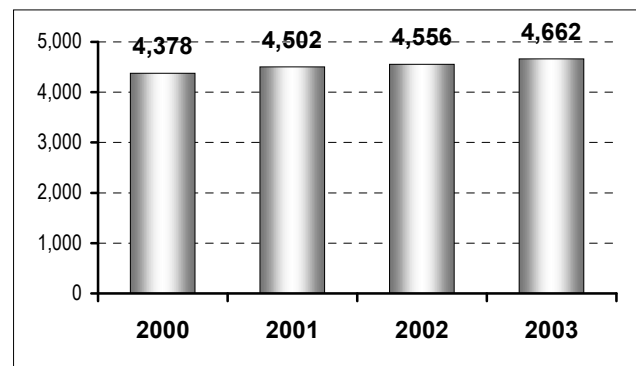


Source: Ministry of Education

b) Basic Schools

The total number of basic schools increased by 2.3 percent from 4,556 in 2002 to 4,662 in 2003. A total of 106 new basic schools were constructed in the course of 2003 compared to 54 in 2002 (Figure 2).

Figure 2: Number of Basic School, 2000 - 2003

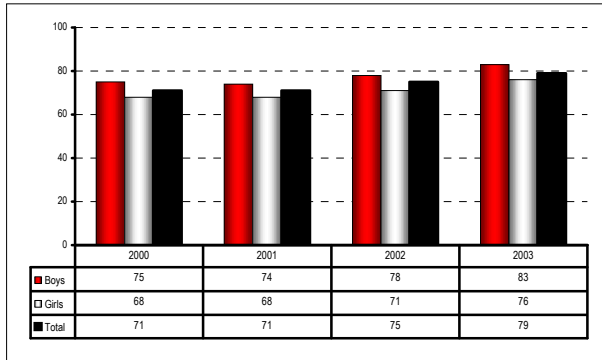


Source: Ministry of Education

c) Gross Enrolment Ratios

In 2003, the gross enrolment ratio rose by 4 percent from 75 percent in 2002 to 79 percent. Since 2001, the gross enrolment ratio has been rising indicating the growing capacity of the basic education system to enrol more pupils (Figure 3).

Figure 3: Gross Enrolment Ratios for Grades 1 to 9, 2000 -2003



Source: Ministry of Education

d) Basic School Teachers and School Requisites

The increase in the number of basic schools and pupil enrolment has been matched by the increase in the number of basic education teachers from 37,793 in 2001 to 40,488 in 2002. However, the number of teachers decreased to 38,891 in 2003 due to non-recruitment and natural attrition. The decline in the number of teachers in 2003 and an increase in the pupil enrolment resulted in the deterioration of the pupil-teacher ratio from 1:46 in 2002 to 1:52 in 2003.

In an effort to improve the quality of education, provision of textbooks to schools improved. For instance, the number of textbooks in English increased from 865,701 in 2002 to 947,998 books in 2003 for basic schools.

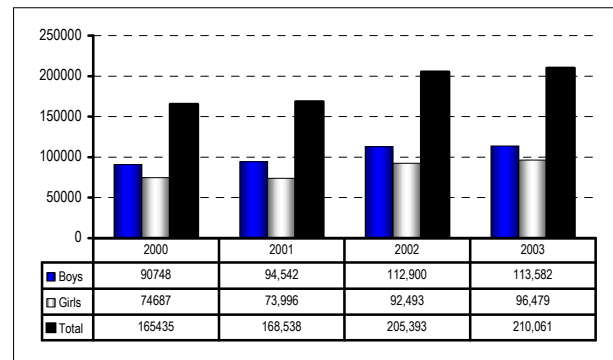
In order to monitor the education standards and to ensure quality, 7,320 inspections of basic education schools were carried out against 5,695 in 2002. There was some improvement in reading and writing levels of children in Grade 1. The reading levels improved from 34 percent in 1999 to 64 percent in 2003.

4.10.2.2 Secondary School Education Sub-sector

The secondary school sub-sector (Grades 8-12) recorded a 2.3 percent increase in pupil enrolment from 205,393 in 2002 to 210,061 in 2003 (Figure 4). The rise in pupil enrolment was attributed to an increase in the number of secondary schools by 5.4 percent from 335 in 2002 to 353 in 2003 (Figure 5).

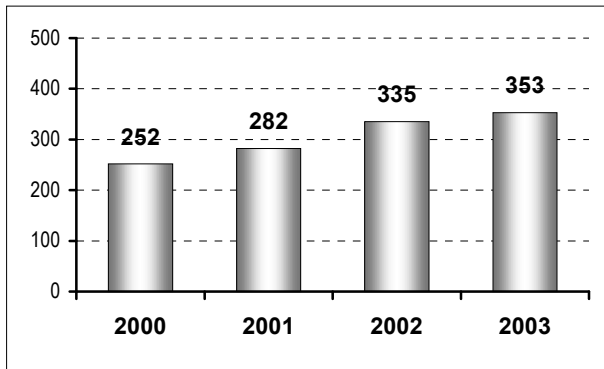
As regards vulnerable children such as orphans, pupil enrolment increased to 29,480 in 2003 from 20,437 in 2002. In addition, the number of pupils with physical impairments also increased from 1,820 in 2002 to 2,657 in 2003.

Figure 4: Grade 8 – 12 Enrolments, 2000-2003



Source: Ministry of Education

Figure 5: Number of Secondary Schools, 2000 - 2003

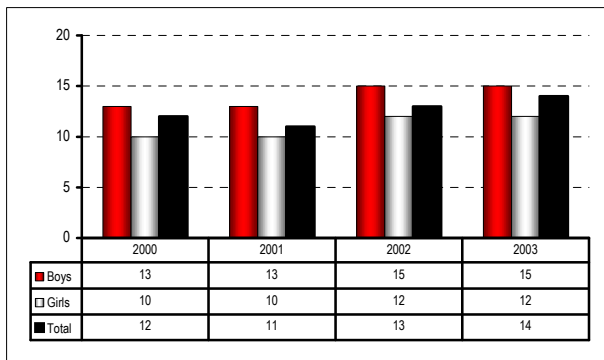


Source: Ministry of Education

a) Gross Enrolment Ratios

Secondary school gross enrolment ratio marginally increased from 13 percent in 2002 to 14 percent in 2003. The low gross enrolment ratio at secondary school level indicated that access to secondary education was relatively low compared to 79 percent at the basic school level (Figure 6).

