

Republic of Zambia

# Economic Report 2005

Ministry of Finance and National Planning



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# Foreword

The economy continued to expand in 2005, indicative of the benefits of improved macroeconomic management and also the pay-off from a range of structural reforms that Government has been implementing in the last decade. All sectors of the economy registered growth. The tertiary sectors, especially construction and commercial services, were, however, the main drivers of growth during the year. Agricultural and mining output slowed on account of the effects of the partial drought in the case of agriculture, and some temporary setbacks such as fuel disruptions and labour disputes in the case of mining. Favourable external sector conditions, especially the high metal prices, also contributed to positive economic performance. Metal exports rose to record highs during the year while exports of non-traditional products also continued to perform well.

Macroeconomic conditions were favourable and supportive of growth. Inflation declined to its lowest level in two decades, while the Kwacha appreciated quite sharply against major currencies during the year on account of a strong external sector and increased foreign investor participation in domestic portfolio inflows. The sharp gain in the kwacha, however, raised concerns among some exporters as the adjustment process in the goods and inputs markets lagged, thereby, resulting in erosion of incomes.

A major milestone during the year was the country's accession to the Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative. This resulted in significant cancellations of Zambia's debt by various creditors. Consequently, the debt stock fell to US \$4.5 billion from US \$7.1 billion at end 2004. The relief provided as a result of the easing of the debt burden helped in raising spending in the vital growth and poverty reduction programmes. Zambia is also eligible for further debt relief under the Multilateral Debt Relief Initiative. When fully effected during the course of 2006, the African Development Bank, the IMF and the World Bank are expected to cancel 100 percent of the debts owed to them. This should result in the country's debt falling to less than US \$1 billion from US \$4.5 billion at end-2005. However, the continued increase in the domestic debt stock and other liabilities is worrisome, and requires major attention.

In the social sectors, the problem of shortages of essential human resources in health and education remained the major challenge. In health, for instance, all categories of staff were estimated at less than 50 percent of the recommended operational capacity, with the worst hit category being that of nurses and other paramedics.

Moving forward, growth should be much stronger in 2006 to at least 6 percent. This is predicated on a recovery in agriculture, higher mineral production and also the recent investments made across key sectors such as tourism and commercial services. However, as I have indicated in the past, this country requires much higher growth rates if substantial progress is to be made towards reaching the MDG target of halving 1990 poverty by 2015. To raise and sustain high growth rates, the structural reform agenda in the areas of public expenditure management, financial and private sector development has to be accelerated so as create the necessary conditions to support higher economic growth rates. These reforms will indeed take center stage in the coming years.

Situmbeko Musokotwane (Dr)

**SECRETARY TO THE TREASURY**

# Table of Contents

FOREWORD.....	i
CHAPTER 1 DEVELOPMENTS IN THE GLOBAL ECONOMY.....	1
CHAPTER 2 DEVELOPMENTS IN THE DOMESTIC ECONOMY.....	5
CHAPTER 3 BUDGET PERFORMANCE.....	13
CHAPTER 4 MONETARY AND FINANCIAL SECTOR DEVELOPMENTS.....	19
CHAPTER 5 EXTERNAL SECTOR DEVELOPMENTS.....	26
CHAPTER 6 AGRICULTURE.....	31
CHAPTER 7 MINING AND QUARRYING SECTOR.....	34
CHAPTER 8 TOURISM.....	36
CHAPTER 9 ENERGY.....	39
CHAPTER 10 MANUFACTURING.....	43
CHAPTER 11 TRANSPORT AND COMMUNICATIONS.....	45
CHAPTER 12 BUILDING AND CONSTRUCTION.....	49
CHAPTER 13 EDUCATION AND TRAINING.....	51
CHAPTER 14 HEALTH.....	59
CHAPTER 15 GENDER AND DEVELOPMENT.....	63
CHAPTER 16 SOCIAL PROTECTION.....	65
CHAPTER 17 ECONOMIC PROSPECTS AND POLICIES IN 2006.....	67

# Developments In The Global Economy

## Overview

**G**rowth in the global economy continued although at a slower rate. Output increased by 4.3 percent in 2005 compared with 5.1 percent in 2004. The United States of America (USA) and China, where growth remained robust, led the global expansion. Long-run interest rates continued to be low around the world, though volatile, while global equity markets remained resilient supported by strong corporate profits. World trade also expanded but at a slower rate, due to reduced world economic activity. Commodity prices continued to surge, especially for oil.

### Developments in Industrial Countries

2. Gross Domestic Product (GDP) growth in industrial countries slowed down in 2005 to a projected 2.5 percent compared to 3.3 percent in 2004. This was largely due to reduced GDP growth in the United States, owing to the negative impact of Hurricane Katrina and higher fuel prices. Movements in industrial country currencies varied. The USA and Canadian dollars appreciated modestly, while the yen and the euro depreciated. The depreciation of the euro reflected increasing unfavourable short-term interest rate differentials and growing political uncertainties in Europe. The uncertainty was due to the rejection of the European Union's constitution in France and the Netherlands.

3. On the external side, the USA current account deficit was over 6.0 percent of GDP in 2005. This was driven by higher oil prices and continued relatively strong domestic demand. GDP growth, however, remained solid in the USA, underpinned by strong income growth, steady improvements in labour market conditions and a supportive financial market environment as well as rising house prices.

4. In the euro area, real GDP in 2005 was projected at 1.2 percent compared to 2.0 percent in 2004. The slow down in growth was largely

due to the continued weak domestic demand and the euro area's lack of domestic resilience to external shocks. Domestic demand in Spain and France was strong while it was weak in Germany and Italy. In the case of Italy, this was compounded by negative contribution from exports. Inflationary pressures in the euro area eased due to the continued weakness in domestic demand. Headline inflation remained above 2 percent, reflecting the impact of higher oil prices. However, core inflation slowed down significantly. On the fiscal side, the euro area deficit was 3.0 percent of GDP in 2005 with deficits in France, Germany, Greece, Italy and Portugal expected to exceed the 3.0 percent of GDP limit. In contrast to the Euro area, Japan's economy regained momentum with GDP growth estimated at 2.0 percent.

### Developments in Emerging Markets and Developing Countries

5. GDP growth in Emerging Markets and Developing Countries was estimated at 6.4 percent in 2005 compared to 7.3 percent in 2004. This slow down reflected the impact of high oil prices and other commodity price changes as well as trade and country-specific factors. Consumer prices increased marginally to 5.9 percent in 2005 from 5.8 percent in 2004, reflecting the impact of oil prices.

6. In emerging Asia, GDP growth was projected to average over 7.0 percent in 2005, driven by sustained export growth and a marked pick up in domestic demand. This was underpinned by supportive macroeconomic policies and financial market conditions. However, regional disparities increased markedly with growth in China and India remaining strong, at 9.0 and 7.1 percent, respectively. Growth in the rest of the region, however, slowed down reflecting the impact of higher oil prices and problems in the information technology sector.

**Table 1.1: Overview of The World Economic Outlook Projections(Annual Percent Change Unless**

	<b>2003</b>	<b>2004</b>	<b>2005*</b>
<b>World output</b>	<b>4.0</b>	<b>5.1</b>	<b>4.3</b>
Advanced economies	1.9	3.3	2.5
United States	2.7	4.2	3.5
Euro area	0.7	2.0	1.2
Germany	(0.2)	1.6	0.8
France	0.9	2.0	1.5
Italy	0.3	1.2	
Spain	2.9	3.1	3.2
Japan	1.4	2.7	2
United Kingdom	2.5	3.2	1.9
Canada	2.0	2.9	2.9
Other advanced economies	2.5	4.4	3.2
New Industrialized Asian economies	3.1	5.6	4.0
Other emerging market and developing countries	6.5	7.3	6.4
Africa	4.6	5.3	4.5
Sub-Saharan	4.1	5.4	4.8
Central and eastern Europe	4.6	6.5	4.3
Commonwealth of Independent States	7.9	8.4	6.0
Russia	7.3	7.2	5.5
Excluding Russia	9.2	11.0	7.1
Developing Asia	8.1	8.2	7.8
China	9.5	9.5	9.0
India	7.4	7.3	7.1
ASEAN-4	5.4	5.8	4.9
Middle East	6.5	5.5	5.4
Western Hemisphere	2.2	5.6	4.1
Brazil	0.5	4.9	3.3
Mexico	1.4	4.4	3.0
<b>Memorandum</b>			
European Union	1.3	2.5	1.6
World growth based o market exchange rates	2.6	4.0	3.1
<b>World trade volume (goods and services)</b>	<b>5.4</b>	<b>10.3</b>	<b>7.0</b>
Imports			
Advanced economies	4.1	8.8	5.4
Other emerging market and developing countries	11.1	16.4	13.5
Exports			
Advanced economies			
Other emerging market and developing countries	3.1	8.3	5.0
<b>Commodity prices (U.S. dollars)</b>			
Oil <sup>1</sup>	15.8	30.7	43.6
Non fuel (average based on world commodity export weights)	6.9	18.5	18.6
<b>Consumer prices</b>			
Advanced economies	1.8	2.0	2.2
Other emerging market and developing countries	6.0	5.8	5.9
<b>London interbank offered rate (LIBOR,percent)</b>			
On U.S. dollar deposits	1.2	1.8	3.6
On euro deposits	2.3	2.1	2.1
On Japanese yen deposits	0.1	0.1	0.1

Source: World Economic Outlook, International Monetary Fund, September 2005

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 8-August 5, 2005.

<sup>1</sup>Simple average of spot prices of U.K. Brent, Dubai and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$37.76 in 2004; the assumed price is \$54.23 in 2005.

<sup>2</sup>Six-month rate for the United State and Japan. Three-month rate for the euro area

\*: Projections

7. The regional current account surplus declined modestly to 3.7 percent of GDP in 2005 from 4.1 percent of GDP in 2004. However, there were sharp differences across the region with China having a marked increase in the current account surplus of 6.0 percent of GDP, reflecting sustained rapid growth in manufacturing exports along with a sharp slow down in import growth. Elsewhere, such as in South Korea and Taiwan, weaker current account positions were recorded on account of higher oil prices, slower growth in information technology exports and exchange rate appreciation.

### **Developments in Sub-Saharan Africa**

8. GDP growth in this region was 4.8 percent in 2005 compared to 5.4 percent in 2004. This outturn largely reflected a slowdown in growth in Nigeria where oil production neared capacity (see table 1.2). Growth for the region was underpinned by strong global demand, improved domestic macroeconomic policies, progress with structural reforms and reduced armed conflicts. The improved macroeconomic policies also translated into the lowest inflation for the region in 30 years. Growth in oil-importing countries, although favourable, slowed down as a result of high oil prices. However, some non-oil commodity prices such as cotton declined, thereby negatively affecting cotton exporters.

9. Oil producing countries in the region continued to benefit from high oil prices with Angola, Chad and Equatorial Guinea registering large increases in output. For instance, Real GDP in Angola increased by 14.7 percent in 2005 compared to 11.1 percent in 2004. However, real GDP in Nigeria slowed sharply to 3.9 percent in 2005 from 6.0 percent in 2004, explained by a reduction in oil production.

10. Growth in South Africa was 4.3 percent in 2005 compared to 3.7 percent in 2004, supported by a moderate expansionary fiscal stance. However, inflation rose sharply to 3.9 percent from 1.4 percent in 2004.

### **Commodity Price Developments**

11. The overall index of primary commodity prices increased by 29.0 percent in U.S dollar terms during the period January to August 2005,

driven by sharp increases in crude oil. The average spot price of crude oil increased to US \$54.2 per barrel from US \$37.8 per barrel in 2004 and reached a high of \$65 per barrel during the course of the year. The increase in oil prices was due to stronger growth in crude oil consumption, shortfalls in supply by non-OPEC countries and expectations of future tightness in the market. In addition, crude oil prices were affected by short-term shocks such as Hurricane Katrina that hit the Gulf Coast of the United States.

12. The non-energy commodity price index in 2005 rose by 9.0 percent in U.S dollar terms compared to 18.5 percent in 2004, led by metal and food prices. Metal prices rose by 9.0 percent, largely reflecting robust demand for construction and manufacturing products in the USA and China. The price of copper, which is Zambia's major export commodity, rose by 20.0 percent and reached an all time high of \$2.2 per pound. This increase was as a result of an expansion in world demand particularly from China. Uranium prices increased by 44.0 percent compared to 60.0 percent in 2004, due to continued demand arising from construction of nuclear reactors.

13. The prices of agricultural raw materials prices fell by 1.0 percent due to supply outpacing global demand. Softwood prices declined by about 14.0 percent in 2005 after increasing by about 15.0 percent in 2004. Increased harvests contributed to the reduction in timber prices. The strong weight of timber in the index obscured growth in cotton and rubber prices. Cotton prices rose by 5.0 percent owing to strong Chinese demand. Similarly, rubber prices increased by 33.0 percent because of higher oil prices, which raised synthetic rubber prices and temporary supply disruptions of natural rubber restricted substitution.

### **The Impact of Global Developments on the Zambian Economy**

14. Sustained growth in the global economy continued to put upward pressure on commodity prices. This development impacted both positively and negatively on the Zambian economy in 2005. Global oil prices resulted into sharp increases in domestic fuel prices for the larger part of the year as well as import bill for

Table 1.2: Selected African Countries: Real GDP, Consumer Prices and Current Account Balance, 2003-2005

	Real GDP			Consumer Prices <sup>1</sup>			Current Account Balance <sup>2</sup>		
	2003	2004	2005*	2003	2004	2005*	2003	2004	2005*
<b>Africa</b>	<b>4.6</b>	<b>5.3</b>	<b>4.5</b>	<b>10.4</b>	<b>7.8</b>	<b>8.2</b>	<b>(0.5)</b>	<b>0.1</b>	<b>1.6</b>
<b>Maghreb</b>	<b>6.2</b>	<b>5.0</b>	<b>3.7</b>	<b>2.2</b>	<b>2.9</b>	<b>2.9</b>	<b>7.1</b>	<b>7.1</b>	<b>9.9</b>
Algeria	6.9	5.2	4.8	2.6	3.6	3.5	13.0	13.1	19.1
Morocco	5.5	4.2	1.0	1.2	1.5	2.0	3.6	2.2	(1.6)
Tunisia	5.6	5.8	5.0	2.8	3.6	2.9	(2.9)	(2.0)	(2.6)
<b>Sub-Sahara</b>	<b>4.1</b>	<b>5.4</b>	<b>4.8</b>	<b>13.0</b>	<b>9.3</b>	<b>9.8</b>	<b>(3.0)</b>	<b>(2.1)</b>	<b>(1.0)</b>
<b>Horn of Africa<sup>3</sup></b>	<b>1.0</b>	<b>8.8</b>	<b>7.7</b>	<b>10.6</b>	<b>7.2</b>	<b>6.5</b>	<b>(6.1)</b>	<b>(6.1)</b>	<b>(5.8)</b>
Ethiopia	(4.2)	11.5	7.3	15.1	6.8	6.0	(2.7)	(6.2)	(5.7)
Sudan	4.6	6.9	8.0	7.7	7.5	7.0	(7.8)	(6.2)	(6.0)
<b>Great Lakes<sup>3</sup></b>	<b>4.3</b>	<b>5.7</b>	<b>5.8</b>	<b>8.3</b>	<b>11.7</b>	<b>5.5</b>	<b>(2.3)</b>	<b>(3.9)</b>	<b>(5.2)</b>
Congo, Dem. Rep. of	5.7	6.8	6.6	12.8	23.2	8.0	(1.5)	(5.5)	(5.1)
Kenya	2.8	4.3	4.7	9.8	11.0	5.1	(0.2)	(3.2)	(5.6)
Tanzania	7.1	6.7	6.9	4.5	4.1	4	(2.4)	(5.5)	(5.1)
Uganda	4.5	5.8	5.9	5.7	8.2	4.5	(6.3)	(1.7)	(3.2)
<b>Southern Africa</b>	<b>2.5</b>	<b>4.8</b>	<b>5.2</b>	<b>56.4</b>	<b>28.5</b>	<b>27.5</b>	<b>(3.4)</b>	<b>(0.2)</b>	<b>(0.5)</b>
Angola	3.4	11.1	14.7	98.3	22.0	10.5	5.2	4.4	8.8
Zimbabwe	(10.4)	(4.2)	(7.1)	365	190.4	253.1	(2.8)	(6.9)	(5.8)
<b>West and Central Africa</b>	<b>7.3</b>	<b>6.5</b>	<b>3.9</b>	<b>9.4</b>	<b>9.9</b>	<b>5.5</b>	<b>(4.1)</b>	<b>(0.3)</b>	<b>3.4</b>
Ghana	5.2	5.8	5.8	26.7	14.3	8.7	1.7	(2.7)	(4.0)
Nigeria	10.7	6.0	3.9	14.0	15.9	7.3	(2.7)	4.6	9.5
<b>CFA franc zone</b>	<b>5.5</b>	<b>7.6</b>	<b>3.3</b>	<b>1.4</b>	<b>2.8</b>	<b>2.6</b>	<b>(5.8)</b>	<b>(3.6)</b>	<b>(1.0)</b>
Cameroon	4.1	3.5	2.8	0.6	1.5	1.8	(2.1)	(0.9)	(0.7)
Cote d'Ivoire	(1.6)	1.6	1.0	3.3	3.0	3.0	0.9	(1.4)	2.1
South Africa	2.8	3.7	4.3	5.8	3.9	5.3	(1.5)	(3.2)	(3.7)
<i>Memorandum</i>									
Oil importers	3.4	4.6	4.3	9.9	7.8	7.4	(1.8)	(2.8)	(3.7)
Oil exporters <sup>3</sup>	8.4	7.5	5.1	12.0	9.3	5.9	2.9	7.3	12.8