Figure 6: Gross Enrolment Ratios for Grade 8-12, 2000 - 2003



Source: Ministry of Education

g) Pupil-Teacher Ratio and School Requisites

The secondary education sub-sector also experienced a decline in the number of teachers from 9,725 in 2002 to 7,880 in 2003 due to non-recruitment and natural attrition in 2002. Consequently, the pupil-teacher ratio deteriorated to 1:22 in 2003 from 1:17 in 2002.

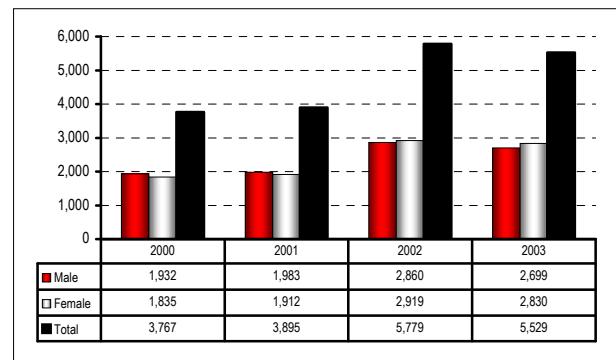
However, the provision of pupil textbooks to secondary schools increased from 109,589 textbooks in 2002 to 520,909 in 2003.

4.10.2.3 Tertiary Education Sub-sector

a) Teacher Training College Enrolment

There was a decline in student enrolment to 5,529 in 2003 from 5,779 in 2002. The decline in student enrolment was largely on account of a reduction by almost 60 percent of all Academic Production Unit (APU) students in the teacher training colleges.

Figure 7: Teacher Training College Enrolment, 2000-2003



Source: Ministry of Education

4.10.3 Funding to the Education Sector

The total releases to the education sector in 2003 stood at K686.2 billion, representing 19.7 percent of the total discretionary expenditures. Personal emoluments, recurrent departmental charges, grants and poverty reduction programmes accounted for 76.7 percent, 2.9 percent, 18.9 percent and 1.3 percent of the total releases to the sector, respectively.

Cooperating partners continued to play a significant role in funding the sector. To this end, K51.8 billion was disbursed by cooperating partners from the pool funds against the programmed amount of K339.9 billion in 2003. In addition, K53.8 billion was disbursed under BESSIP as a bridging arrangement in the sector plan.

4.10.4 Outlook

In 2004, Government will continue to improve access, equity and efficiency in basic, secondary and tertiary education. In this regard, efforts will be directed at developing relevant skills and enhanced learning achievements and rehabilitation of secondary schools and university infrastructure. In addition, Government will also conduct reviews and studies into secondary school and university reforms particularly in terms of access, quality and cost effectiveness. Adult literacy programmes, which impact on parent's support to children's education, will also be developed gradually in 2004. School health and nutrition programmes will be expanded to link it with Early Childhood Care Education Development (ECCED).

4.11 SCIENCE, TECHNOLOGY AND VOCATIONAL TRAINING

4.11.1 Overview

In 2003, Government focused on promoting the development and application of science and technology and the provision of skills in technical education and vocational training. The major objective was to speed up the rehabilitation and re-equipping of institutions so as to create a more conducive working environment and improve service delivery.

Government continued with the Technical Education, Vocational and Entrepreneurship Training (TEVET) reforms which were aimed at developing a system that would improve the skills for both the informal and formal sectors of the economy through the provision of a high quality, sustainable, demand driven and an equitable training system. In this regard, rehabilitation of the food chemistry laboratory at the National Institute for Scientific and Industrial Research (NISIR) and the Paramedical Department at Evelyn Hone College of Applied Arts and Commerce commenced. In addition, most of the Government training institutions were provided with training equipment such as computers and training materials.

With regard to science and technology, Government augmented and strengthened the technology transfer process especially those used by Small and Medium Enterprises (SMEs). In this vein, the National Technology Business Centre (NTBC) promoted the use of modern beehive technology, launched the Mungogo nutcracker in Mongu and provided technical support for successful production of Splendid Chilli sauce.

In the area of research and development, the focus was on on-going research projects especially those with a poverty reduction and economic development theme. Consequently, research in crop improvement, promotion of soap and fuel production from *Jatropha Curcas* Oil among rural communities, goat and chicken

rearing and improving productivity of dairy animals, among others, were conducted.

4.11.2 Sector Performance

4.11.2.1 Technical Education, Vocational and Entrepreneurship Training

The emphasis of the Government in 2003 was the rehabilitation of training Institutions. In this regard, the TEVET Development Programme, intended to support the implementation of the TEVET reforms began. Consequently, cooperating partners disbursed a total of US \$1.6 million earmarked for the purchase of equipment, training materials, rehabilitation and capacity building compared to US \$679, 572 in 2002. Further, Government disbursed K1.8 billion in support of infrastructure development under the TEVET.

In line with Government's policy of facilitating private sector participation and ownership in tertiary education, Government through the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) continued to register training institutions. The number of institutions registered increased to 254 in 2003 from 231 in 2002, representing a 9.9 percent increase. The concentration of training institutions continued to be along the line of rail with Lusaka Province having the highest number followed by the Copperbelt Province (Table 4.32).

Table 4.32: TEVET Registered Institutions, 2000 - 2003

Province	2000	2001	2002	2003	% Change 2003/ 2002
Lusaka	73	82	84	112	33.3
Copperbelt	42	52	68	64	(5.9)
Central	10	5	15	9	(40.0)
Southern	7	10	17	30	76.5
N/Western	2	6	7	4	(42.9)
Northern	2	1	11	8	(27.3)
Western	5	8	10	7	(30.0)
Eastern	7	11	12	13	8.3
Luapula	3	3	7	7	0
Total	151	178	231	254	9.9

Source: TEVETA

The number of trainers in TEVET institutions increased from 2,428 in 2002 to 2,638 in 2003. The number of female trainers increased to 571 in 2003 from 384 in 2002, representing 22 percent of the total number of trainers. Despite this increase, the number of female trainers was still low compared to male trainers.

In terms of enrolments, there was an increase of 11.9 percent from 19,847 students in 2002 to 22,221 students in 2003. The proportion of female students entering TEVET institutions increased by 13.7 percent from 8,605 students in 2002 to 9,782 students in 2003. Compared to the male students, however, the number of female students entering tertiary education was still significantly low (Table 4.33).