Source: The World Economic Outlook, International Monetary Fund, September, 2005

<sup>1</sup> Annual averages.<sup>2</sup> Includes Grants<sup>3</sup> Includes Chad and Mauritania in this table

\* Projected

petroleum products. The increase in metal prices, particularly for copper, contributed to the growth in metal earnings. Similarly, the rise in prices of agricultural raw materials impacted positively on Zambia's non-traditional exports, which are largely primary agricultural products. Consequently, earnings from non-metal exports increased by 17.7 percent in 2005.

## Outlook

15. Expansion in the global economy is expected to continue in 2006 and will still be driven by the USA and China. In this regard, the demand and prices of raw materials are expected to remain high in 2006. However, further increases in energy prices could slow down growth, particularly for oil importers.



# Developments In The Domestic Economy

## Overview

The performance of the domestic economy in 2005 was favourable. Real GDP growth was 5.1 percent with an expansion in almost all the sectors of the economy. The macroeconomic environment improved with inflation and interest rates declining. In addition, the Kwacha appreciated against all the major currencies.

17. The external sector remained strong with both exports and aid inflows increasing. The value of exports continued its upward trend increasing by 17.7 percent due to growth in both the metal and non-metal sectors. As a result, gross international reserves increased to 1.8 months of import cover from 1.3 months of imports in 2004. However, the current account (excluding Grants) deficit worsened to 11.9 percent in 2005, largely due to the deterioration in the net income and financial accounts as well as sharp increase in imports.

18. Budget performance was also satisfactory in 2005. Domestic borrowing reduced slightly to 1.8 percent of GDP from 1.9 percent in 2004 while spending on Poverty Reduction Programmes (PRPs) was significantly scaled up.

## 2.1 Macroeconomic Situation in 2005

19. Government's macroeconomic policy objectives were: (i) attaining real GDP growth of at least 6.0 percent; (ii) containing inflation to no more than 15.0 percent; (iii) limiting domestic borrowing to 1.6 percent of GDP; (iv) increasing gross international reserves to no less than 1.3 months of import cover; and (v) raising spending towards poverty reducing programmes to 13.0 percent of GDP or 42.0 percent of the total budget.

20. Preliminary data indicates that the economy grew by 5.1 percent, which was lower than the target of 6.0 percent and the 5.4 percent growth attained in 2004. The slow down in growth was mainly due to reduced growth in the major sector of manufacturing, agriculture and mining.

21. The overall macroeconomic environment improved in 2005, with inflation reducing to 15.9 percent from 17.5 percent in 2004. The appreciation of the Kwacha in the third quarter of the year assisted in mitigating the impact of the rise in food and oil prices, which would have had an adverse effect on inflation. The Kwacha appreciated by 26.4 percent against the US dollar in 2004 compared to a depreciation of 1.6 percent in 2004 and closed the year at K3,425.16 to a dollar. The decline in inflation was also assisted by the reduction in money supply from 30.3 percent in 2004 to 0.4 percent in 2005.

22. During the review period, interest rates slightly declined. The commercial banks' weighted average lending base rate declined by 2.2 percentage points to 27.6 in December 2005 from 29.8 percent in December 2004. The downturn in interest rates can be attributed to a reduction in the inflation rate.

23. Domestic borrowing in 2005 was 1.8 percent of GDP, which was 0.2 percentage points above the end-year target of 1.6 percent. This outturn was necessitated by the need to liquidate some of the domestic arrears, especially to road contractors. Comparatively, the level of domestic borrowing as a ratio of GDP reduced slightly to 1.8 percent of GDP compared to 1.9 percent of GDP in 2004.

24. Zambia's external sector position in 2005 was generally sound. The external debt stock declined by 36.1 percent to US \$4.5 billion in 2005 from US \$7.1 billion at end-2004. The reduction in the debt stock was due to ascension of the country to the Completion Point under the Heavily Indebted Poor Countries (HIPC) initiative.

25. Total merchandise exports grew to a record high of US \$2.1 billion. However, imports also rose sharply resulting in the shrinking of the trade surplus to US \$59 million from US \$82 million in 2004. Despite the trade balance being positive,

**Table 2.1: Selected Macroeconomic Variables, 2003-2005**

	2003	2004	2005 Target	2005 Outturn
Real GDP	5.1	5.4	6.0	5.1
Domestic Financing of fiscal deficit	5.1	1.9	1.6	1.8
Money Supply Growth (annual % change)	23.4	30.3	13.0	0.4
Inflation (end period)	17.2	17.5	15.0	15.9
Interest rates (December values)	37.2	29.8		27.4
Current Account Deficit (% of GDP, excl. grants)	(16.2)	(10.7)		(11.9)
Gross International Reserves (months of import cover)	1.3	1.2	1.3	1.8

Source: Ministry of Finance and National Planning

The net services and income accounts deteriorated, resulting in a widening of the current account deficit to 11.9 percent of GDP in 2005 from 10.7 percent in 2004 (see table 2.1).

### Domestic Output

26. Preliminary data indicates that real GDP in constant 1994 prices increased by 5.1 percent to K3,153.5 billion from K2,999.2 billion in 2004. Growth was mainly driven by the secondary and tertiary sectors (see table 2.2).

27. Output in the agriculture, forestry and fisheries sector increased by 2.8 percent in real terms compared to 4.3 percent in 2004. This was largely due to dampened production of food crops, particularly for maize, sorghum and millet as a result of a partial drought experienced in the 2004/2005 agricultural season.

28. Maize production declined by 28.6 percent to 886,187 Metric tonnes (Mt). Sorghum and millet recorded decreases in output of 23.5 percent and 25.6 percent, respectively, to 18,714 Mt and 29,583 Mt. Production of other food crops such as cassava, rice and wheat, however, recorded increases. Overall, the nation had a favourable food balance sheet position equivalent to 214, 413 Mt of maize-meal equivalent.

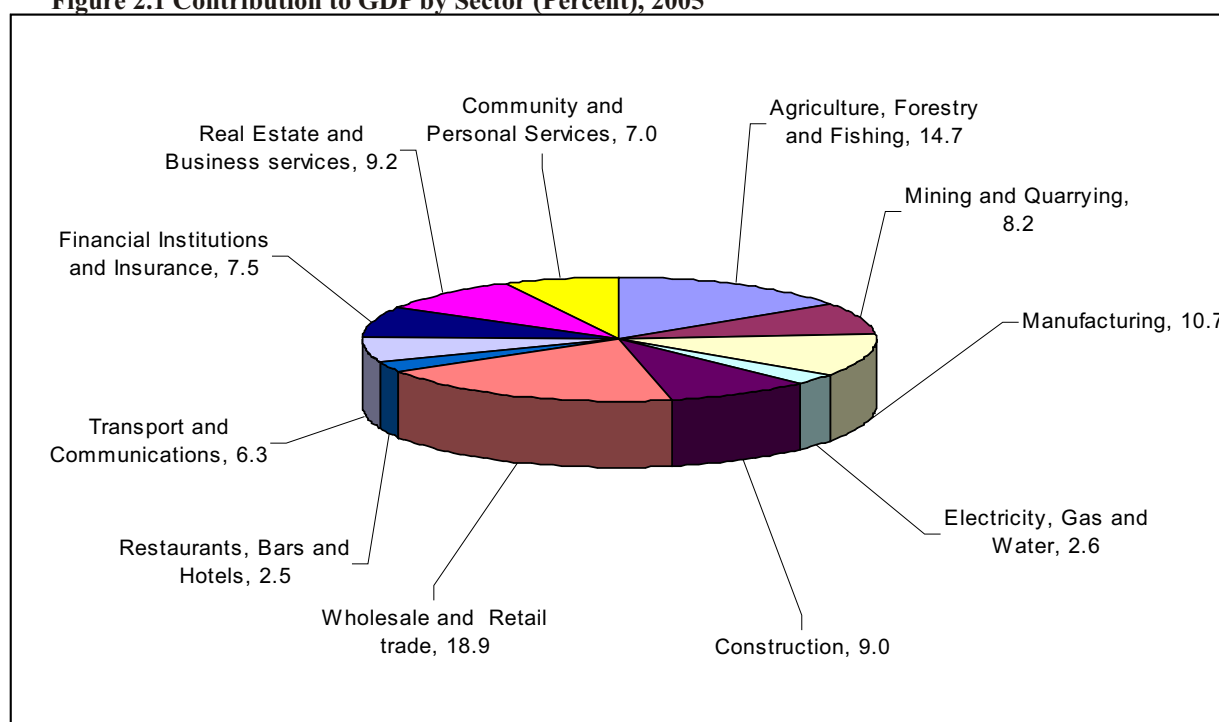
29. Production of non-food crops such as cotton and tobacco, however, continued to expand in the 2004/2005 agricultural season. Cotton and Virginia tobacco production increased by 7.6 percent and 58.9 percent, respectively, to 155,213 Mt and 23,211 Mt. This development was largely due to the integration of small-scale farmers into commercial production

through the out-grower scheme programme and the continued investment into the production of these crops. Overall, the agriculture forest and fishing sector contributed 14.0 percent to total GDP in 2005.

30. Value added in the mining and quarrying sub sector increased by 2.8 percent in real terms compared to a growth of 13.9 percent in 2004. The decline in output was due to a deceleration in copper production and a reduction in cobalt production. Copper production rose by 9.2 percent in 2005 to 466,799 Mt. In comparative terms, growth in 2005 was lower than in 2004 when production increased by 20.0 percent. This slow down was primarily caused by low-grade oil recoveries at the major mining companies, particularly in the first half of the year as well as faulty smelters. Cobalt production in 2005 declined by 11.8 percent, largely due to the cessation of cobalt production at Konkola Copper Mine (KCM).

31. The Other Mining and Quarrying sub-sector grew by 49.7 percent in 2005, mainly driven by a rise in coal production. Coal production increased by 44.6 percent to 149,445 Mt in 2005 from 106,066 Mt in 2004. The increase was due to continuing rehabilitation of infrastructure at the mine.

32. The performance of the secondary sectors was generally satisfactory with growth estimated at 9.9 percent in 2005 compared to 9.1 percent in 2004. The manufacturing sector recorded a 3.8 percent increase in value added to K338.0 billion from K325.9 billion in 2004. In terms of the specific sub-sectors in manufacturing, all the sub-sectors, except for the Textiles and leather

**Figure 2.1 Contribution to GDP by Sector (Percent), 2005**

products and the base metal products, recorded an increase in output, particularly, the food, beverages and tobacco sub-sector recorded an increase in output of 4.8 percent in 2005 from 5.7 percent in 2004. The growth in the sub-sector was due to an increase in the production of grain mill products, the expansion of the opaque beer industry and enhanced production of tobacco products.

33. Growth in the Chemicals, rubber and plastic sub-sector increased by 5.1 percent, down from the 8.5 percent recorded in 2004. The Wood and wood products sub-sector recorded an increase in output of 7.5 percent to K27.3 billion in 2005 from K25.4 billion in 2004. The expansion in the sub-sector is a consequence of the growth in the construction industry, which utilises wood and wood products.

34. In the energy sector, ZESCO Limited during the review period continued with the maintenance of major generation plants under the Power Rehabilitation Project. Due to these works, there was an increase in generation by 1.3 percent to 8,569 GWh in 2005 from 8,462 GWh in 2004. As for the petroleum sub-sector, the overall supply to the market for diesel, Jet A-1 and LPG increased. However, there was a decline

in the overall supply of petrol and kerosene by 3.4 percent and 29.5 percent, respectively. Domestic refining of petroleum products during the year was characterised by constant disruptions due to technical faults at INDENI oil refinery. This also led to fuel shortages during the year which affected several sectors of the economy.

35. Performance of the tertiary sectors remained favourable. In particular, growth in the Restaurants bars, and hotels sector, the proxy for tourism, was particularly significant 12.1 percent compared to 5.0 percent in 2004. Enhanced marketing activities by both the Government and the private sector contributed to this growth. The other sectors such as Wholesale and retail trade, Air transport, Real estate and Communications, all recorded increases in output (see tables 2.2 and 2.3).

36. The performance of the financial and banking services sector in 2005 was largely favourable, as evidenced by an upward increase in total assets, satisfactory capital adequacy, asset conditions and earnings. The industry's net worth increased by 42.9 percent to K971.0 billion at end-2005 from K679.6 billion as at end-2004.

All the banks were rated strong in terms of capital adequacy and the asset condition of the sector was sound. Additionally, profits for the sector increased significantly during the review period to K442.8 billion from K198.7 billion in 2004.

37. On the stock market, equity activity in 2005 increased. Market capitalization rose by 11.0 percent to close the year at K8.6 billion from

K7.8 billion in 2004. This favourable outturn was exhibited in the higher Lusaka Stock Exchange (LuSE) All Share Index, which increased to 1,240.2 in 2005 from 765.8 in 2004. In line with this general trend, the number of trades increased to 2,456 in 2005 from 1,993 in 2004. The total number of companies on the stock market increased to 25 from 22 in 2004.

**Table 2.2: GDP by kind of Economic Activity at Constant 1994 Prices (K' Billion)**

KIND OF ECONOMIC ACTIVITY	2003	2004	2005*
<b>PRIMARY SECTOR</b>	<b>652.7</b>	<b>701.7</b>	<b>721.4</b>
Agriculture, Forestry and Fishing	432.5	450.8	463.6
Agriculture	202.3	214.7	221.1
Forestry	152.8	159.4	166.3
Fishing	77.3	76.8	76.2
Mining and Quarrying	220.2	250.9	257.8
Metal Mining	216.0	245.1	249.2
Other mining and quarrying	4.2	5.8	8.6
<b>SECONDARY SECTOR</b>	<b>586.3</b>	<b>639.8</b>	<b>703.3</b>
Manufacturing	311.4	325.9	338.0
Food, Beverages and Tobacco	187.7	198.6	208.1
Textile, and leather industries	51.3	50.3	48.0
Wood and wood products	24.4	25.4	27.3
Paper and Paper products	8.6	8.9	9.7
Chemicals, Rubber and Plastic products	26.4	28.6	30.1
Non-metallic mineral products	5.6	6.4	6.8
Basic metal products	1.4	1.4	1.4
Fabricated metal products	6.1	6.4	6.6
Electricity, Gas and Water	78.1	76.8	81.0
Construction	196.8	237.1	284.3
<b>TERTIARY SECTOR</b>	<b>1,474.8</b>	<b>1,536.3</b>	<b>1,621.4</b>
Wholesale and Retail trade	536.4	563.1	597.4
Restaurants, Bars and Hotels	67.2	71.5	80.2
Transport, Storage and Communications	173.0	184.1	199.8
Rail Transport	10.8	10.7	10.0
Road Transport	81.9	85.3	89.2
Air Transport	29.3	34.6	42.0
Communications	51.0	53.5	58.6
Financial Intermediaries and Insurance	220.0	227.7	235.6
Real Estate and Business services	267.6	278.2	289.2
Community, Social and Personal Services	210.5	211.7	219.3
Public Admin. & Defence; Public & Sanitary services	109.6	109.9	111.0
Education	62.8	63.0	69.2
Health	15.2	15.1	14.3
Recreation, Religious, Culture	9.0	9.3	9.9
Personal Services	13.9	14.4	14.9
Less: FISIM	(131.3)	(134.6)	(138.0)
<b>TOTAL GROSS VALUE ADDED</b>	<b>2,582.4</b>	<b>2,743.2</b>	<b>2,908.1</b>
Taxes on Products	264.1	256.0	245.4
<b>TOTAL G.D.P. AT MARKET PRICES</b>	<b>2,846.5</b>	<b>2,999.2</b>	<b>3,153.5</b>

Source: Central Statistical Office

\* Preliminary

**Table 2.3: Percent Changes in GDP by kind of Economic Activity (Constant 1994 Prices )**

KIND OF ECONOMIC ACTIVITY	2003	2004	2005*
<b>PRIMARY SECTOR</b>	<b>4.5</b>	<b>7.5</b>	<b>2.8</b>
Agriculture, Forestry and Fishing	5.0	4.3	2.8
Agriculture	8.0	6.1	3.0
Forestry	4.3	4.3	4.3
Fishing	(0.7)	(0.7)	(0.7)
Mining and Quarrying	3.4	13.9	2.8
Metal Mining	3.3	13.5	1.7
Other mining and quarrying	10.7	35.8	49.7
<b>SECONDARY SECTOR</b>	<b>10.8</b>	<b>9.1</b>	<b>9.9</b>
Manufacturing	7.6	4.7	3.7
Food, Beverages and Tobacco	8.6	5.8	4.8
Textile, and leather industries	3.2	(1.9)	(4.7)
Wood and wood products	11.4	4.2	7.5
Paper and Paper products	8.2	2.5	9.6
Chemicals, rubber and plastic products	4.9	8.5	5.1
Non-metallic mineral products	14.9	14.4	6.9
Basic metal products	15.1	3.1	(3.9)
Fabricated metal products	5.3	4.8	4.2
Electricity, Gas and Water	0.4	(1.7)	5.4
Construction	21.6	20.5	19.9
<b>TERTIARY SECTOR</b>	<b>4.5</b>	<b>4.2</b>	<b>5.5</b>
Wholesale and Retail trade	6.1	5.0	6.1
Restaurants, Bars and Hotels	6.9	6.4	12.1
Transport, Storage and Communications	4.8	6.4	8.5
Rail Transport	(8.1)	(1.8)	(5.9)
Road Transport	3.9	4.2	4.6
Air Transport	3.9	18.1	21.4
Communications	10.0	5.0	9.4
Financial Institutions and Insurance	3.5	3.5	3.5
Real Estate and Business services	4.0	4.0	4.0
Community, Social and Personal Services	1.6	0.6	3.6
Public Administration & Defence/Public sanitary services	0.2	0.2	1.0
Education	3.0	0.3	9.8
Health	2.5	(0.8)	(5.0)
Recreation, Religious,Culture	4.5	4.3	6.1
Personal Services	3.5	3.5	3.5
Less: FISIM	2.5	2.5	2.5
<b>TOTAL GROSS VALUE ADDED</b>	<b>6.0</b>	<b>6.2</b>	<b>6.0</b>
Taxes on Products	(2.8)	(3.1)	(4.1)
<b>TOTAL G.D.P. AT MARKET PRICES</b>	<b>5.1</b>	<b>5.4</b>	<b>5.1</b>

Source: Central Statistical Office

\* Preliminary

**Table 2.4: GDP by kind of Economic Activity at Current prices (K' Billions)**

KIND OF ECONOMIC ACTIVITY	2003	2004	2005*
<b>PRIMARY SECTOR</b>	<b>4,809.4</b>	<b>6,377.7</b>	<b>7,837.0</b>
Agriculture, Forestry and Fishing	4,244.6	5,568.2	6,856.6
Agriculture	1,008.2	1,249.5	1,526.0
Forestry	2,960.3	3,998.5	4,953.6
Fishing	276.1	320.2	377.0
Mining and Quarrying	564.8	809.6	980.5
Metal Mining	558.2	798.3	960.4
Other Mining and Quarrying	6.6	11.3	20.0
<b>SECONDARY SECTOR</b>	<b>4,426.1</b>	<b>5,924.5</b>	<b>8,070.6</b>
Manufacturing	2,241.0	2,827.7	3,458.1
Food, Beverages and Tobacco	1,397.2	1,726.6	2,145.5
Textile, and Leather Industries	352.9	450.7	491.2
Wood and Wood Products	164.7	222.2	283.7
Paper and Paper products	93.1	123.6	161.0
Chemicals, rubber and plastic products	178.9	231.7	286.3
Non-metallic mineral products	30.0	41.0	51.6
Basic metal products	3.1	4.0	4.6
Fabricated metal products	21.0	27.7	34.2
Electricity, Gas and Water	595.1	694.7	922.7
Construction	1,590.0	2,402.1	3,689.8
<b>TERTIARY SECTOR</b>	<b>10,405.6</b>	<b>12,787.9</b>	<b>15,795.8</b>
Wholesale and Retail trade	3,873.8	4,843.7	6,079.7
Restaurants, Bars and Hotels	527.7	670.9	895.9
Transport, Storage and Communications	1,058.2	1,252.3	1,408.3
Rail Transport	89.5	100.8	99.9
Road Transport	393.9	464.0	546.7
Air Transport	152.7	203.0	246.7
Communications	422.1	484.6	515.0
Financial Intermediaries and Insurance	1,847.7	2,282.7	2,776.9
Real Estate and Business services	1,341.2	1,691.8	2,105.8
Community, Social and Personal Services	1,757.0	2,046.5	2,529.1
Public Administration and Defence	683.0	723.9	869.4
Education	688.6	867.7	1,127.1
Health	252.4	292.8	329.1
Recreation, Religious, Culture	26.4	28.8	36.1
Personal services	106.6	133.3	167.3
Less: FISIM	(1,061.8)	(1,311.8)	(1,595.8)
<b>TOTAL GROSS VALUE ADDED</b>	<b>18,579.3</b>	<b>23,778.3</b>	<b>30,107.6</b>
Taxes on Products	1,899.9	2,219.1	2,541.1
<b>TOTAL G.D.P. AT MARKET PRI CES</b>	<b>20,479.2</b>	<b>25,997.4</b>	<b>32,648.6</b>

Source: Central Statistical Office

\* Preliminary

### Structural Reforms

38. Structural reforms implementation was generally on track in 2005. The reforms continued to be focused on improving public

Expenditure management, private sector investment climate and performance of parastatals.



**Table 2.5: Status of Privatisation Transactions in 2005**

Company Name	Status
Kafue Textile of Zambia	Completed.
Monarch Zambia Limited	Completed. The company has been resuscitated and re-employed most of its previous staff.
Zambia Seed Company	Completed. Government's 31.5 percent shares were sold to the majority shareholder, a company owned by the management of ZAMSEED. A total of 6
Ndola Lime Limited	Negotiations for the sale of 30 percent shares to a technically qualified strategic partner were concluded. 15 percent shares in the company are in the process of
Zambia National Commercial Bank Plc.	Negotiations with the identified Strategic equity partner to acquire 49 percent Government shares in the Bank commenced. Significant progress is expected
Maamba Collieries Limited (MCL)	Negotiations commenced with the preferred bidder. The company is in urgent need of recapitalisation.
State Lotteries Board	The Government decided that State Lotteries Board operates without Government funding and work is in progress to turnaround operations.
Mukuba Hotel	A decision was made to attract an equity partner for the Zambia International Trade Fair and this will proceed in 2006.
Tanzania Zambia Railways	Zambia, Tanzania and China are considering the options for private sector participation in TAZARA.
Njanji Commuter	Government initiated efforts aimed at resuscitating the Njanji Commuter services in Lusaka.
Mulobezi Railways	Government initiated efforts to rehabilitate the infrastructure of Mulobezi Railways in partnership with the private sector.
Engineering Services Corporation	The operations of the pontoons will be transferred to the Road Development Agency in order to streamline the operations.

Source: Zambia Privatisation Agency

In this regard, in June 2005 the Public Expenditure Management and Financial Accountability (PEMFA) reform programme was officially launched aimed at increasing awareness of various stakeholders of Government's efforts to improve public expenditure management and accountability systems in Zambia.

39. With regard to the Private Sector Development (PSD) programme most of the efforts were on, the preparation of the ICT bill, which will among other things, pave the way for the liberalization of the international telecommunications gateway; approval of the Labour and Social Security's Action Plan to reduce the costs of separation packages; and approval of the Ministry of Tourism Environment and Natural Resources' Action Plan to reduce complex licensing procedures in tourism. The other was the development of an action plan to reduce administrative barriers; and the development of an action plan for the introduction of municipal housing bonds.

40. During 2005, a total of three enterprises were privatised, namely Kafue Textiles of Zambia Limited, Monarch Zambia Limited and

ZAMSEED. This brought the total number of privatised companies by 2005 to 262 out of the total working portfolio of 284. Bids were also received for the sale of Maamba Collieries Limited and 49.0 percent shareholding in Zambia National Commercial Bank Plc (see table 2.5).

### Domestic Debt

41. The total domestic debt stock increased by 18.0 percent to an estimated K6,189.4 billion at end-2005 compared to K5,246.4 as at end-2004. The debt stock in 2005 was 19.0 percent of GDP compared to 20.2 percent in 2004. The increase in the nominal stock of debt in 2005 was largely on account of an expansion in the stock of Government securities, the Bank of Zambia kwacha bridge loan to Government and awards and compensations. The stock of Government securities increased by 28.5 percent to K3,242.9 billion in 2005 from K2,522.6 billion in 2004. Borrowing from the financial sector increased partly to facilitate the reduction of domestic arrears, especially for road contractors. Consequently, the stock of domestic arrears reduced by 11.8 percent to K509.3 billion in 2005 from K577.4 billion in 2004 (see table 2.7).

Table 2.6: Domestic debt (In K' Billions), 2003-2005

Debt category	2003	2004	2005	% Change 2005/2004
<b>Govt. Securities</b>	2,261.7	2,522.6	3,242.9	28.5
Treasury bills	1,127.6	1,293.7	1,759.1	36.0
GRZ Bonds	1,134.1	1,228.9	1,483.8	20.7
<b>BoZ Kwacha Bridge loan to GRZ</b>	261.0	82.0	289.0	252.4
<b>Consolidated bond</b>	1,646.7	1,646.7	1,646.7	
<b>Domestic arrears</b>	578.9	577.4	509.3	(11.8)
Capital	305.0	293.2	335.5	14.4
PE's & RDC's	274.0	284.2	173.8	(38.8)
<b>Pension Arrears</b>	322.1	344.3	414.0	20.3
Employers contributions	262.7	284.9		
NAPSA (RAMCOZ)	32.4	32.4	-	
NAPSA (GRZ)	27.0	27.0	-	
<b>Contingent Liabilities</b>	15.0	15.0	-	
Mkushi-Barclays Bank	14.2	14.2	-	
Mkushi-ZANACO	0.8	0.8	-	
<b>Awards and Compensations</b>	100.7	58.4	87.5	49.9
<b>Grand Total</b>	<b>5,186.2</b>	<b>5,246.4</b>	<b>6,189.4</b>	<b>18.0</b>

Source: Ministry of Finance and National Planning



# Budget Performance

## 3

## CHAPTER

### 3.0 Overview

**B**udget performance was satisfactory as both revenues and expenditures were within target. As a result, the budget deficit was within projection levels. In addition, budget execution improved, with releases to individual line ministries as a percent of budget allocation being higher than in 2004.

#### Policy objectives

43. The overall fiscal policy objectives in 2005 were to support macro economic stability and an expansion in economic growth. In this regard, the key fiscal targets were to contain domestic government borrowing to 1.6 percent of GDP and to raise spending towards growth enhancing and poverty reduction programmes to 13.0 percent of GDP or 42.0 percent of the total budget.

#### Revenue Performance

44. Total revenues and grants amounted to K7,743.7 billion in 2005, representing 23.7 percent of GDP compared to 25.2 percent in 2004. Domestic revenues in 2005 accounted for 72.9 percent of the total while the remainder of 27.1 was in form of foreign grants (see table 3.1).

#### Domestic Revenue

45. Total domestic revenue collections in 2005 amounted to K5,643.2 billion. This was below target by K79.1 billion or 1.4 percent. As a ratio of GDP, domestic revenue in 2005 declined to 17.3 percent from 18.3 percent in 2004. In terms of contribution to total domestic revenues, the majority was from tax revenues at 97.8 percent, while non-tax revenues and exceptional revenues contributed 1.6 percent and 0.6 percent, respectively.

#### Tax Revenue

46. Total tax revenues in 2005 amounted to K5,518.4 billion and were broadly in line with the

target of K5,511.5 billion. This favourable performance was largely attributed to higher collections in taxes on income and domestic goods and services (See table 3.1). Personal income tax remained the single largest contributor to total tax revenues at 36.0 percent followed by import value added tax at 18.0 percent (see figure 3.1).

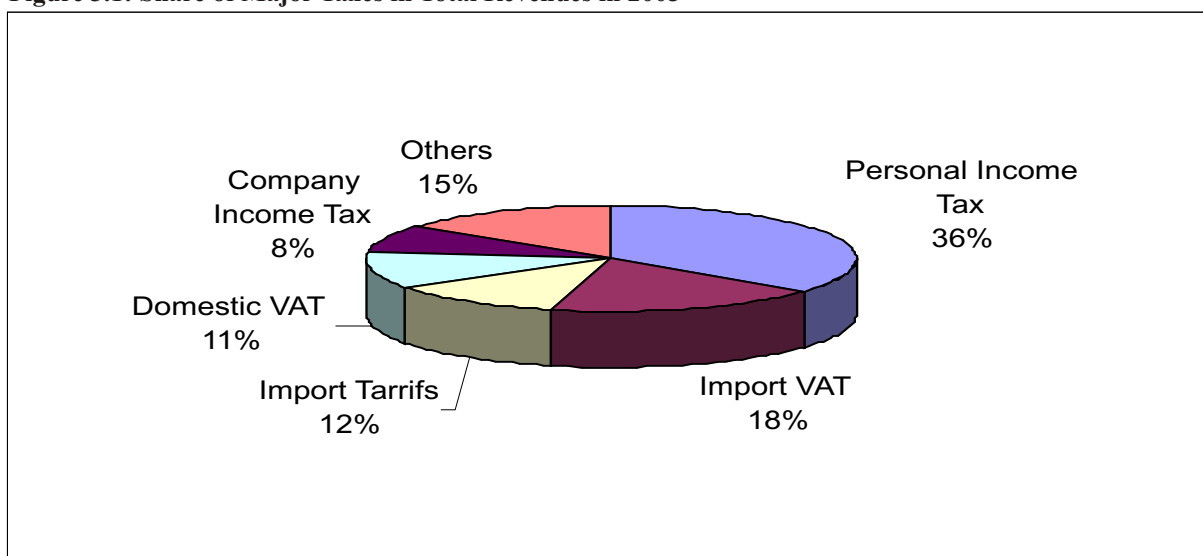
47. Total Income tax collections in 2005 were slightly above target by 1.5 percent with collections amounted to K2,461.7 billion. This was on account of higher collection of arrears under Pay As You Earn (PAYE) and new recruitments of teachers by the Government. Further, the requirement of tax clearance certificates led to an increase in the number of people registering for tax purposes in the company tax bracket. Personal income tax collections remained the single largest contributor to both income taxes and total taxes. Collections in this tax category amounted to K1,968.2 billion (see table 3.1).