Table 4.33: TEVET Student Enrolments and Staffing, 2000 - 2003

	Year					
	Trainees			Trainers		
	2001	2002	2003	2001	2002	2003
Male	9,698	11,242	12,439	1,703	2,044	2,067
Female	6,852	8,605	9,782	274	384	571
Total	16,550	19,847	22,221	1,977	2,428	2,638

Source: TEVETA

TEVET training institutions offered a number of courses at certificate, technician and diploma levels such as business studies, secretarial and media studies. Business studies had the highest enrolment with 8,705 students in 2003 compared to 7,986 students in 2002, representing a 9.0 percent increase. In terms of gender participation in this programme, the number of female students increased by 15 percent from 3,989 in 2002 to 4,605 in 2003. However, the number of female students undertaking technical courses such as technology continued to be low with only seven female students in 2003 compared to 136 male students (Table 4.34).

Table 4.34: Programmes Undertaken by Students, 2000-2003

	2001		2002		2003	
	M	F	M	F	M	F
Business Studies	3,685	3,535	3,997	3,989	4,100	4,605
Secretarial	0	1548	1	1,636	1,254	1,556
Hotel and Tourism	239	516	310	1,096	376	1,106
Media Studies and Applied Arts	613	737	613	1,043	702	1,586
Paramedical	150	84	162	71	168	84
Aviation	50	15	48	13	52	10
Craft	2,616	286	3,642	463	3,456	558
Advanced Certificate/Technician	2,191	128	2,366	250	2,192	271
Technology	154	3	144	4	136	7
Grand Total	9,698	6,852	11,283	8,565	12,436	9,782

Source: TEVETA

In terms of ownership, the majority of training institutions were in the category of private-for-profit. The church and Government institutions accounted for the second largest number (Table 4.35).

Table 4.35: Training institutions by type of Ownership, 2000 – 2003

Ownership	Number of Training Institutions			
	2000	2001	2002	2003
Church	20	27	39	43
Community/NGO	29	29	36	38
Company	6	8	10	11
Public/Government	21	28	39	43
Private-for-Profit	69	78	98	106
Trust	6	8	9	12
Total	151	178	231	254

Source: TEVETA

4.11.2.2 Science and Technology Development

During the period under review, scientific, technological and industrial research activities continued under the NISIR. Implementation of these activities was done in collaboration with cooperating partners and local institutions. The major research projects undertaken were aimed at supporting poverty reduction by exposing communities to research techniques that earned them additional income and better nutrition, among others. This included soap and oils manufacture using *Jatropha curcas* oil, alleviation of hunger in the Lusitu area of lower Zambezi Basin, promotion of use of biogas in schools, baby-weaning foods and goat and chicken rearing (Table 4.36).

Other research projects carried out included the technology transfer initiative on technical extension of cook-stove manufacture to local artisans in communities, maize meal fortification, animal feed supplementation packages and improving milk and meat production.

Furthermore, research trials on a local fertiliser known as 'Partially Acidulated Phosphate Rock' were conducted and results indicated that the local fertiliser compared favourably with the imported Mono Ammonium Phosphate (MAP). In addition, a project on indigenous knowledge and technology systems in Zambia aimed at promoting the development of an indigenous and environmentally friendly technological capacity was conducted.

Table 4.36: Status on Research Projects, 2003

Research Project	Project Description	Status
Promotion of soap and fuel production from <i>Jatropha Curcas</i> Oil among rural communities.	Promoting <i>Jatropha curcas</i> oilseed as a multipurpose oilseed for production of soap and bio-diesel for income generation purposes among rural areas of the Copperbelt.	Communities were empowered with skills in growing <i>Jatropha curcas</i> as well as making soap and oil. A total of K26 million was spent.
Goat and chicken rearing.	Improving goat and chicken rearing by small scale farmers so as to improve their financial status through the sale of livestock.	Breeding stock of the Boer goats was procured for the purpose of genetic improvement in the goat population. Results show that there was an improvement in the quality of goats reared under this project. A total of K100 million was expended.
Improvement of productivity of dairy cattle among small-scale farmers.	Improving productivity of dairy cattle among small-scale farmers through artificial insemination and early pregnancy diagnosis using radio immunoassay (RIA) techniques.	A total of 18 farmers took part in the project and results showed that productivity improved. A total of K100 million was spent.
Alleviation of hunger in the Lusitu area of lower Zambezi basin of Zambia.	Determining the food value of Lusitu grass (Mpunga) and improving the processing techniques in order to ensure availability of food among villagers.	Communities have been sensitised on the value of Mpunga as a naturally occurring grain for inclusion in the food basket of the area. Preliminary results showed that Mpunga compared favourably with other common grains and in some cases more superior in protein content. A total of K65.9 million was spent.
Baby Weaning Foods.	Provision of nutritious weaning foods for children or babies including whose mothers are HIV/AIDS victims in order to reduce the chances of them becoming HIV/AIDS positive through early weaning and provision of alternative foods.	Formulations and blends were made from local raw materials including cowpeas and Bambara nuts with maize meal. About 114 malnourished children were enrolled on this project. The results have been favourable with some children gaining at least 400 grams in body weight per month. A total of K50 million was spent.
Promotion of use of biogas in schools.	Promotion of use of biogas in the communities through use of biogas in schools.	Construction of biogas digesters was initiated at three schools. The gas- holders were also acquired. Community mobilisation on biogas use also began. A total of K50 million was spent.
Integrated fish-biogas pig production.	Integrated approach to fish farming whereby biogas digester feed in form of pig manure becomes raw material for fish food.	Evaluation of the feasibility of the project was conducted. A total of K100 million was spent.
Extension of cook-stove manufacture to local artisan.	Popularisation of the Ziko improved Mbaula among communities.	Ten communities in low cost residential areas of Lusaka were covered in the popularisation campaign.

Source: Ministry of Science, Technology and Vocational Training

4.11.3 Constraints

The TEVET sub-sector continued to face the challenge of increasing accessibility of technical education to eligible students and increasing the number of training institutions in rural areas. In addition, trained personnel and training equipment continued to be inadequate in most training institutions.

In the science and technology sub-sector, the major constraint continued to be the low adaptation of technologies developed by the research institutions. Furthermore, the use of outdated technologies in the research institutions hampered progression in research and development.

4.11.4 Outlook

In 2004, it is anticipated that implementation of the TEVET Development Programme will be accelerated as most of the preparatory work has been concluded. This will result in the rehabilitation and re-equipping of institutions hence improving service delivery and the training environment. In addition, the Government will also embark on capacity building of scientists in biotechnology and bio-safety to enhance research in these two areas.

4.12 HEALTH

4.12.1 Overview

Government in 2003 continued with the health sector reforms in order to attain the objectives of equity and efficiency in the sector. Emphasis continued to be on providing cost-effective quality health care as close to the family as possible.

Favourable developments were noted in the area of immunisation campaigns especially measles, where 95 percent certified coverage was recorded while with polio, the quality of Acute Flaccid Paralysis (AFP) improved evidenced by the non-AFP cases. In addition, a major development was a shift in malaria treatment from chloroquine to more effective drugs and the provision of Anti-Retroviral (ARV) Drugs. However, the health care delivery system continued to be characterised by lack of equipment, inadequate drug supply and unsatisfactory staffing levels. Further, the health conditions continued to deteriorate as indicated by an increase in the incidence of most diseases.

4.12.2 Sector Performance

4.12.2.1 Disease Burden

In 2003, preliminary figures indicate that the disease incidence rate increased for most of the top eleven diseases in the country. For instance the total incidence rate for Malaria, the leading cause of morbidity and mortality, stood at 337.5 in 2003 compared to 245 in 2002, reflecting a 27.5 percent increase. Respiratory infections and diarrhoea also recorded increases in incidence rates from 87 and 48 in 2002 to 139.8 and 58.9 in 2003, respectively (Table 4.37).

Table 4.37: Incidence Rates for Top Eleven Diseases, 2002 – 2003*

Disease Name	Year	Under 5	Over 5	Total
Malaria	2002	736	123	245
	2003	995	179.3	337.5
Respiratory Infection Non	2002	249	46	87
	2003	393	78.9	139.8
Diarrhoea	2002	161	20	48
	2003	200.8	24.8	58.9
Respiratory Infection: Pneumonia	2002	88	13	28
	2003	127.9	18.4	39.6
Eye Infection	2002	92	9	26
	2003	127.8	11.7	34.2
Trauma	2002	34	22	25
	2003	42.5	29.7	32.1
Skin Infection	2002	56	15	23
	2003	73.9	17.6	28.5
Ear Nose Throat	2002	40	10	16
	2003	47.7	12.6	19.4
Intestinal worms	2002	41.	6	13.7
	2003	44.8	8.4	15.5
Digestive System	2002	14	10	10
	2003	18.1	13.7	14.5
Anaemia	2002	34	4	10
	2003	41.3	7.1	13.7

Source: Ministry of Health
*Statistics up to 3rd Quarter

Generally, the cases for the top eleven diseases were higher for under-fives than that of the rest of the population for most diseases. The highest number of cases recorded for 2003 were for malaria with 3.6 million cases of which 57 percent was from the under-fives. The least cases were reported for digestive system infections with 158,378 cases. Of this, only 24 percent were for under-fives.

The highest cause of death in both under and over fives continued to be malaria, accounting for 43 percent of total deaths showing no change from the 2002 level. The least cause of death continued to be eye infections with four deaths recorded in 2003, compared to six deaths in 2002 (Table 4.38).

Table 4.38 Trend Data for Top Eleven Diseases by cases and Deaths, 2002 - 2003*

Disease Name	Year	Cases<5yr	Cases>5yrs	Total Cases	>5deaths	<5deaths	Total Death
Malaria	2002	1,616,899	1,080,361	2,697,260	3,198	2,647	5,845
	2003	2,103,209	1,576,064	3,679,273	4,038	3,509	7,547
R1 – Non Pneumonia	2002	548,179	407,177	955,356	279	329	608
	2003	830,740	693,304	1,524,644	268	616	884
Diarrhoea	2002	352,732	173,280	526,012	803	1,041	1,844
	2003	424,388	217,842	642,230	914	1,248	2,162
R1 - Pneumonia	2002	194,399	114,022	308,421	1,673	1,102	2,774
	2003	270,323	161,900	432,223	2,031	1,583	3,614
Eye Infection	2002	202,862	81,618	284,480	6	-	6
	2003	270,043	105,572	372,615	4	0	4
Trauma	2002	75,640	198,013	273,653	135	306	441
	2003	89,823	260,607	350,430	130	416	546
Skin Infection	2002	122,510	130,364	252,874	32	52	84
	2003	156,147	154,377	310,524	27	40	67
Ear Nose Throat	2002	87,674	85,789	173,463	11	6	17
	2003	100,781	110,792	211,573	9	15	24
Intestinal Worm	2002	89,184	54,547	143,731	3	7	10
	2003	94,776	73,899	168,675	4	17	21
Digestive System	2002	31,660	83,754	115,414	86	237	323
	2003	38,155	120,183	158,378	75	379	454
Anaemia	2002	73,816	39,454	113,270	1,132	596	1,728
	2003	87,342	62,04	149,546	1,371	893	2,264

Source: Ministry of Health

* Data is at September 2003

4.12.2.3 Malaria

Malaria continued to be the leading cause of mortality and morbidity in 2003 accounting for 21 percent of the total number of in-patient deaths. Preliminary estimates indicate that there was an increase in fatality-based cases for malaria prevalence and Acute Respiratory Infections. This was attributed to non-availability of the newly recommended drugs following a shift in Malaria treatment policy from chloroquine to more effective artemisinin-based therapy (Coartem). High poverty levels and the HIV/AIDS pandemic compounded the situation.

4.12.2.4 HIV/AIDS

The problem of HIV/AIDS continued to afflict the nation in 2003 with the prevalence rate estimated at 16 percent of the productive population. As one of the responses to the scourge, the Zambian government introduced distribution of Anti-Retro Viral (ARV) drugs in the public sector to cater for 10,000 people initially. ARVs were introduced in all nine provinces after being piloted in Lusaka and Ndola. In

addition, ARV guidelines were developed and disseminated during the review period.

4.12.2.5 Polio

Government continued with polio surveillance activities and maintained surveillance certification levels in districts, by ensuring that cases were reported and attended to.

The quality of Acute Flaccid Paralysis (AFP) surveillance improved in 2003 compared to 2002 evidenced by the non-AFP cases and stool adequacy rate. Zambia has achieved the non-polio AFP rate of more than 1 per 100,000 children under 15 years from 2000 to date, while stool adequacy rate stood at 94 percent in 2003 compared to 80 percent in 2002, implying that the country enjoys certification level surveillance.

4.12.2.6 Measles

The Government, in June 2003 undertook a successful national immunization campaign for children aged 6 months to 15 years with 95 percent certified coverage. In order to sustain the immunisation coverage levels, case-based surveillance for measles was also initiated to monitor the impact of the campaign.

4.12.2.7 Tuberculosis

Tuberculosis (TB) continued to be a major public health problem in Zambia, ranking among the top five causes of morbidity and mortality, especially among the young and economically active adults. Preliminary estimates indicated that the TB incidence in 2003 remained unchanged from 2000 levels of 512 per 100,000 population.

In order to counter the effect of the disease, a deliberate programme on TB guidelines to health centres continued to be implemented in 2003. The Directly Observed Treatment Strategy (DOTS) continued in all districts and reporting from districts improved from 42 percent in 2000 to 100 percent in 2003. The drug stocks for 2002/2003 improved considerably as no shortages were reported countrywide.