48. Collections from Mineral Royalty stood at K39.2 billion, which was far above target of K4.1 billion in 2005. The exceptional performance in royalty collections was due to the coming on stream of big mining companies like Konkola Copper Mines (KCM) in the mineral royalty bracket after the expiry of concessions that were awarded to them through the development agreements.

49. Medical levy collections for the year under review were above target by 5 percent. A total of K6.2 billion was collected against the target of K5.9 billion.

#### Taxes on Domestic Goods and Services

50. Total collections from taxes on domestic goods and services amounted to K1,390 billion and were above target by 3.9 percent or K52.5 billion. The positive performance was due to higher than targeted collections in fuel levy and

**Figure 3.1: Share of Major Taxes in Total Revenues in 2005**

Domestic VAT, which was above by 92.7 percent and 2.3 percent, respectively. The notable improvement in performance on fuel levy collections was attributed to the revocation of the concessions on duty free importation by the mines, in particular, KCM. The above performance of VAT was due to lower than projected refunds during the year.

#### Trade Taxes

51. A total of K1,666.2 billion was collected as trade taxes in 2005, which was below target by 4.7 percent. The below target performance was attributed to low collections in import and export tariffs. With regard to import tariffs, this was due to the domination of imports by hydrocarbon products. The increase in hydro carbon imports was attributed to the frequent disruptions of supply from INDENI oil refinery during the year. In addition, the strengthening of the Kwacha against major currencies also contributed to below target performance in import tariffs. Export duties were below target mainly due to the removal of export duty on timber.

#### Non-Tax Revenues

52. Non-tax revenue collections in 2005 were below target by 47.3 percent with collection amounting to K88.6 billion. The lower than projected collections was mainly due to the non-

revision of the approved fees and fines. The non collection of interest and principal repayments under on-lending on account of swapping of a number of loans under the domestic debt portfolio, also contributed to under performance in non-tax collections.

#### Exceptional Revenues

53. Collections under exceptional revenues amounted to K36.3 billion and were below the target of K74.9 billion by 51.6 percent. This was due to low fertilizer recoveries and non-remittance of Energy Regulation Board fees to the Treasury.

#### Grants

54. Total foreign grants in 2005 amounted to K2,100.5 billion and were above target by 3.9 percent. Direct budget support amounted to K598.8 billion and was above target by 56.7 percent. This was on account of good will from cooperating partners, triggered by satisfactory macro economic performance and good governance.

**Table 3.1: Government Revenues and Foreign Grants 2005 (In Kwacha Billions)**

	2005 Budget	Total Actual	Variance of Actual Vs Budget	% variance of Budget
<b>REVENUE AND GRANTS</b>	<b>7,743.1</b>	<b>7,743.7</b>	<b>0.6</b>	<b>0.0</b>
<b>REVENUE</b>	<b>5,722.3</b>	<b>5,643.2</b>	<b>(79.1)</b>	<b>(1.4)</b>
<b>Tax revenue</b>	<b>5,511.5</b>	<b>5,518.4</b>	<b>6.9</b>	<b>0.1</b>
<b>Income Tax</b>	<b>2,425.2</b>	<b>2,461.7</b>	<b>36.5</b>	<b>1.5</b>
Company Income Tax	444.9	448.1	3.2	0.7
Personal Income Tax	1,970.3	1,968.2	(2.1)	(0.1)
o/w PAYE	1,726.8	1,728.3	1.5	0.1
Withholding & Other Income Taxes	243.5	239.9	(3.6)	(1.5)
Royalty	4.1	39.2	35.1	846.0
Medical Levy	5.9	6.2	0.3	5.5
<b>Domestic Goods &amp; Services</b>	<b>1,337.9</b>	<b>1,390.4</b>	<b>52.5</b>	<b>3.9</b>
Excise duties	728.9	752.1	23.2	3.2
o/w Rural Electrification Levy	-	6.3	6.3	
Fuel levy	90.0	173.5	83.5	92.7
Other Excises	638.9	533.8	(105.2)	(16.5)
Domestic VAT	609.0	622.9	13.9	2.3
<b>Trade taxes</b>	<b>1,748.3</b>	<b>1,666.2</b>	<b>(82.1)</b>	<b>(4.7)</b>
Import VAT	979.0	1,010.2	31.2	3.2
Import tariffs	744.7	649.5	(95.2)	(12.8)
Export Duties	24.6	6.5	(18.1)	(73.7)
<b>Non-Tax Revenue</b>	<b>135.9</b>	<b>88.6</b>	<b>(47.3)</b>	<b>(34.8)</b>
User Fees and Charges	111.0	68.3	(42.7)	(38.5)
Dividends	19.8	20.3	0.5	2.5
Interest and Capital Repayments	5.1	-	(5.1)	(100.0)
<b>Exceptional Revenues (Fertilizer...)</b>	<b>74.9</b>	<b>36.3</b>	<b>(38.7)</b>	<b>(51.6)</b>
Fertilizer Recoveries	70.0	36.0	(34.0)	(48.6)
ERB License Fees	3.9	0.3	(3.7)	(93.7)
Non- Tax Arrears	1.0	-	(1.0)	(100.0)
<b>GRANTS</b>	<b>2,020.8</b>	<b>2,100.5</b>	<b>79.7</b>	<b>3.9</b>
Programme Support	382.0	598.8	216.8	56.7
Project	1,638.8	1,501.7	(137.1)	(8.4)

Source: Ministry of Finance and National Planning

## Expenditures

55. Total expenditures in 2005 amounted to K8,845.7 billion or 27.1 percent of GDP and were below target by 5.8 percent. Current expenditures accounted for 68.5 percent of total expenditure while that on capital was 31.5 percent. Total domestically financed expenditures amounted to K6,022.5 billion and were below the target of K6,568.2 billion by 8.3 percent.

### Expenditure By Economic Classification

#### Current Expenditure

56. Budgetary releases for current expenditure in 2005 amounted to K6,056.2 billion. This was

below target by 9.2 percent. The bulk of the releases were for wages and salaries, and recurrent departmental charges (RDCs), which stood at 40.5 percent and 23.9 percent, respectively. Other major components of expenditure were transfers and pensions, and domestic interest, which accounted for 13.1 percent and 12.1 percent, respectively (see table 3.2).

57. Total releases for wages and salaries amounted to K2,455.0 billion against a projected figure of K2,513.2 billion. Releases for other emoluments such as leave travel benefits were under funded on account of over funding on other budgetary lines such as RDCs. This was largely attributed to higher releases towards

arrears to suppliers of goods and services, especially to road contractors, which had been outstanding for a long time.

58. Budgetary releases towards transfers and pensions amounted to K794.0 billion which was lower than the budget allocation of 1207.0 billion by 34.2 percent. A total of K158.7 billion under this category went towards the Public Service Pensions Fund as planned at the start of the year.

59. Total domestic interest payments in 2005 amounted to K731.5 billion. This outturn was lower than the projected amount of K850.0 billion by 13.9 percent due to the relatively lower than projected interest rates during the year. External debt interest service payments amounted to K130.0 billion, and was below projection by 32.5 percent. This out turn was as a result of lower interest payments attributed to debt relief attained under the HIPC Completion Point. Payments towards amortisation during 2005 amounted to 438.9 billion

60. Releases for other current expenditures, which included financial restructuring, the Zambia Revenue Authority (ZRA), strategic food reserves, fertilizer support programme and constitutional posts, amounted to K442.2 billion, as against the budget allocation of K459.1 billion. This outturn was mainly attributed to lower releases toward financial restructuring of parastatals, which fell below target by 23.2 percent. Total releases for the strategic food reserve, fertilizer support and input pack programmes were as planned for the year. However, releases for constitutional posts were above the projected levels on account of increases in remuneration effected during the year (see table 3.2).

### **Capital Expenditures**

61. Total capital expenditures in 2005 were estimated at K2,789.6 billion or 8.5 percent of GDP. Domestically financed capital expenditures amounted to K565.1 billion against a budget allocation of K488.5 billion. This was above allocation by 15.7 percent. Out of the total of K565.1 billion released for capital expenditures, 42.4 percent went towards poverty reduction programmes and 28.9 percent to the Road Fund. In particular, releases toward the Road Fund were

above target by 82.0 percent due to higher than targeted collections on fuel levy (see table 3.2).

### **Poverty Reduction Programmes**

62. Total PRP allocations in 2005 were K4,208.4 billion, representing 44.8 percent of the total budget. Of this amount, K1,849.1 billion was to be domestically financed. As at end-2005, domestically financed PRP expenditures amounted to K2,062.4 billion, which was 12 percent higher than programmed.

### **Expenditure By Function Of Government**

63. During 2005, budgetary releases to public administration and order and safety, accounted for 53.7 percent of the total domestic budget. Releases to the social sectors and economic sectors accounted for 29.3 percent and 17.0 percent of the total domestic budget, respectively (see table 3.3).

### **Social Sector Expenditures**

64. A total of K1,763 billion was disbursed towards social sectors in 2005. This represented 29.3 percent of the total domestic budget and 37.5 percent of the discretionary budget. In comparison to the 2004 levels, this reflected an improvement in terms of percentage of discretionary budget by 0.8 percentage points. However, there was a slight decline of 0.5 percentage points in terms of share of total domestic budget (see table 3.3).

65. Releases to the education sector amounted to K1,062.6 billion and was above budget allocation by 16.3 percent. As a percent of the domestic and discretionary budgets, releases to the education sector were 17.6 percent and 22.6 percent, respectively. The discretionary share in 2005 was only slightly lower than the 22.7 percent in 2004. The main focus in 2005 was on increasing the number of medical personnel as well as instituting retention schemes as a way of retaining frontline personnel. A total of K1,449.7 billion was released for RDC's, and was above target by K76.9 billion or 5.6 percent

Table 3.2: Central Government Expenditures, 2005

	2005 Budget (K' Billion)	2005 Releases (K' Billion)	Variance of Release Vs Budget	% Variance of Total Budget
<b>TOTAL EXPENDITURES</b>	<b>9,395.2</b>	<b>8,845.8</b>	<b>(549.4)</b>	<b>(5.8)</b>
<b>CURRENT EXPENDITURES</b>	<b>6,670.2</b>	<b>6,056.2</b>	<b>(614.0)</b>	<b>(9.2)</b>
Wages and salaries	2,513.2	2,455.0	(58.2)	(2.3)
o/w Housing allowance	86.4	86.4	-	-
Public service retrenchment	65.7	43.9	(21.8)	(33.2)
Recurrent departmental charges (RDCs)	1,372.8	1,449.7	76.9	5.6
Arrears clearance	140.9	254.3	113.4	80.5
2002 housing allowance	26.7	26.7	-	-
2003 housing allowance	38.2	38.2	0.0	0.0
Suppliers of Goods and Services	76.0	189.4	113.4	149.2
Elections & Constitutional review	142.0	144.5	2.5	1.8
Bye-Elections	4.0	4.0	(0.0)	(0.0)
State Functions /Public Affairs and Summits	25.0	39.6	14.6	58.4
Award and Compensations (Court decision)	54.0	54.0	-	-
<b>Other RDCs/1</b>	<b>1,007.0</b>	<b>953.3</b>	<b>(53.6)</b>	<b>(5.3)</b>
o/w PRP RDCs	345.1	84.7	(260.4)	(75.5)
<b>Transfers and Pensions</b>	<b>1,207.0</b>	<b>794.0</b>	<b>(413.0)</b>	<b>(34.2)</b>
Pension Fund and Settlement of Statutory Arrears	159.0	158.7	(0.3)	(0.2)
<b>Other Transfers &amp; Pensions/2</b>	<b>1,048.0</b>	<b>635.3</b>	<b>(412.7)</b>	<b>(39.4)</b>
o/w PRP Grants	337.1	247.9	(89.1)	(26.4)
<b>Domestic Interest</b>	<b>850.0</b>	<b>731.5</b>	<b>(118.5)</b>	<b>(13.9)</b>
<b>External Debt Interest Paid</b>	<b>192.7</b>	<b>130.0</b>	<b>(62.7)</b>	<b>(32.5)</b>
<b>Other current expenditures</b>	<b>459.1</b>	<b>442.2</b>	<b>(16.9)</b>	<b>(3.7)</b>
Financial restructuring	100.0	76.8	(23.2)	(23.2)
ZRA	127.0	127.0	(0.0)	(0.0)
Strategic Food Reserves(FRA)	59.1	59.1	-	-
Fertilizer Price Support + Input Pack (HIPC-PRP)	160.0	156.5	(3.5)	(2.2)
Constitutional posts	13.0	22.8	9.8	75.5
Contingency	9.6	9.9	0.3	2.8
<b>CAPITAL EXPENDITURES</b>	<b>2,725.0</b>	<b>2,789.6</b>	<b>64.6</b>	<b>2.4</b>
<b>Domestically financed</b>	<b>488.5</b>	<b>565.1</b>	<b>76.6</b>	<b>15.7</b>
of which:				
PRP	109.0	239.5	130.6	119.8
Stadiums	5.0	3.5	(1.5)	(30.9)
GRZ/Road Infrastructure Projects	100.0	60.5	(39.5)	(39.5)
Counterpart (Non - PRP)	6.0	4.2	(1.8)	(29.5)
Ordinary Capital	161.1	88.9	(72.2)	(44.8)
Fuel levy (Road Fund)	90.0	163.4	73.4	81.6
Rural Electrification Fund	11.3	5.1	(6.2)	(55.1)
Land Development Fund	6.1	-	(6.1)	(100.0)
<b>Foreign Financed</b>	<b>2,236.5</b>	<b>2,224.5</b>	<b>(12.0)</b>	<b>(0.5)</b>

Source: Ministry of Finance and National Planning

66. Total releases to the health sector amounted to K480.0 billion. This was above the budget allocation by 11.1 percent. The budgetary releases to the health sector in 2005 accounted for 10.2 percent of the discretionary budget and 8.0 percent of the total domestic budget. In 2004 releases to the health sector had accounted for 11.5 percent of the discretionary budget, which was higher than the 2005 figure by 1.3 percentage points

67. Generally in 2005, all social sectors, with the exception of water and sanitation and social safety net, were funded above 100 percent of their budget allocations. Releases towards disaster relief were, however, much higher at K52.3 billion against the allocation of K6.7 billion. This was on account of the increased magnitude of relief required following the partial drought experienced during the previous agricultural season.