4.12.2.8 Mental Health

In 2003, mental health and mental disorders continued to impact negatively on the society through antisocial and self-harming behaviours.

The current bed occupancy rate stands at approximately over 600 nationwide. Neurological disorders such as narcolepsy, cysticercosis/taenia and non-taenia related seizures are on the increase, although this is not being sufficiently captured due to inadequacies in routine data collection for mental health. About 70 to 80 percent of people with mental health problems consult traditional health practitioners largely due to lack of trained psychiatrists. For instance, the intake of clinical officers and registered nurses in basic psychiatric training dropped from 17 in 2002 to less than six in 2003.

4.12.2.9 Essential Drugs and Medical Supplies

During the year under review, Government in collaboration with cooperating partners continued strengthening the capacity of health workers in logistic management of drugs and medical supplies. This was undertaken through training in logistics and

District Integrated Self Assessment Tool (DILSAT) application.

The Government integrated all logistics previously done by the 19 vertical programmes into one comprehensive public health logistic system. The aim was to integrate all drugs, contraceptives, vaccines and medical and laboratory supplies previously supplied through vertical programmes into one logistic system and one national store to be known as the Essential Drugs and Medical Supplies Store (EDMSS).

4.12.2.10 Human Resource

In 2003, the human resource situation in terms of staff levels improved marginally compared to 2002 except for laboratory staff where there was a large decline in personnel (Table 4.39). However, distribution of health personnel continued to be biased towards urban areas.

Table 4.39 Staff Changes, 2002-2003

Category of Staff	2000 Staff	2003 Staff	Variance	% Change 2003/2002
Doctors	698	756	58	8.3
Clinical Officers	1,264	1,338	74	5.8
Nurses(RNs+ZENs)	7,021	7,251	230	3.0
Midwives(RMs+ZEMs)	1,479	1,435	(44)	(3.3)
EHOs/EHTs	705	624	(81)	(11.5)
Pharmacy Staff	68	61	(7)	(10.3)
Laboratory staff	471	292	(179)	(38.0)
Other Paramedics	870	850	(20)	(2.3)
Mgmt+Admin.Staff	1,568	3,223	1,655	1055
CDEs	5,791	6,175	384	6.6
Total Staff	19,935	22,005	2,070	10.4

Source: Ministry of Health

RN = Registered Nurses

ZEN = Zambia Enrolled Nurses

CDE = Classified Daily Employee

4.12.2.11 Health Care Financing

During the period under review, health expenditure declined to around US \$63 million compared to US \$65 million in 2002. This only adds up to US \$18 per capita and is not consistent with the WHO Commission on macroeconomics estimates of US \$34 per capita for Zambia.

As a means of complementing Government financing to the health sector, the cost-sharing scheme continued. This scheme has been institutionalised and fully disseminated in all districts. Surveys conducted throughout the country indicated that people appreciated the principle of cost sharing.

4.12.2.12 Infrastructure Development

In 2003, Government continued with infrastructure development in order to achieve the provision of quality health care to all Zambians. A total of K3.0 billion was released for rehabilitation of the various health institutions and construction of health posts. The health institutions that were rehabilitated included University Teaching Hospital, Ndola Central Hospital, Kabwe Mine and General Hospitals, Mbala General Hospital and Choma General Hospital.

Furthermore, diagnostic, imaging and surgical equipment was supplied to a number of hospitals. This included dental, sterilizers, scanners, radiological and theatre equipment and were supplied to Mazabuka, Chikankata, Namalundu Gorge, University Teaching Hospital, Matero reference, Kabwe Mine and General Hospitals.

4.12.3 Constraints

The major constraint in the health sector continued to be inadequate health equipment and shortage of qualified health personnel, particularly in rural health centres. This was compounded by lack of access to clean water and sanitation and poor environmental conditions. In addition, weak referral ties between health centres and higher hospitals constrained efficient health care delivery.

With regard to HIV/AIDS, there was a shortage of counsellors for the pre-test and post-test counselling, despite investments and training of counsellors in Zambia.

4.12.4 Outlook

In 2004, Government is expected to reintroduce the Kit system discontinued in 1997. This is expected to reduce drug shortages in urban health centres. Government will standardize the distribution of drugs and medical supplies in order to ensure equity in the sector.

In addition, Government is expected to commence the development of infrastructure and purchase of equipment that will facilitate local treatment of conditions that are currently treated abroad.

4.13 COMMUNITY, SOCIAL AND PERSONAL SERVICES

4.13.1 Overview

Government's objective was to enhance equity for vulnerable persons as a strategy to reduce poverty. In this regard, Government's policy thrust in community development and social service delivery continued to be directed at poverty alleviation, promoting quality social welfare services, protecting the rights of the children and family and facilitating the rehabilitation and provision of social welfare services to persons with disabilities. Consequently, programmes such as Child Care Upgrading, Micro Bankers' Trust, Food Security Pack, Social Welfare, Food Programme Management, Programme Urban Self Help and Cultural Services were implemented.

4.13.2 Sector Performance

4.13.2.1 Social Welfare Programmes

a) Public Welfare Assistance Scheme (PWAS)

During the period under review, K4.5 billion was released for PWAS activities targeting 200,000 clients. The activities undertaken included health care and education cost schemes.

b) Street Children Activities

Government facilitated the activities of NGOs that assist street children in income generating activities and offering them education and training in skills.

During 2003, over 2,016 street children were reached by various interventions throughout the country.

c) Child Care Upgrading Programme (CCUP)

During the review period, CCUP conducted capacity building workshops for caregivers and sensitised local communities on the needs of Orphans and Other Vulnerable Children (OVCs). In addition, the CCUP carried out inspections, monitored and evaluated activities of 59 family support service providers in Lusaka and the Copperbelt provinces to ensure that quality services were provided. As at end-December 2003, there was an increase in the number of children receiving care in children's homes, day care centres, street children facilities and other similar institutions by 172,699 from 153,711 in 2002 to 326,410 in 2003.

d) Micro-Bankers Trust

During the year under review, Micro-Bankers Trust (MBT) continued to provide financial services to vulnerable individuals organized in community based organizations as well as District Business Associations (DBAs) throughout the country. A total of K699.6 million was disbursed by Government with 2,611 clients benefiting of which 1,891 were females and 720 were males (Table 4.40).

Table 4.40: Loans and Disbursements, in 2003

Province/Area Name	Number of Groups	Clients			Loan Amount Disbursed	Loan Amount Disbursed by Gender	
		Male	Female	Total		Male	Female
Eastern	35	138	310	448	129,889,000	21,968,000	107,921,000
Northern	25	32	164	196	151,450,000	27,700,000	123,750,000
Lusaka	42	88	516	604	461,997,500	41,900,000	420,097,500
Central	37	41	295	336	129,872,000	15,400,000	114,472,000
N/Western	14	36	93	129	40,000,000	10,866,664	29,133,336
Southern	36	174	322	496	222,720,000	81,400,000	141,320,000
Copperbelt	12	170	172	342	29,375,000	3,750,000	25,625,000
District Business Association	5	41	19	60	70,295,000	36,195,000	34,100,000
Total	276	720	1,891	2,611	699,594,500	239,179,664	460,414,836

Source: Ministry of Community Development and Social Services

e) **Social Safety Nets**i) **Food Security Pack Programme**

The objectives of the Food Security Pack Programme continued to focus on attaining food security for vulnerable but viable farmers through provision of inputs. The programme targeted the aged, the disabled, female-headed households, orphans, child-headed households and households affected by drought or floods.

During the 2002/2003 agricultural season, a total of K28.2 billion was spent on the purchase of inputs which included beans, maize, soya beans, groundnuts, sorghum and fertiliser (Table 4.41).

Table 4.41: Inputs Distributed under FSPP, 2003

Type of Input	Unit of Measure	Quantity
Beans	Mt	665.8
Maize	Mt	570.5
Finger Millet	Mt	10.2
Sorghum	Mt	2.4
Soya beans	Mt	2,200
Ground nuts	Mt	440.0
Rice	Mt	47.0
Lime	Mt	2000.0
Fertiliser	Mt	6,132
Sweet Potato vines	50 Kg	2,431
Cassava	Cuttings	18,250,000

Source: Ministry of Community Development and social Services

A total of 125,195 farmers benefited during the 2002/2003 agricultural season out of the programme target of 200,000 farmers per year. Of the total beneficiaries, 70,229 and 55,209 were females and males, respectively (Table 4.42).

Table 4.43: Loan Disbursement and Repayment

District	Number of Beneficiaries	Sex		Loan Amount	Repayment Made	Balance
		Male	Female			
Lusaka	34	16	18	26,255,950.00	1,831,750.00	24,424,200.00
Mongu	23	13	10	25,353,450.00	7,776,000.00	17,577,450.00
Lufwanyama	09	06	03	5,324,000.00	(not due)	5,324,000.00
Total	66	35	31	56,933,400	9,607,750	47,325,650.00

Source: Ministry of Community Development and Social Service

The programme enabled beneficiaries to undertake other activities such as rearing chickens, goats, and other animals, bee keeping and seed multiplication.

The major challenge faced by the programme included the unwillingness of beneficiaries to be weaned off, as they had no alternative livelihood.

Table 4.42: Food Security Pack Beneficiaries, 2002/2003 Agricultural Season

Province/Area	Number Benefited		
	Total	Male	Female
Eastern	13,604	5,378	8,466
Lusaka	3,000	1,323	1,677
Northern	21,550	9,504	12,046
Central	10,820	4,772	6,048
N/Western	11,205	4,941	6,264
Southern	15,585	6,873	8,712
Western	22,281	10,445	11,836
Copperbelt	11,411	5,032	6,379
Luapula	15,739	6,941	8,798
Total	125,195	55,209	70,229

Source: Ministry of Community Development and Social Services

ii) **National Trust for the Disabled**

During the year under review, Government continued to provide micro-credit to disabled persons through the National Trust for the Disabled (NTD). In this regard, the NTD in conjunction with NGOs disbursed loans amounting to K56.9 million to community based organisations and disabled persons organisations in Mongu, Lusaka and Lufwanyama through the group-lending scheme. A total of 66 people benefited, of which 49 were physically handicapped, 11 were blind and five had hearing problems. These undertook various types of business in trading, agriculture and manufacturing (Table 4.43).

iii) Programme Urban Self Help

During 2003, Programme Urban Self Help (PUSH) continued to implement projects aimed at alleviating poverty for communities in peri-urban and rural areas in exchange for food. A total number of 5,121 participants took part in PUSH projects, of which 3,073 were female and 2,138 were male. Various infrastructure was rehabilitated and constructed which included dip tanks, earth dams, VIP latrines, roads and bridges (Table 4.44). In addition, PUSH constructed four Community Development Centres in Kafue, Kapiri Mposhi, Kitwe and Chingola.

iv) Food Programme Management Unit

During the year under review, Government, through the Food Programme Management Unit continued to facilitate distribution of food and non-food resources to disaster prone areas in the country. In

this regard, a total of 6.1 million Mt of food was distributed to 25 targeted districts covering 67,098 vulnerable people.

v) Cultural Services

During the year under review, Government released a total of K368.2 million to support international cultural co-operation and public performances of traditional ceremonies and construction of cultural centres in districts.

In addition, Government supported capacity building in the quality and standard of production of cultural services through skills training. Furthermore, Government facilitated the provision of local and international markets for artists and cultural practitioners. Under public performances, 30 artists received awards and signed contracts to perform and exhibit locally and internationally. Zambia also participated in the Kora Awards, SADC and Johannesburg Musical Festivals.

Table 4.45: Infrastructure Rehabilitated and Constructed under PUSH, 2003

District	Infrastructure Type Provided and Number Provided and Trained						Number of Participants by Gender		Estimated No. of Participants
	Dip Tanks	Earth Dams	VIP Latrines	Roads	Bridges	Training C/Farming	Male	Female	
Chibombo	3	0	0	1	1	0	171	255	426
Kafue	3	0	0	2	1	4	256	383	639
Monze	0	2	0	2	0	2	190	286	476
Choma	0	0	10	2	0	3	133	199	332
Kalomo	3	0	0	2	0	5	175	270	445
Mazabuka	3	0	0	2	0	5	170	253	423
Kabwe	0	0	0	1	0	3	60	90	150
Kapiri	0	0	0	0	0	3	146	222	370
Ndola	0	0	0	0	0	6	156	234	390
Luanshya	0	0	0	0	0	1	40	60	100
Kitwe	0	0	0	0	0	7	240	360	600
Chingola	0	0	0	0	0	7	228	342	570
Solwezi	0	0	0	0	0	7	80	120	200
Total	12	2	10	12	2	53	2,138	3,073	5,121

Source: Ministry of Community Development and Social Services.

4.14 SPORT, YOUTH AND CHILD DEVELOPMENT

4.14.1 Overview

During the period under review, government continued to implement sport, youth and child welfare programmes. These included advocacy for the rights of the child, mobilisation of resources for care of orphans and vulnerable children and rehabilitation of infrastructure.