### Economic Sector Expenditures

68. Releases towards the economic sectors in 2005 amounted to K1,023.6 billion, which was 17.0 percent of the total domestic budget and 21.8

percent of the discretionary budget. The transport and communication sector, received the largest share amounting to K478.0 billion or 43.4 percent of the total releases to the economic sectors and 7.3 percent of the total domestic budget. Most of the releases under transport and communication were ear marked for road works. The agricultural sector received K352.3 billion or 5.8 percent of the total domestic budget (see table 3.3).

### Budget Deficit

69. The overall budget deficit in 2005 stood at K1,102.1 billion or 3.4 percent of GDP and was below the projected deficit of K1,1652.1 billion by 33.4 percent. The deficit was financed through borrowing from both domestic and external sources. External financing was primarily through project loans.

70. Notwithstanding the positive outturn on the overall budget deficit, domestic government borrowing at K596.3 billion or 1.8 percent of GDP was above the year target of 1.6 percent of GDP. It was however, slightly lower than the 1.9 percent achieved in 2004.

**Table 3.3: Budgetary Releases by function of Government in 2005**

Sector	2005 Total Domestic Budget Allocation	2005 Total Releases	Releases as % of Budget Allocation	Releases as % of Total Domestic Budget	Releases % of Total Discretionary Budget
<b>Economic Sectors</b>					
Agriculture	352.3	346.4	98.3	5.8	7.4
Mining	12.8	16.4	128.1	0.3	0.3
Tourism	39.8	40.8	102.5	0.7	0.9
Communication and Transport	478.0	437.4	91.5	7.3	9.3
Energy	23.5	22.3	94.9	0.4	0.5
Building and Construction	97.9	82.4	84.2	1.4	1.8
Commerce and Trade	49.4	42.0	85.0	0.7	0.9
Environment	23.4	20.2	86.3	0.3	0.4
Other*	24.6	15.7	63.8	0.3	0.3
<b>Total Economic Sectors</b>	<b>1,101.7</b>	<b>1,023.6</b>	<b>92.9</b>	<b>17.0</b>	<b>21.8</b>
<b>Social Sectors</b>					
Education	913.5	1,062.6	116.3	17.6	22.6
Health	432.0	480.0	111.1	8.0	10.2
Water and Sanitation	78.9	32.4	41.1	0.5	0.7
Social Safety Net	93.3	89.7	96.1	1.5	1.9
Disaster Relief	6.7	52.3	780.6	0.9	1.1
Other	42.6	46.7	109.6	0.8	1.0
<b>Total Social Sectors</b>	<b>1,566.8</b>	<b>1,763.8</b>	<b>112.6</b>	<b>29.3</b>	<b>37.5</b>
<b>Others*</b>	<b>3,899.7</b>	<b>3,235.1</b>	<b>83.0</b>	<b>53.7</b>	<b>68.9</b>
Total Domestic Budget	6,568.2	6,022.5	91.7	100.0	
Total Discretionary Budget	4,567.50	4,697.7			

Source: Ministry of Finance and National Planning



# Monetary and Financial Sector Developments

## Overview

Monetary and financial sector developments were favourable in 2005. This was reflected in the decline in inflation and commercial banks lending rates. In addition, the overall financial condition and performance of the banking sector during the year was sound, with adequate capital as well as satisfactory asset quality, earnings performance and liquidity ratios. In the non-bank financial sector, the overall financial condition and performance of the leasing sector was fair while the financial condition and performance of micro finance institutions was satisfactory. Similarly, the building societies sector continued to register positive performance.

## Broad Money

72. Preliminary data indicate that annual broad money growth in 2005 was 0.4 percent compared to 30.3 percent in 2004 (see table 4.1). The growth in 2005 was far below the annual target of 14.8 percent. The deceleration in broad money growth was explained by the reduction in net domestic assets. This was due to the revaluation effects of foreign currency deposit liabilities held by commercial banks with the public as a result of the strengthening of the Kwacha. The reduction in the Government's obligations to the International Monetary Fund (IMF) also contributed to the deceleration in money supply growth.

## 4

## CHAPTER

Table 4.1: Monetary Developments, 2003-2005

	2003	2004	2005*	% Change 2005/2004
<b>NET FOREIGN ASSETS</b>	<b>(2,434.7)</b>	<b>(1,969.4)</b>	<b>(281.6)</b>	<b>(85.7)</b>
Foreign Assets	5,728.0	6,445.9	5,956.6	(7.6)
Foreign Liabilities	(8,162.7)	(8,415.3)	(6,238.2)	(25.9)
<b>DOMESTIC ASSETS</b>	<b>6,902.6</b>	<b>7,789.3</b>	<b>6,122.7</b>	<b>(21.4)</b>
<b>DOMESTIC CREDIT</b>	<b>4,215.1</b>	<b>4,766.4</b>	<b>5,054.4</b>	<b>6.0</b>
Net Claims On General Government	2,708.8	2,512.7	2,386.9	(5.0)
Claims On Government	3,818.2	3,879.9	3,774.0	(2.7)
Government Deposits	(1,109.4)	(1,367.2)	(1,387.0)	1.4
Claims On Public Enterprises	116.1	200.1	230.3	15.1
Claims On Private Enterprises	1,095.4	1,746.3	1,879.2	7.6
Claims On Households	275.9	305.3	528.0	72.9
Claims On Non-Bank Financial Institutions	18.9	1.9	29.9	1,473.7
<b>OTHER ITEMS NET</b>	<b>2,687.5</b>	<b>3,022.9</b>	<b>1,068.4</b>	<b>(64.7)</b>
<b>BROAD MONEY</b>	<b>4,467.9</b>	<b>5,819.9</b>	<b>5,841.1</b>	<b>0.4</b>
<b>NARROW MONEY</b>	<b>1,695.5</b>	<b>2,044.4</b>	<b>2,280.1</b>	<b>11.5</b>
<b>QUASI-MONEY</b>	<b>2,772.4</b>	<b>3,775.5</b>	<b>3,561.0</b>	<b>(5.7)</b>
Foreign Currency Deposits	1,619.1	2,439.5	1,981.2	(18.8)
Other Deposits	1,153.3	1,336.0	1,579.8	18.2

Source: Bank of Zambia

\*Preliminary

### Domestic Credit

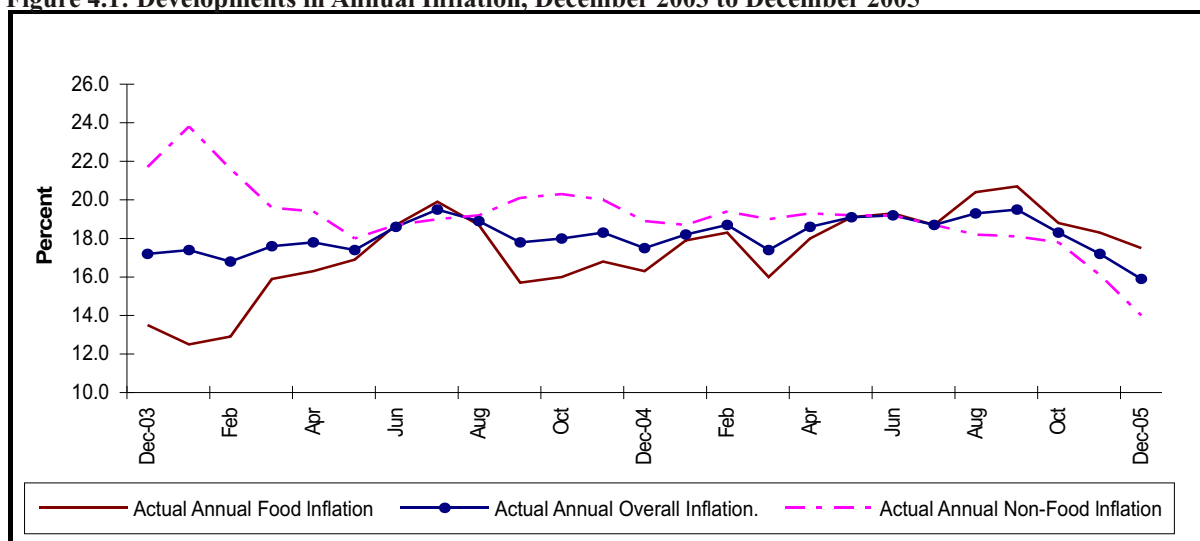
73. Domestic credit in 2005 increased by 6.0 percent, to K5,054.4 billion from K4,766.4 billion in 2004. Net private sector credit grew by 7.6 percent in the year through end-December 2005 against the target of 22.3 percent, largely on account of tight monetary policy.

74. On a sectoral basis, commercial banks' domestic credit to the real estate and construction sectors increased by 82.1 percent and 56.3 percent, respectively, while credit to the wholesale and retail trade sector increased by 41.1 percent. Domestic credit rose by 32.8 percent in the agriculture, forestry, and hunting sector. Other sectors, where remarkable increases were recorded included the transport, storage and communication at 26.2 percent, manufacturing at 26.1 percent and personal loans at 13.9 percent. However, credit to the mining and quarrying sector decreased by 6.6 percent.

### Inflation Developments

75. The annual overall inflation rate fell to 15.9 percent in December 2005 from 17.5 percent at end-2004. This movement in the annual overall inflation rate was attributed to the drop in annual non-food inflation to 14.0 percent in 2005 from 18.9 percent in 2004. The outcome was mainly due to the strengthening of the Kwacha against major currencies, as well as tight monetary policy. This decline, however, was achieved against a background of high oil prices on the international market for most of 2005, disruptions of fuel supply from the INDENI oil refinery and increased domestic food prices arising from a shortfall in maize production in 2004/ 2005 agricultural season. Annual food inflation rose to 17.5 percent in December 2005 from 16.3 percent in December 2004 (see figure 4.1).

**Figure 4.1: Developments in Annual Inflation, December 2003 to December 2005**



Source: Central Statistical Office and Bank of Zambia

### Interest Rates Developments

76. During 2005, yield rates on Government securities generally declined. The 91-day Treasury bill yield rate declined by 1.2 percentage points to 15.1 percent in 2005 while the yield rate on the 182-day Treasury bill portfolio declined by 2.0 percentage points to 16.3 percent in December 2005. Similarly, the yield rate on the 273-day portfolio was 2.4

percentage points lower in 2005 at 17.0 percent was 2.4 percentage points lower compared to 2004. However, the yield rate on the newly introduced 364-day portfolio declined by 0.2 percentage points from the rate recorded on its debut in August 2005 to 17.0 percent in December 2005. As regards Government bonds, the 2-year bond yield rate lost 3.0 percentage points in 2005 to end the year at 19.0 percent (see table 4.2).



**Table 4.2: Interest Rates Developments (percent), 2003 2005**

	2003	2004	2005
91-day Treasury bill	18.2	16.3	15.1
182-day Treasury bill	19.8	18.3	16.3
273-day Treasury bill	21.1	19.4	17
WATBR	31.9	12.5	16.5
12-month Government bond	27.5	19.6	16
18-month Government bond	30.3	20.8	17
24-month Government bond	31.9	22	19
WALBR	37.7	29.8	27.6
ALR	45.3	37.1	33.9
ASR (Savings > K100,000)	7.6	5.6	6.1
Deposit > K20 mn (30 days)	17.9	8.2	8.4

Source: Bank of Zambia

Key: WATBR = Weighted average Treasury bill rate,

ALR = Commercial banks' weighted average lending rate

ASR = Commercial banks' weighted average rate for savings above K100,000,

WALBR = Commercial banks' weighted average lending base rate

77. Similarly, commercial banks nominal interest rates generally declined. The weighted average lending base rate (WALBR) and the average lending rate (ALR) declined to 27.6 percent and 33.9 percent in December 2005 from 29.8 percent and 37.1 percent in December 2004, respectively. This movement partly reflected the drop in annual inflation during the year. However, the average savings rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts above K20 million increased to 6.1 percent and 8.4 percent compared to 5.6 percent and 8.2 percent in 2004, respectively. Nonetheless, the spread between the lending and deposit rates remained high, reflecting among others, structural rigidities in the banking system.

### Developments in the Foreign Exchange Market

78. The foreign exchange market in 2005 was characterised by increased supply of foreign exchange. The volumes of foreign exchange traded in the inter-bank market increased by 17.4 percent to US \$521.9 million from US \$444.7 million in 2004. Similarly, commercial banks purchases of foreign exchange from the non-bank public increased by 1.6 percent to US \$2,372.2 million in 2005 from US \$2,334.0 million recorded in 2004. In addition, Bank of Zambia purchases of foreign exchange from the market amounted to US \$123.6 million in 2005 from US \$103.1 million in 2004, representing an increase of 19.9 percent.

79. The major sources of foreign exchange were traditional and non-traditional exports as well as foreign portfolio inflows in Government securities and domestic corporate stocks. In this regard, non-residents holdings of Government securities stood at K315.2 billion as at the end of December 2005. In addition, the net inflow of foreign portfolio investments in domestic equities amounted to US \$9.5 million as at November 2005 from net outflows of almost US \$0.1 million in 2004. The increase in net inflows of foreign portfolio investments was underpinned by heightened confidence in the Zambian economy by foreign investors.

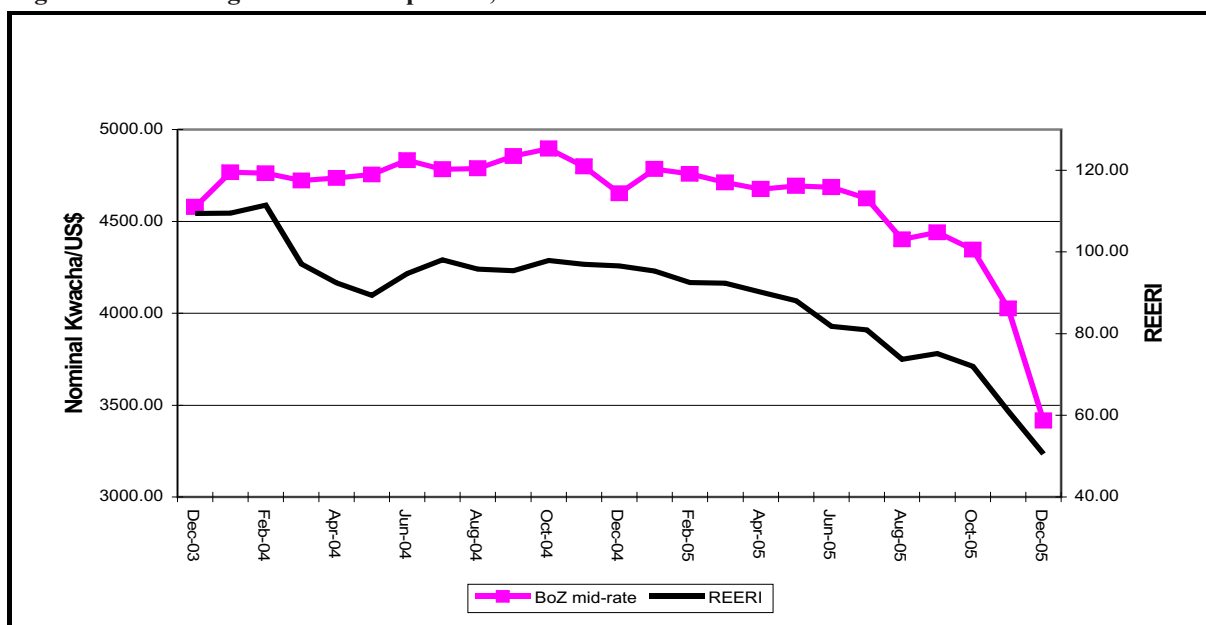
80. Consequently, the Kwacha appreciated sharply against major currencies. It appreciated by 26.4 percent and 32.5 percent against the United States dollar and British Pound Sterling, respectively. Similarly, the Kwacha strengthened by 32.7 percent and 33.0 percent against the Euro and South African Rand, respectively (see figure 4.2).