4.14.2 Sport

Government's key focus in the area of sport was to revive traditional games and other minor sports such as chess, squash and *insolo*. In addition, Government provided coaching clinics, workshops and seminars for coaches and sports administrators. Zambia also participated in the all Africa games held in Abuja, Nigeria.

During the review period, a total of K1.3 billion was disbursed to sports associations and to international bodies for affiliations (Table 4.45). Government also rehabilitated the National Sports Development Centre hall at a cost of K175 million with support from co-operating partners.

Table 4.45: Grants to Sports Associations and to International Bodies for Affiliations, 2003

Name	Amount (K' Million)
Football Association of Zambia	247.7
National Sports Council of Zambia	431.3
Zambia Professional Boxing Control Board	16.9
Zambia Rugby Union	82.9
Zambia Karate Federation	5.0
Supreme Council for Sport in Africa (Main Body)	261.7
Supreme Council for Sport in Africa (Zone VI)	150.0
SADC Secretariat (Regional Games)	35.8
ZOCAGA	16.8
Zambia Amateur Athletics Association	22.1
Zambia Basket Ball Association	3.0
Total	1,273.0

Source: Ministry of Sport, Youth and Child Development

4.13.3 Youth

Government in conjunction with the cooperating partners implemented programmes that promoted youth productivity and responsibility. These included an enhanced skills development programme for out of school youths, entrepreneurship training, reproductive health and family life education as well as youth settlement and productivity schemes. These programmes were implemented through 16 multipurpose youth resource centres spread across the country (Table 4.46). In addition, one new centre was constructed and opened at Kalingalinga in Lusaka. Some of the centres were rehabilitated and restocked with new equipment and tools.

Table 4.47: Youth Resource Centres, 2003

Name	District	Province	No. of Youths Trained	Courses Offered
Chinsali	Chinsali	Northern	127	Tailoring, Carpentry, Bricklaying, Metal Fabrication
Chisangwa	Samfya	Luapula	Not operational	Agriculture
Chiyota	Chongwe	Lusaka	259	Carpentry, Brickwork, Tailoring and Designing, Agriculture
Katembula	Lufwanyama	Copperbelt	80	Agriculture, Tailoring, Carpentry, Business Management
Kalingalinga	Lusaka	Lusaka	19	Tailoring, Carpentry
Mumbwa	Mumbwa	Central	171	Tailoring, Designing, Cutting, Carpentry
Mabala	Choma	Southern	296	Tailoring, Designing, Carpentry, Metalwork, Agriculture
Mukwela	Kalomo	Southern	12	General Agriculture
Manyinga	Kapompo	North Western	Under construction	Tailoring, Designing, Bricklaying
Mufumbwe	Mufumbwe	North Western	16	Carpentry, Brickwork, Tailoring and Designing
Mpika	Mpika	Northern	167	Tailoring, Designing, Carpentry, Home Economics, Computer Basics, Rural Building
Luwingu	Luwingu	Northern	98	Carpentry, Welding, Tailoring/Day care Centre
Kaoma	Kaoma	Western	68	Tailoring, Designing, Carpentry Agriculture
Samfya	Samfya	Luapula	62	Tailoring, Home Economics, Carpentry
Zambezi	Zambezi	North Western	Under Construction	Leather Work (Currently under Construction)
Zangani Kachinga	Lundazi	Eastern	426	Tailoring/Designing, Agriculture, Carpentry, Plumbing and Sheet Metal, Bricklaying, Ceramics, Typing, Pre-School teachers Course, Donkey Training
King George VI National Youth College	Kabwe	Central	62	B.A.(Hons) Youth and Community Work, Diploma Youth in Development Work

Source: Ministry of Sport, Youth and Child Development

4.14.4 Child Development

In 2003, child development programmes were implemented through various sensitisation activities and observance of “Mark Days”. The sensitisation activities included distribution of posters and holding of workshops, seminars and conferences on child development. With regard to the celebration of the Day of the African Child, which falls on 16th June, the focus in 2003 was on the right to birth registration. Other activities included the review of the child policy and associated legislation to incorporate emerging issues such as the increased cases of child defilement.

4.14.5 Constraints

The policy on sport, youth and child development, which was formulated in 1994, is no longer adequate to meet the emerging challenges. In addition, there was a shortage of adequately trained staff and infrastructure.

4.14.6 Outlook

In 2004, it is anticipated that the National Policy on Sport, Youth and Child Development will be reviewed to make it more responsive to the current social economic and political environment.

Additionally, it is expected that the restructuring of the Ministry of Sport, Youth and Child Development will be undertaken to effectively manage and develop human resources for improved performance.

4.15 GENDER AND DEVELOPMENT

4.15.1 Overview

During the period under review, Government continued to facilitate the mainstreaming of gender in sectoral policies and programmes. In this regard, gender indicators in the PRSP/TNDP were reviewed. In addition, gender was incorporated in the 2004 - 2006 Medium Term Expenditure Framework.

4.15.2 Sector Performance

4.15.2.1 Institutional Reforms

In 2003, the Gender Consultative Forum (GCF) was established aimed at advising government on emerging issues and ensuring that policies being formulated and implemented are gender responsive. In addition, Government embarked on a process of establishing the Gender Management System (GMS) as a holistic approach to gender mainstreaming.

4.15.2.2 Decision Making

In 2003, Government's main objective remained that of achieving the target of thirty percent minimum representation of women in all decision-making positions as stipulated by the 1997 Southern African Development Community (SADC) Gender Declaration and the Millennium Development Goals.

Although the 30 percent representation has not been achieved, there was an improvement of women representation in decision-making. In Parliament, there has been a steady increase in the number of women parliamentarians between 1996 and 2003 (Table 4.47).

Table 4.47: Trends of Women in Parliament, 1964 – 2003

Years	Females	% Females	Male	% Males	Total
1964 – 1968	5	6.7	70	93.3	75
1968 – 1972	2	1.9	103	98.1	105
1972 – 1978	7	5.6	118	94.4	125
1978 – 1983	8	4.8	119	95.2	125
1983 – 1988	4	3.2	121	96.8	125
1988 – 1991	6	4.8	119	95.2	125
1991 – 1996	10	6.3	148	93.7	158
1996 – 2001	16	10.1	142	89.9	158
2001 – 2003	19	12.1	139	87.9	158

Source: National Assembly and Cabinet Office Records

In the public service, the percentage of women deputy permanent secretaries and deputy directors combined increased from 19 percent in 2002 to 28 percent in 2003. However, the percentage of women permanent secretaries remained at 19 percent. At ministerial level, the percentage of women Cabinet Ministers increased from 19 percent in 2002 to 25 percent in 2003.