81. The average real effective exchange rate (REER) index in 2005 declined to 50.6 from 96.6 in 2004. This reflected a 47.6 percent erosion of Zambia's international competitiveness. The decrease in the REER index was both on account of 51.7 percent decrease in the nominal effective exchange rate (NEER) and 15.9 percent increase in average domestic inflation. This was in spite of 25.7 percent rise in the following consumer price index. The average NEER index decreased to 294.2 in 2005 from 609.5 in 2004 (see figure 4.2).

### Financial Sector developments

#### Banking Sector Performance

82. The overall financial condition and performance of the banking sector during the year under review was satisfactory. This was evidenced by growth in total assets, satisfactory capital adequacy, asset quality earnings and liquidity conditions.

**Figure 4.2: Exchange Rates Developments, December 2003 to December 2005**

Source: Bank of Zambia

Key: BoZ mid-rate = Bank of Zambia mid exchange rate

REERI = Real Effective Exchange Rate Index

83. The banking sector continued to be adequately capitalised and all banks met their minimum regulatory capital requirements during the year. The industry's net worth improved by 42.9 percent to K971.0 billion as at 31st December 2005, compared to K679.6 billion as at 31st December 2004. All the banks were rated strong in capital adequacy. The primary (core) capital for the industry increased by 48.0 percent to K895.3 billion as at 31st December 2005 from K605.1 billion as at 31st December 2004. Regulatory capital also increased by 41.7 percent to K972.1 billion as at 31st December 2005 from K686.1 billion in the preceding year.

84. The primary and regulatory capital to risk weighted assets ratios improved to 26.0 percent and 28.0 percent at end-December 2005 compared to 20 percent and 22 percent at end December 2004, respectively. The ratios remained above the prudential benchmarks of 5.0 percent and 10.0 percent for primary and regulatory capital, respectively. The increase in capital adequacy ratios was mainly due to net profit after tax of K344.3 billion recorded during the year compared to K149.1 billion in 2004. Total liabilities increased by 7.8 percent to close the year at K6,813.7 billion but remained relatively the same as a percentage of liabilities

and shareholders' funds at 88.0 percent compared to 90.0 percent in 2004.

85. Deposits in commercial banks increased by less than 1.0 percent to K5,499.8 billion from K5,497.8 billion at end-December 2004 and accounted for 71.0 percent of total liabilities and shareholder's funds. Demand deposits were the largest component of total deposits and accounted for 66.0 percent at end-December 2005 compared to 70.0 percent as at end-December 2004. The pre-dominance of short-term deposits was largely reflected in the short-term nature of the investment profile on the asset side of the balance sheet.

86. The asset quality of the banking sector in 2005 was satisfactory. Interest earning assets represented 76.2 percent of total assets at end-December 2005 compared to 79.0 percent at end-December 2004. Gross non-performing loans increased by 39.9 percent to K217.9 billion from K155.8 billion in 2004 and accounted for 8.9 percent of total loans compared to 7.6 percent in the preceding year. The allowance for losses to non-performing loans was at 60.9 percent of the gross non-performing loans at end-December 2005 compared to 102.8 percent recorded at end-December 2004.

87. Total assets for the banking sector registered a growth of 11.2 percent to K7,784.8 billion at end-December 2005 from K7,002.6 billion as at end-December 2004. This was largely due to an increase in open market operations and collateral deposits, which grew by 162.0 percent, and net loans and leases, which grew by 22.0 percent or K422.9 billion. Net loans and leases, Government securities and balances with financial institutions abroad together accounted for 66 percent of total assets compared to 70 percent in 2004.

88. The banking sector's earnings performance for the year under review was impressive. Profit before tax increased by 122.8 percent to K442.8 billion compared to K198.7 billion in 2004. The increase in the profit before tax for the year was largely on account of interest income, which increased by K210.1 billion or 31.1 percent (see table 4.3). The major sources of income were loans and leases, which accounted for 31.0 percent followed by Government securities at 27.0 percent.

89. Overall, the banking sector registered satisfactory return on assets (ROA) of 6.0 percent and return on equity (ROE) of 52.8 percent compared to 3.1 percent and 29.8 percent, respectively, for 2004. The banking sector's liquidity position was satisfactory, with a ratio of liquid assets to total deposits and short-term liabilities declining slightly to 71.0 percent from 74.0 percent in the preceding year. The high liquidity ratio reflects the predominance of liquid assets in the structure of the total industry's assets. All banks recorded liquidity ratios in excess of the prudential minimum of 50 percent. Performance of Non-Bank Financial Institutions

**Table 4.3: Banking Sectors Earnings Performance, 2004 and 2005 (K' billions)**

Particulars	2004	2005	% change 2004/2005
Interest Income	676.5	886.6	31.1
Interest Expenses	104.7	135.3	29.2
Net Interest Income	571.7	751.3	31.4
Non-Interest Income	400.3	480.3	20.0
Net Operating Income	972	1,231.60	26.7
Non-Interest Expenses	665.4	746.8	12.2
Gross Profit	306.6	484.8	58.1
Loan Loss Provisions	107.9	42	(61.1)
Profit Before Taxation	198.7	442.8	122.8
Taxation	49.5	98.5	99.0
Net Profit	149.1	344.3	130.9

Source: Bank of Zambia

90. There were a total of 48 non bank financial institutions compared to 46 in 2004 under the supervisory ambit of the Bank of Zambia. These included leasing companies, building societies, micro finance institutions and bureaux de change (see table 4.4).

#### Leasing Sub-Sector

91. The overall financial condition and performance of the leasing sector in 2005 remained satisfactory. On average, leasing companies maintained adequate capital and reserves relative to their risk profiles. As at 31st December 2005, the sector's regulatory capital was K34.5 billion compared to K35.9 billion the previous year. The noted decline in capital resources was on account of the merger of Stanbic Financial Services Limited with its parent bank Stanbic Bank Zambia Limited in June 2005.

**Table 4.4: Structure of the Non-Bank Financial Institutions, 2003-2005**

NAME	2003	2004	2005
Bureaux de Change	30	30	32
Microfinance Institutions	3	2	4
Leasing Companies	7	9	8
Building Societies	3	3	3
Development Bank of Zambia	1	1	1
National Savings and Credit Bank	1	1	1
<b>Total</b>	<b>45</b>	<b>46</b>	<b>48</b>

Source: Bank of Zambia

92. The sector's asset quality for the period under review was satisfactory. As at end-2005, the leasing sector's total assets amounted to K211.5 billion compared to K252.5 billion as at end-2004. This decrease was largely due to the repayment of borrowed funds, which declined to K5.7 billion as at end-2005 from K61.5 billion at the close of 2004. Out of the total assets in 2005, earning assets amounted to K176.2 billion or 83 percent of the aggregate assets. Despite the reduction in total assets, the sector's income performance during the year improved significantly. During the year ended 31 December 2005, the sector recorded a profit before tax of K12.6 billion compared to K4.0 billion in the same period in 2004.

### **Building Societies**

93. The building societies sub-sector continued to register positive performance in 2005. The sub-sector recorded a profit before tax of K4.4 billion during the year 2005 compared to K234 million recorded in the previous year. The significant increase in the sector's earnings was attributed to the rapid expansion in the mortgage portfolio. The aggregate mortgages increased by 102 percent to K26.1 billion as at end-2005 from K13.0 billion as at end-2004. The increase in mortgages was largely financed through deposits mobilized from members of the building societies amounting to K9.3 million.

### **Micro Finance Institutions**

94. The overall financial condition and performance of the micro finance sub-sector was satisfactory. The sub-sector was adequately capitalised and had satisfactory asset quality and earnings performance. As at 31 December 2005, the total assets of the microfinance sector stood at K81.2 billion, representing an increase of 42.2 percent over the 31 December 2004 position of K57.1 billion. The growth in assets was attributed to an increase in capital and reserves to K32.3 billion in 2005 from K10.2 billion in 2004. This was largely due to the entry of two new Micro Finance Institutions.

### **Bureaux de Change**

95. The total assets of the bureaux de change sub-sector as at end-2005 stood at K12.6 billion,

an increase of 40 percent from the end-2004 figure of K9.0 billion. The increase in total assets was mainly reflected by a rise in aggregate capital and reserves. As at 31 December 2005, the sector's regulatory capital stood at K10.0 billion, representing an increase of K3.6 billion over the 31 December 2004 figure of K6.4 billion. As at 31 December 2005, all the bureaux de change met the prescribed minimum capital requirement of K40 million.

### **Financial Sector Development Plan**

96. In 2005, the Bank of Zambia continued with the initial implementation of the priority recommendations of the Financial Sector Development Plan (FSDP). Progress in the implementation of the FSDP in 2005 included the following:

- The review and harmonisation of financial sector legislation in October, which involved the amendment of the Building Societies Act, the National Savings and Credit Act, the Development Bank of Zambia Act and the Banking and Financial Services Act. The amendments enhanced the BoZ's supervisory responsibility over the state-owned financial institutions;
- Development of guidelines for the operation of credit reference bureaux (CRBs) consistent with Section 130 of the BFSA;
- The finalisation of the regulatory and supervisory framework for Micro Finance Institutions, development of an appropriate regulatory framework for the establishment of a credit reference bureau, and resolution of the financial difficulties of some state-owned NBFIs; and
- The development and implementation of strategic turnaround plans by the distressed state-owned financial institutions and road maps for incorporating these institutions under the Companies Act in 2006.

**Outlook for 2006**

97. In 2006, inflation is expected to decline further on account of the expected stability in the exchange rate of the Kwacha against major traded currencies and improvements in food production following favourable rainfall in the 2005/ 2006 agricultural season. In addition, continued fiscal prudence and implementation of appropriate tight monetary policy, are expected to contribute to the reduction in inflationary pressures.

# External Sector Developments

## Overview

Zambia's external sector position in 2005 was generally satisfactory. The overall debt stock position of the country significantly declined while aid inflows increased substantially. In addition, total merchandise exports grew to record highs. However, the sharp rise in imports resulted in the shrinking of the trade surplus. Despite the trade balance being positive, the net services and income accounts deteriorated resulting in a widening of the current account deficit.

## External Debt

99. The overall external debt stock reduced by 36.1 percent to US \$4.5 billion in 2005 from US \$7.1 billion in 2004. This reduction was largely due to the cancellation of debt by most members of the Paris Club following Zambia's ascension to the Completion Point of the HIPC initiative and significant repayments to the IMF.

100. The stock of bilateral debt in 2005 declined by 85.1 percent to US \$408.0 million from US \$2,748.0 million in 2004, largely due to the US \$1.8 billion write-off provided by the Paris Club. Similarly, multilateral debt declined by 4.0 percent to US \$3.7 billion in 2005. Despite the general downturn in the debt levels, there was an increase in debt owed to the World Bank, African Development Bank and Non-Paris Club members due to contraction of new debt (see table 5.1).

## External Debt Service

101. Debt service payments including amortization in 2005 increased by 2.9 percent to US \$384.1 million from US \$373.2 million in 2004. Out of the total amount paid, US \$350.6 million or 91.0 percent was for amortization and the remainder was for interest payments. In terms of categories, the bulk of the payments were to multilateral institutions accounting for 80.6 percent of the total payments made.

Payments to the IMF, in particular, amounted to US \$251.1 million or 65.0 percent of the total debt service payments. This resulted in a significant reduction in debt owed to the institution. The other payments were to the Paris Club and Non-Paris Club members, which amounted to US \$50.3 million and US \$21.2 million, respectively.

**Table 5.1: External debt stock, 2003-2005**  
(in US \$ millions)

	2003	2004	2005	% change 2005/2004
Multilateral	3,703.0	3,872.0	3,715.7	(4.0)
ADB/ADF	217.2	311.0	377.5	21.4
World Bank	2,294.4	2,359.0	2,436.4	3.3
IMF	1,065.1	890.0	591.1	(33.6)
Others	126.3	312.0	310.7	(0.4)
Bilateral	2,245.4	2,748.0	408.1	(85.1)
Paris Club	2,000.0	2,483.0	117.5	(95.3)
Non-Paris Club	245.4	265.0	290.6	9.7
Total Govt Debt	5,948.4	6,620.0	4,123.8	(37.7)
Private & Parastatal	546.6	460.0	404.2	(12.1)
<b>Total External Debt</b>	<b>6,495.0</b>	<b>7,080.0</b>	<b>4,528.0</b>	<b>(36.1)</b>

Source: Ministry of Finance and National Planning

102. In terms of the debt service to export ratio, preliminary estimates indicate that there was a reduction to 6.8 percent in 2005 from 18.2 percent in 2004, reflecting a rapid increase in exports in 2005.

## External Aid

103. Preliminary data indicates that external aid inflows in 2005 amounted to US \$653.2 million, which was 25.7 percent higher than the US \$519.8 million received in 2004. The increase in inflows was largely triggered by the improvements in macroeconomic management, including the accession to the HIPC Completion Point, which were the major prerequisites for donors disbursing aid.



104. Out of the US \$653.2 million received in 2005, a total of US \$154.9 million or 23.7 percent was in form of budget support loans, while the remaining US \$498.0 million or 76.3 percent was disbursed as project support. Direct budget support in 2005 was 139.1 percent higher than the US \$64.8 million received in 2004.

105. With regard to project support, a total of US \$191.9 million or 32.5 percent was received in form of loans, mainly from the multilateral institutions. A further US \$46.8 million and US \$33.6 million was received as pool funding to the education and health sectors. The remainder of US \$256.0 million was support to designated projects by the donors in various sectors mostly for HIV/AIDS, roads, health and education.

**Table 5.2: External Aid inflows (In US \$ millions), 2003-2005**

	2003	2004	2005
<b>Budget Support</b>			
United Kingdom	0.0	0.0	27.5
China	2.0	0.0	0.0
Others	2.0	0.0	6.5
<b>Total Bilateral Financing</b>	<b>2.0</b>	<b>0.0</b>	<b>34.0</b>
World Bank	19.9	20.7	24.0
IMF	0.0	0.0	0.0
EU	34.9	44.1	86.7
ADB	0.0	0.0	9.0
<b>Total Multilateral</b>	<b>54.8</b>	<b>64.8</b>	<b>120.9</b>
<b>Total Budget Support</b>	<b>56.8</b>	<b>64.8</b>	<b>154.9</b>
<b>Project Support</b>	<b>347.6</b>	<b>455.0</b>	<b>498.3</b>
<b>TOTAL</b>	<b>404.4</b>	<b>519.8</b>	<b>653.2</b>

Source: Ministry of Finance and National Planning

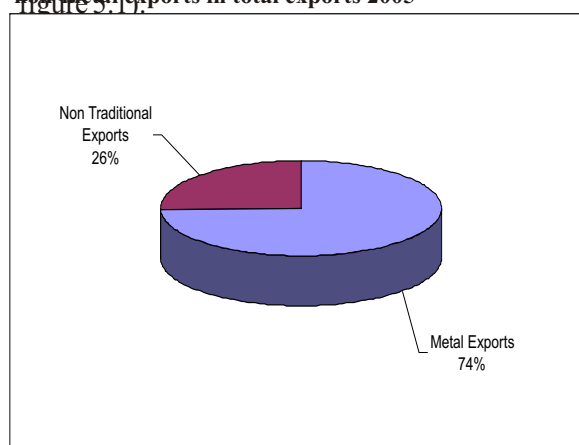
## Balance of Payments Developments

### Current Account

106. Preliminary data indicates that the current account deficit worsened by 41.7 percent to US \$826.0 million in 2005 from US \$583.0 million in 2004. As a percent of GDP the current account balance excluding foreign grants was 11.9 percent in 2005 compared to 10.7 percent in 2004. This was due to deterioration in all balance of payments accounts.

### Trade Balance

107. The value of merchandise exports in 2005 increased by 17.8 percent to US \$2,095 million from US \$1,779 million in 2004. Metal earnings increased to US \$1,557 million from US \$1,322 million in 2004, representing an increase of 17.8 percent. This increase in metal exports earnings was on account of a rise in copper export earnings. As a share of total exports metal sector earnings in 2005 accounted for 74.0 percent (see Figure 5.1).



108. Copper export receipts increased by 7.1 percent to US \$1,400 million in 2005 from US \$1,307 million in 2004 as both copper prices and export volumes increased. Realised copper prices increased by 32.5 percent to an average of US \$1.59 per pound in 2005 from US \$1.20 per pound in 2004, driven mainly by high demand from China. Export volumes also increased by 6.1 percent to 417,000 Mt in 2005 from 393,000 Mt in 2004.

109. Cobalt export earnings, however, declined by 45.3 percent to US \$156.0 million in 2005 from US \$285.0 million in 2004. This was mainly due to a decline in both export volumes and prices. Cobalt export volumes declined by 9.8 percent to 5,500 Mt in 2005 from 6,100 Mt in 2004, mainly due to the cessation of cobalt production by KCM in the first quarter of the year. The average realised price of cobalt declined by 42.3 percent to US \$12.85 per pound in 2005 from US \$22.30 per pound in 2004.

110. Export earnings from non-metal commodities increased by 17.7 percent to US \$538.0 million in 2005 from US \$457.0 million in 2004 (see table 5.3). Non metal exports in 2005 accounted for 26.0 percent of total export earnings.

111. The main non-traditional products exported were tobacco, copper wire, electrical cables, gemstones, scrap metals, soap/detergents and white spoon sugar. Export earnings from tobacco, sugar and copper wire, in particular, grew rapidly due to several reasons. In the case of tobacco, new capital investments, entry of new farmers into the sub-sector and favourable market prices contributed to the growth in earnings. The expansion in sugar exports was attributed to improved market access to the EU through sugar quotas under the Everything But Arms (EBA) Initiative and to South Africa under the Southern African Development Community (SADC) Trade Protocol. Generally, South Africa continued to be the major destination for Zambia's nontraditional exports in 2005 followed by the Democratic Republic of Congo.

**Table 5.3: Non-Traditional Exports (US \$ Millions), 2004 and 2005**

	2004	2005	% Change 2005/2004
Copper Wire	60.1	106.5	77.1
White Spoon Sugar	33.4	67.7	102.7
Burley Tobacco	39.4	60.2	52.5
Cotton Lint	51.4	55.9	8.6
Electrical Cables	32.7	48.5	48.3
Fresh Flowers	25.5	32.1	25.8
Cotton Yarn	23.9	24.1	0.7
Fresh Fruits Vegetables	23.2	21.3	(8.2)
Gemstones	16.2	19.5	20.3
Gasoiil/PetroleumOils	24.3	9.8	(59.7)
Other	126.8	92.2	(37.5)
<b>Total</b>	<b>457.0</b>	<b>538.0</b>	<b>17.7</b>

Source: Ministry of Finance and National Planning

112. While the value of exports expanded, those of imports grew at an even more rapid rate. Merchandize imports grew by 19.7 percent to US \$2,068 million from US \$1,727 million in 2004 (see table 5.4). Consequently, although the trade balance was positive for the second consecutive year, it declined by 28.0 percent to US \$59.0 million in 2005 from US \$82.0 million in 2004.

113. The sharp rise in imports was largely caused by an increase in the price of petroleum products. This resulted in a 22.0 percent increase in non-metal imports to US \$1,759 million in 2005 from US \$1,441 million in 2004. Additionally, metal sector imports also increased and were mainly capital equipment for investment purposes in the new and existing mines.

### Services and Income Account

114. The services account worsened to US \$252 million in 2005 from US \$215 million in 2004, partly reflecting large amounts of payments made on trade-related services. Payments on services increased by 11.6 percent to US \$499 million in 2005 from US \$447 million in 2004. Receipts from export of services also increased by 6.0 percent to US \$246 million in 2005 from US \$232 million in 2004.

115. The income account also recorded a widening in the deficit of 42.7 percent to US \$605 million in 2005 from US \$424 million in 2004. This was partly as a result of a decline in net current transfers to negative US \$28 million in 2005 from negative US \$25 million in 2004. This was as a result of increased private transfers abroad and non-receipt of official commodity assistance grants.

### Capital and Financial Account

116. Capital inflows in 2005 increased by 134.9 percent to US \$552 million from US \$235 million in 2004. In the financial account, there was a 52.5 percent improvement in the net loan disbursements to negative US \$105 million in 2005. This improvement was due to a 9.1 percent increase in disbursements as well as a 32.0 percent decline in amortization. Further, there was an increase of 11.7 percent in net private capital inflows to US \$334 million in 2005 from US \$299 million in 2004. Foreign direct investment increased by 8 percent to US \$259 million in 2005 from US \$239 million in 2004 (see table 5.4).



**Table 5.4: Balance of Payments (In US \$millions), 2003-2005**

	2003	2004	2005*
<b>Current account balance</b>	(699)	(697)	(826)
<b>Trade balance</b>	(311)	82	59
Exports, f.o.b.	1052	1,779	2,095
Metal sector	669	1,322	1,557
Non-metal	383	457	538
Imports, f.o.b.	(1,393)	(1,727)	(2,068)
Metal sector	(169)	(286)	(309)
Non-metal	(1,224)	(1,441)	(1,759)
Goods procured in ports by carriers	29	31	32
<b>Services (net)</b>	(238)	(215)	(252)
Receipts	165	232	246
Payments	(403)	(447)	(499)
<b>Income (net)</b>	(148)	(424)	(605)
Of which: interest payments	(131)	(121)	(110)
Current Transfers (net)	(3)	(25)	(28)
Of which Official Transfers	20	0	0
<b>Capital Account</b>	380	235	552
Project grants (capital)	240	246	306
<b>Financial Account</b>	140	(11)	246
Official loan disbursement (net)	(141)	(221)	(105)
Disbursement	101	110	120
Amortization (-)	(242)	(331)	(225)
Change in net foreign assets of commercial banks	48	(90)	17
Private capital (net)	233	299	334
Foreign direct investment	172	239	259
Errors and omissions, short term capital	(2)	63	0
<b>Overall balance</b>	(319)	(348)	(274)
<b>Financing</b>	321	285	274
Change in net international reserves			
of Bank of Zambia (- incr)	(161)	(44)	(341)
Gross official reserves of BoZ	89	(28)	(81)
BoZ liabilities	(6)	(6)	(6)
IMF (net)	(244)	(10)	(253)
Other foreign assets of BoZ			
Debt Relief	389	264	480
Debt relief (non-HIPC)	154	245	152
Debt relief (HIPC, including IMF)	235	19	328
of which IMF	169	2	229
Paris Club	16	(2)	38
BOP support grants	45	44	105
BOP support loans	10	21	29
Multilateral	10	21	29
Financing gap (+)	0	0	0
<b>Memorandum items:</b>			
Nominal GDP (millions of US \$)	4326	5422	6968
Current account balance (percent of GDP)	(16.2)	(10.7)	(11.9)
Export volume (percentage change)	14.8	69.1	17.8
Import volume (percentage change)	15.7	24.0	19.7
Terms of trade (percentage change)	4.2	21.9	2.1
Copper volume (MT'000)	353	393	417
Copper price (US\$/lb)	0.78	1.20	1.52
Gross official Reserves	194	222	303
(In months of imports)	1.3	1.2	1.4
Debt service cash payments	192	371	162
(In percent of exports)	15.4	18.2	6.8
of which; official debt service	108	114	129

Source: Bank of Zambia and IMF Staff estimates

\* Projections

### Overall Balance and its Financing

117. The overall balance of payments deficit in 2005 narrowed by 21.3 percent to US \$274 million from US \$348 million in 2004. The deficit was financed by HIPC and non-HIPC debt relief as well as balance of payments support loans and grants (see table 5.4).

### Outlook for 2006

118. The external sector position in 2006 is expected to remain favourable. During the course of the year, it is expected that the Multilateral Debt Relief Initiative (MDRI) will come into effect. The MDRI proposes that multilateral institutions should cancel 100.0 per cent of their claims to HIPC countries upon reaching the Completion Point. This could result in Zambia's external debt stock falling to below US \$1.0 billion by the end of 2006 from US \$4.5 billion at 2005.

119. External aid inflows are expected to increase further as the country continues on its path of prudent macroeconomic and public expenditure management, some of the major prerequisites for donor disbursements. Export earnings from both the traditional and non-metal exports are expected to increase, largely due to the expansion in mineral production and the continued high copper prices. In addition, the anticipated rise in crop production is likely to boost non-traditional exports. However, the competitiveness of exports could be hampered, if the appreciation of the Kwacha which began in 2005 continues.

### Overview

Growth in the agricultural sector slowed down to 3.0 percent 2005 from 6.1 percent in 2004. This was on account of reduced production of major food crops, such as maize, sorghum and millet. This was largely as a result of the partial drought experienced in the 2004/2005 agricultural season. Consequently, the price of the country's staple food, maize, increased rapidly prompting the government to take measures aimed at stabilising the food security situation.

121. The livestock sub-sector continued to be hit by diseases, namely the Foot and Mouth Disease (FMD) and Contagious Bovine Pleuro-Pneumonia (CBPP). In this regard, restocking and stocking programmes continued to be implemented in areas, which were affected by diseases and where stocks were low.

### Policy Developments

122. Key policy measures included the introduction of the 15 percent duty waiver on maize importation, following reduced harvest. The Government also continued with the policy of subsidising agricultural inputs for small scale farmers through the Fertilizer Support Program (FSP).

123. In order to mitigate the pervasive dependence on rains for farming, the Government developed the National Irrigation Plan for the period 2006 to 2011. The plan proposes a full package of interventions which are aimed at breaking the cycle of vulnerability. The Government also continued to support out-grower schemes in order to expand production of export crops of tobacco, cotton, coffee, paprika, fresh vegetables and cashew nut.

**Table 6.1: Area Planted, Yields and Crop Production, 2003-2005**

	2002/2003	2003/2004	2004/2005	2002/3	2003/4	2004/5	2002/2003	2003/2004	2004/2005
Crop	Area Planted			Yield/ha			Crop Production for Selected in Mt		
Maize	699,276.0	631,079.9	834,981.0	1.66	1.9	1.04	1,207,202.0	1,213,601.0	866,187.0
Sorghum	37,054.0	47,389.5	57,432.0	0.55	0.5	0.33	20,300.0	24,467.0	18,714.0
Rice	10,305.0	12,378.8	18,243.0	1.04	0.9	0.73	35,331.0	11,699.0	13,337.0
Millet	56,751.0	59,080.9	63,411.0	0.62	0.7	0.47	10,743.0	39,784.0	29,583.0
Wheat	22,549.0	13,543.0	22,323.0	6.03	6.1	6.13		8,258.0	136,833.0
Paddy Rice	10,305.0	12,378.8		1.04	0.9	0.73	10,743.0	11,699.0	13,337.0
Cassava							981,757.0	911,673.0	
Groundnuts	150,460.0	116,493.9	161,962.0	0.55	0.6	0.46	82,549.0	69,696.0	74,218.0
Mixed Beans	44,002.0	45,269.5	50,496.0	0.55	0.4	0.46	24,097.0	18,161.0	23,098.0
Soya Beans		33,186.0	65,170.0		1.6	1.38	42,120.0	54,687.0	89,659.8
Sunflower		30,689.2	31,191.0		0.5	0.26			
Cotton		121,593.3	176,217.0			0.88	118,000.0	144,307.0	155,213.0
Virginia Tobacco		5,464.1	15,630.0		2.3	1.49	7,522.0	14,608.0	23,211.0
Burley Tobacco		8,327.7	9,804.0		5.6	1.34	12,513.0	22,703.0	13,094.0

Source: Ministry of Agriculture and Cooperatives

## Crop Production

124. During the 2004/2005 agricultural season, there was mixed out turn in the production of crops. Output for food crops generally declined while that for cash crops increased. Area planted increased for all crops while yields per hectare declined. This was largely due to the unfavourable weather conditions (see table 6.1).

125. Total maize production in the 2004/2005 agricultural season declined by 28.6 percent to 866,187 Mt, compared to 1,213,601 Mt in the 2003/2004 agricultural season. The large-scale farmers' contribution to national maize production increased slightly by 0.4 percent to 254,804 Mt from 253,861 Mt. The contribution by small and medium scale farmers to national maize production, however, decreased by 36.3 percent to 611,382 Mt from 959,740 Mt the previous season. The drop in the contribution to total maize production by the small scale farmers was due to high dependence on rain for production.

126. With regard to sorghum, yields per hectare fell by 58.5 percent compared to the previous season. Consistent with this outturn, production of sorghum declined by 23.5 percent to 18,714 Mt from 24,467 Mt in the 2003/2004 agricultural season. Wheat production increased by 65.1 percent to 136,833 Mt in the 2004/2005 agricultural season from 82,858 Mt in 2003/2004 agricultural season. This was largely due to a rise in area planted and yield per hectare from 13,543 hectares in the 2003/2004 agricultural season to 22,323 hectares in the 2004/2005 season.

127. The area planted with cotton rose by 44.9 percent to 176,217 hectares in the 2004/2005 agricultural season from 121,593 hectares in the 2003/2004 agricultural season. Despite this increase in area planted, cotton production rose by 7.6 percent to 155,213 Mt in the 2004/2005 agricultural season from 144,307 Mt in the previous season. This was largely due to unfavourable weather conditions. Production of Virginia tobacco increased by 58.9 percent to 23,211 Mt from 14,604 Mt produced in the previous season. This increase was due to the rise in area planted from 5,464 hectares in the 2003/2004 agricultural season to 15,630 hectares in the 2004/2005 agricultural season.

128. The high demand for Soya beans stimulated production in the 2004/2005 agricultural season by 63.9 percent to 89,660 Mt in the 2004/2005 agricultural season from 54,687 Mt in the previous season. Cassava production increased by 15.9 percent to 1,056,380 Mt in the 2004/2005 agricultural season from 911,673 Mt recorded in the previous season. Sunflower production declined by 41.5 percent from 13,857 Mt in 2003/2004 agricultural season to 8,112 Mt in 2004/2005 agriculture season, mainly on account of reduced area planted.

## Livestock Sub-sector

129. In 2005, disease incidence was generally low throughout the country compared to 2004. However, outbreaks of Foot and Mouth Disease (FMD) were recorded in Southern and Central provinces. In addition, Contagious Bovine Pleuro-Pneumonia (CBPP) was recorded in Southern, Western and North-Western provinces. As a result, a number of disease control programmes, nevertheless, were carried out, mainly in Southern and Central provinces. These included vaccination campaigns, livestock movement controls and maintenance of bio-security measures, through establishment of check-points.

## Food Security Position

130. The country recorded an overall food surplus of 214,413 Mt, largely attributed to a surplus of 324,834 Mt of cassava. However, deficits of 85,000 Mt and 12,000 Mt of maize and Paddy rice were recorded respectively (see table 6.2).

131. During the year, the Food Reserve Agency (FRA) purchased 83,756 Mt of maize at a total cost of K73.0 billion. This was aimed at building the country's national strategic food reserves targeted at 120,000 Mt. Other crops purchased included rice, cassava, groundnuts and Soya beans. All these purchases were aimed at improving the overall food security position of the country.