4.15.2.3 Engendering Budgets

Government, during the period under review, carried out backstopping activities for all line ministries aimed at engendering the sectoral budgets. A draft framework for engendering the MTEF and national budget was developed.

4.15.2.4 Commitments to Regional and International Instruments

In the area of international and regional commitments, Government participated in the finalisation of Optional Protocol of the African Charter on Human and Peoples' Rights (ACHPR) and African Charter of Women's Rights (ACWR) in Addis Ababa, Ethiopia. Additionally, Government embarked on a consultative process on how international agreements should be domesticated into laws, policies, plans and programmes. Some of these agreements include the Convention on Elimination of All forms of Discrimination Against women (CEDAW) and the Southern African Development Community (SADC) Declaration on Gender and Development and its Addendum on the Prevention of Violence Against Women and Children.

4.15.2.5 Capacity Building Programmes

Gender training programmes aimed at building capacity in gender analysis were conducted in various Government institutions. These included the Ministry of Defence, the Ministry of Agriculture and Cooperatives, the Ministry of Community

Development and Social Services, the District Coordinating Committees; and the Disaster Management Mitigation Unit in the Office of the Vice-President.

4.15.3 Constraints

During the year under review, the implementation of gender and development activities were constrained by a number of factors. These included:

- Limited human and financial resources;
- Insufficient institutional capacities on gender and development; and
- Negative traditional and cultural practices.

4.15.4 Outlook

In 2004, Government will continue to strengthen and enhance institutional and policy framework for mainstreaming of gender in the public sector. Government will also continue to strengthen the legal framework for effective implementation, co-

ordination, monitoring, and evaluation of gender and development programmes. Further, Government will also ensure that the National Gender Policy is implemented.

In the area of information dissemination, Government will ensure that the National Gender Resource Centre is operational. This will enable the public have access to gender publications and gender disaggregated data. It is also expected that Government will also consolidate the process of constituting the Gender Management Team to provide leadership for the implementation of the GMS and define broad operational policies.

CHAPTER 5

5.1 ECONOMIC PROSPECTS IN 2004

5.1.1 World Economy

In 2004, global economic activity is expected to continue rising. World output is expected to increase by 1.4 percent compared to 3.2 percent recorded in 2003. This growth will be supported by 2.9 percent growth in advanced economies, led mainly by the expected expansion of 2.9 percent in the GDP of the United States of America, which recorded increased activity and investment in 2003. In the developing countries, growth is expected to reach 5.6 percent, and will be led largely by the expected increase in output in China by 7.5 percent. However, the growth in countries in transition is expected to slow down, albeit, positive at 4.7 percent.

Inflation is projected to fall in 2004 to 1.3 percent in advanced economies compared to an outturn of 1.8 percent in 2003. In developing countries, inflation is projected to decline to 4.9 percent in 2004 from 5.9 percent in 2003 while in transition economies the projected inflation rate in 2004 is 9.1 percent down from 9.7 percent in 2003. The expected fall in inflationary pressures is based on the anticipated continued decline in oil prices on the international market and the resultant fall in world production costs. Oil prices are projected to decline on account of increased supply on the international market, including from Iraq, as production resumes.

However, copper prices are expected to continue rising in 2004 at both the Shanghai Futures Exchange and the London Metal Exchange. With the world economy recovering, large amounts of copper, an important industrial raw material, will be needed by the manufacturing, electronics and light industries. In addition, the price of copper is expected to continue rising, as more investors are convinced that the recovering world economy will result in an increasing demand and higher prices for the industrial metal worldwide. In China, the price of copper has been bolstered by rising domestic demand.

5.1.2 Domestic Economy

In the domestic economy, real GDP is projected to grow by 3.5 percent in 2004. The projected growth assumes that agriculture, a key growth sector of the economy, will continue expanding in 2004, largely due to the expected normal weather conditions for the 2003/2004 agricultural season. Further, the Government's policy to provide fertiliser to 150,000 small-scale farmers under the Fertiliser Support Programme is expected to enhance agricultural production. In addition, Government will distribute Food Security Packs to 200,000 vulnerable but viable small-scale farmers.

It is also envisaged that the other growth sectors of the economy, namely, manufacturing, mining and tourism, will continue to record positive growth in 2004.

Expected growth in the mining sector is based on increased production following the resale of RAMCOZ and the coming in of a strategic partner for KCM. Further, the expected continued rise in metal prices on the world market is expected to boost output. Furthermore, small-scale mining is expected to pick up following the review of conditions for accessing credit under the Mining Sector Diversification Programme. The establishment of the gemstone exchange is another factor that will boost growth of the small-scale mining sector activities.

In tourism, growth is premised on increases in tourist arrivals largely due to the recovery in the world economy. In addition, the implementation of the Tourism Development Credit Facility will result in an increased number of new entrants in the tourism business, which will boost the growth of the sector.

Government will consolidate the gains achieved in reducing inflation in 2003. This optimism is grounded on adequate food supply, and stability in the exchange rate and energy prices. Stability in the exchange rate will be enhanced through the continued implementation of the operations of the

newly introduced broad based inter-bank foreign exchange system. It is also expected that interest rates will continue edging downwards in line with the anticipated fall in inflation.

The external prospects of the country are expected to improve in 2004 due to strong gains in both mineral and non-traditional exports. Copper export receipts are projected to rise on account of stronger prices and improved production. Non-traditional export receipts are also expected to increase in light of the anticipated improvements in the exports of agricultural products of cotton, tobacco, coffee, maize, fresh flowers and vegetables including sugar and gemstones.

Government will continue to undertake all necessary measures to reach the floating HIPC completion point which is key to reducing Zambia's external debt to sustainable levels and reducing debt service payments to manageable levels. It is expected that Government would satisfactorily complete the SMP and sign a new PRGF arrangement in the latter part of 2004. A good track record under the PRGF is key to reaching the HIPC completion point.

In the financial sector, Government will complete the sale of the Zambia National Commercial Bank to a strategic investor in 2004 to strengthen the overall banking system and enhance competition. The Government will also complete the preparation of the Financial Sector Development Programme (FSDP) aimed at creating a stable, sound and efficient financial system. The FSDP is also aimed at improving financial intermediation in the

economy and taking financial services to the rural areas where there are no banking services.

In the private sector, the Government will remain committed to providing an enabling environment for private sector growth and diversification. In this regard, the Investment Act will be reviewed with a view to strengthening the role of the Zambia Investment Centre as a facilitator.

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