**Table 6.2: Preliminary Food Balance Sheet for 2005**

		Maize	Paddy rice	Wheat	Sorghum/ millet	Sweet and Irish potatoes	Cassava flour	(Maize equivalent)
A.	Availability:							
	(i) Opening stocks (1st May 2005)	190,702	103	156	2,445	0	380	174,305
	(ii) Total production (2004/05)	866,187	13,338	136,833	48,297	82,489	1,056,000	1,932,498
	Total availability	1,056,889	13,440	136,989	50,742	82,489	1,056,380	2,106,803
B.	Requirements:							
	(i) Staple food requirements:							
	Human consumption	1,024,080	24,673	131,658	46,327	78,364	709,926	1,754,712
	Food Reserve Stocks (net)	0	100	0	1,000	0	500	1,406
	(ii) Industrial requirements:							0
	Stockfeed	52,000	0	0	0	0	0	46,800
	Breweries	15,000	0	0	0	0	0	13,500
	Seed	7,500	0	1,500	1,000	0	0	8,733
	(iii) Losses	43,309	667	6,842	2,415	4,124	21,120	67,241
	Total requirements	1,141,889	25,440	140,000	50,742	82,489	731,546	1,892,391
C.	Surplus/deficit (A-B)	(85,000)	(12,000)	(3,011)	0	0	324,834	214,413
D.	Commercial import requirements		12,000	3,011				

Source: Ministry of Agriculture and Cooperatives

### Financing of the Sector

132. Government budgetary allocation to the agriculture sector was K346.4 billion. Releases to the sector amounted to K352.3 billion and were above the budget allocation by 1.7 percent. Out of the total releases, K243.5 billion was for PRPs, which included out-grower schemes, small holder irrigation, land development, livestock restocking and animal disease control.

### Outlook

133. Prospects for the agricultural sector in 2006 are bright. This is underpinned by favourable weather conditions as well as supportive government programmes such as control of livestock diseases, out grower schemes, and input subsidy for small-scale farmers, which will boost growth in the sector.

# Mining and Quarrying

## Overview

The Mining and Quarrying sector, in 2005, grew by 2.8 percent as compared to 13.5 percent in 2004. Growth in the sector was mainly as a result of increased copper and coal production, aided by expansion in productive capacity. The continued high copper prices on the world market also stimulated investment in the sector. Nevertheless, the slow down in growth of the sector was primarily caused by a deceleration in copper production, in the first quarter of 2005 and a general decline in cobalt production levels through out the year.

## Sector Performance

### Metal Mining Sub-sector

135. Copper production in 2005, rose by 9.6 percent compared to the 20.5 percent growth of 2004. In absolute terms copper production increased to 466,799 Mt from 426,000 Mt in 2004. Growth in copper production was as a result of an expansion in production capacity, mainly due to higher investment in existing mines as well as the coming on stream of Kansanshi copper mine in the North Western province. The slowed growth rate in copper production was, however, caused by low-grade ore and constant break down of smelters at KCM. Disruptions in fuel supply, mine accidents and floods, further compounded the problem.

136. There has been a progressive decline in cobalt production in the last two years. In 2005, production declined by 11.8 percent to 5,638.2Mt while in 2004 it declined by 1.6 percent (see table 7.1). The decline of cobalt production was due to the cessation of production at KCM in April 2005.

Table 7.1: Metal Production (in metric tonnes), 2003-2005

Period	2003	2004	2005	% Change 2005/04
Copper	359,884	426,000	466,799	9.6
Cobalt	6,491	6,390	5,638.2	(11.8)

Source: Mining Companies

## Metal Prices

137. The price of copper on the London Metal Exchange (LME) continued to rise, reaching a record level of US \$2.20 per pound in the last quarter of 2005. Average realized prices of copper, for the Zambian industry, increased by 32.5 percent to US \$1.59 per pound from US\$1.20 per pound in 2004. The increased prices of copper were attributed to growing world demand, especially emanating from China. The average realised price for cobalt, however, substantially declined by 42.3 percent per pound to US \$12.85 from a high of US \$22.30 per pound in the previous year (see table 7.2).

Table 7.2: Average Realized Copper and Cobalt Prices (US Dollars per pound), 2003-2005

Period	2003	2004	2005	% Change 2005/04
Copper	0.78	1.20	1.59	32.5
Cobalt	8.40	22.30	12.85	(42.3)

Source: Bank of Zambia

## Other Mining and Quarrying Sub-Sector

138. The performance of the Other Mining and Quarrying sub-sector, in 2005, was impressive with a growth rate of 49.7 percent compared to 25.2 percent in 2004. This performance was largely driven by the increase in coal production at Maamba Collieries. Production increased by 44.6 percent to 149,445 Mt in 2005. The change in production arrangement that was put in place by new management in 2004 is the primary reason production continues to improve at Maamba Collieries. In addition, improved investment at the mine contributed to increased coal production.

## Other Developments

139. A major development in the year was the commencement of production of copper at Kansanshi Mine in Solwezi, where 79,626 Mt of copper was produced and 1,300 jobs created.

An important expansion of production capacity in the sector has been created as it is estimated the Kansanshi mines' production will stabilise at 140,000 Mt of copper a year. In addition to the development at Kansanshi, the Konkola Deep Mining Project was officially launched. The eventual development of the project is expected to increase underground ore production by 200 percent to 6 million tonnes per annum. The life-span of KCM has, consequently been prolonged for an additional 22 years from 2013 to 2035.

140. The process of privatising the Mulishi and Baluba North Deposit, with an estimated 44.6 million tonnes of ore, reached an advanced stage as bids were received. In addition, the development agreement concerning the development of Lumwana mine in the North Western province was signed between the Government of Zambia and First Quantum Mineral PLC. Lumwana has one of the world's largest undeveloped copper deposits and it is estimated that the mine will produce about 125,000 Mt per year once production commences.

141. In the small-scale mining sub-sector, the European Union loanable funds, managed by the Mining Sector Diversification Programme (MSDP), continued to be inaccessible. In 2005, only two applicants successfully obtained financial support compared to 5 in 2004 and 2 in 2003. Out of a total of €16.5 million, managed by the MSDP, only €3.3 million have been loaned out. In an effort to improve accessibility of the loanable funds provided, an estimated 1 million Euros was, in late 2005, transferred from the MSDP, to be managed by a micro finance institution. Under the new arrangement, conditions of obtaining the funds have been revised and should consequently result in greater accessibility.

142. Other important developments in the sector were the positive movements towards the development of Munali Hills (Nickel), Mkushi Copper Fields and Sasare copper in Petauke. In this regard, a number of feasibility studies and bankable documents were prepared as a result of findings from prospecting and exploration activities of 2004. Other prospecting and exploration activities continued throughout the country, showing positive indication of mineral deposits.

### Outlook

143. The mining sector is expected to continue registering positive growth in 2006. The continued investment in the sector, will lead to higher production of copper in the 2006. In particular, copper production is expected to expand at KCM, Mopani and Kansanshi Mines due to increased investment. Additionally, high copper prices are expected to stimulate further mining activities.



# Tourism

## 8

## CHAPTER

### Overview

Performance of the tourism sector in 2005 was satisfactory. The number of visitors and private sector investments continued to rise while the number of flights into the country, especially to Livingstone, also increased. Domestic tourism showed signs of improvements, with more local tourists visiting the national parks. The number of tourist enterprises and facilities being established also continued to expand across the country. The sector, however, continued to experience a number of constraints, which included inadequate infrastructure, a burdensome regulatory framework, and high operational costs.

### Sector Performance

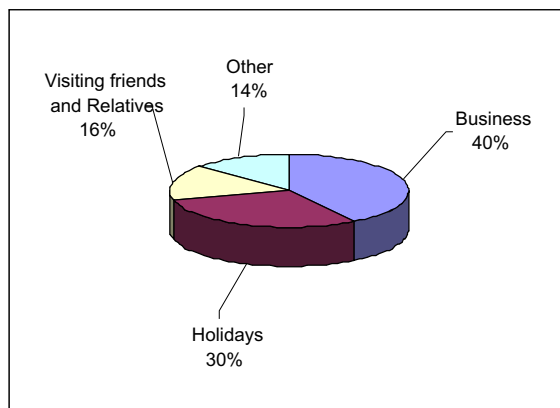
145. Tourism, measured by activities in Restaurants, Bars and Hotels sector, registered a growth of 12.1 percent in 2005 compared to 6.4 percent in 2004. Growth in this sector was on account of increased visitor arrivals as a result of enhanced marketing activities by both the Government and the private sector. In addition, rapid private sector investments in tourism related facilities, coupled with the increase in the number of flights enhanced growth in the sector.

146. The number of international visitors to Zambia in 2005, thus increased by 26.2 percent to 649,900 to 515,000 in 2004 (see table 8.1). Out of

this total, 64.4 percent came from within Africa, especially the Southern African region. Visitor arrivals from Europe rose sharply by 63.0 percent to 149,757. This was followed by those from Asia, which rose by 57.3 percent. Tourist arrivals from the Far East also increased, especially from Japan and China. The accession of Zambia to the Chinese Approved Destination Status (ADS) in 2004, also contributed to the increased number of tourists from that country.

147. The single largest majority of international visitors to Zambia continued to be those coming for business purposes. These were estimated at 265,197 or 40.9 percent of the total arrivals, and were mainly from within the Southern African region. The number of tourists coming for holidays in 2005 was estimated at 194,633 or 30 percent of total tourist's arrivals (see figure 8.1).

**Figure 8.1: International visitors by Purpose (Percent shares),2005**



**Table 8.1: International Tourist Arrivals, 2003-2005**

Country of Residence	2003	2004	2005*	% Change 2005/2004
Southern Africa	221,171	282,734	309,110	9.3
East Africa	54,807	54,807	45,735	(16.6)
North Africa	2,806	2,533	752	(96.7)
West Africa	3,905	3,757	1,607	(36.6)
Central Africa	24,736	23,087	61,171	165.0
Europe	71,363	91,863	149,757	63.0
America	22,667	29,053	39,025	34.3
Asia and Oceania	20,160	27,166	42,710	57.2
<b>Total</b>	<b>412,675</b>	<b>515,000</b>	<b>649,867</b>	<b>26.2</b>

Source: Ministry of Tourism Environment and Natural Resources



148. The number of tourists visiting the country's premier national parks increased by 13.8 percent in 2005 to 61,400 from 53,978 in 2004. During the year, visits by local tourists to the national parks rose by 28.2 percent to 19,436 from 15,157 in 2004. The number of international visitors increased by 8.1 percent to 41,964 from 38,821 in 2004 (see table 8.2).

**Table 8.2: Tourist Visits to the National Parks, 2003-2005**

	2003	2004	2005	% Change 2005/2004
Lower Zambezi	4,413	6,059	6,040	(0.3)
Mosi-oa-Tunya	23,497	17,762	19,972	12.4
South Luangwa	19,728	23,929	25,814	7.9
Kafue	3,812	3,789	6,202	63.7
Lochnivar	390	415	784	88.9
Other Parks	700	2,024	2,588	27.9
<b>Total</b>	<b>52,540</b>	<b>53,978</b>	<b>61,400</b>	<b>13.8</b>
International	40,388	38,821	41,964	8.1
Local	12,152	15,157	19,436	28.2

Source: Zambia Wildlife Authority

149. The most visited national park remained South Luangwa, with a total of 25,814 tourists visiting the park in 2005 (see table 8.3). This accounted for 42 percent of the total visitor arrivals to the national parks. Notable increases in visitor arrivals were, however, recorded at Lochnivar and Kafue National Parks, where arrivals shot up by 88.9 percent and 63.7 percent, respectively (see table 8.3). This was on account of new private investments in the parks as well as improved infrastructure such as access roads.

150. In 2005, a total of 13 lodges were under construction by the private sector in the five national parks, mostly in the Kafue National Park. At the end of the year, two lodges with an investment value of US \$0.7 million were completed in the Kafue and North Luangwa National Parks.

## Tourism Investment and Development

151. The hospitality industry continued to register an increase in the number and value of investments in accommodation facilities. In 2005, the number of accommodation facilities increased by 16.7 percent to 474 from 406 in 2004. Consequently, the number of beds rose to 11,698 from 10,778 in 2004 (see table 8.3).

152. The growth in investments in tourism facilities has been driven by the increase in tourist activities. In addition, Government continued to facilitate private sector investment through the Tourism Development Credit Facility (TDCF), which was launched in 2004 to support local entrepreneurs. By end of December 2005, the Government through the TDCF had disbursed a total of K10.0 billion to 78 local companies, community groups, youth groups and individuals, for investment in various tourism related ventures. The Government also continued to undertake public infrastructure works in order to support the development of the sector.

## Wildlife Sub-Sector

153. The Zambia Wildlife Authority (ZAWA) issued a total of 2,063 hunting licences in 2005 compared to 1,177 in 2004. This sharp rise was on account of improved marketing by safari outfitters and the lifting of the ban on hunting in the Kafue Flats Game Management Areas (GMAs). In terms of revenues, ZAWA realised a total of K15.0 billion from the hunting licences that were issued in 2005 compared to K13.1 billion in 2004 (see table 8.4).

154. Out of the K15 billion realised from hunting licences in 2005, K4.0 billion was disbursed to the communities living in the GMAs, and the remainder of K11.0 billion was retained by ZAWA.

**Table 8.3: Category and Number of Accommodation Facilities, 2004 and 2005**

Category	2004			2005			% Change 2005/2004
	No.	Rooms	Beds	No	Rooms	Beds	
Lodges	72	576	1,210	85	680	1,360	18.1
Hotels	66	3,960	6,930	65	4,080	7,140	(1.5)
Guest Houses	224	1,344	2,016	269	1,614	2,421	20.1
Camp Sites	29	174	420	36	288	530	24.1
Other	15	135	202	19	190	247	26.7
<b>Total</b>	<b>406</b>	<b>6,189</b>	<b>10,778</b>	<b>474</b>	<b>6,852</b>	<b>11,698</b>	<b>16.7</b>

Source: Ministry of Tourism Environment and Natural Resources

**Table 8.4: Licences Issued and Revenues Collected by ZAWA, 2004 and 2005**

Item	Number of Licences			Revenue earned (K billions)		
	2004	2005	% Change	2004	2005	% Change
<b>Non-Resident Hunting</b>						
Safari Hunting Concessions (hunting blocks)	24	33	37.5	4.3	4.6	7.0
Safari Outfitters Licenses	24	33	37.5	0.3	0.4	33.3
Non- Resident hunting Licenses (animals)	388	471	21.4	7.2	8.7	20.8
Non- resident hunting Licenses (birds)	254	313	23.2	0.1	0.2	100.0
<b>Resident Hunting</b>						
Resident hunting licenses (animals)	157	426	171.3	0.7	0.6	(14.3)
Resident hunting licenses (birds)	283	720	154.4	0	0.1	
<b>Professional hunters</b>						
Professional hunters licenses issued	47	67	42.6	0.4	0.4	0.0
<b>TOTAL</b>	<b>1,177</b>	<b>2,063</b>	<b>75.3</b>	<b>13.0</b>	<b>15.0</b>	<b>15.4</b>

Source: Zambia Wildlife Authority

155. The revenues disbursed to the GMA's were used to implement various development programmes. These included the building of community schools and clinics.

156. As part of the policy to encourage private partnerships in the management of wildlife resources, the Government in 2004 facilitated the signing of an agreement between the Barotse Royal Establishment (BRE) and the African Parks (AP) for the management of Liuwa Plains National Park. Through this arrangement, a total of US \$2.0 million had been invested in the park by AP by end-2005. In addition, an average of US \$2,000 per month was being provided to the communities who live in the park.

157. During 2005, ZAWA continued to undertake several anti-poaching activities. As a result, 1,690 suspected poachers were arrested compared to 1,783 in 2004. The number of items confiscated in general, also declined. A total of

930 firearms were confiscated compared to 1,264 in 2004, while the number of weapons reduced to 9,009 from 10,772 in 2004. The quantity of game meat confiscated, however, increased to 11,953 Kg from 9,220 Kg in 2004. The ivory recovered also increased by 39.3 percent from 112 pieces in 2004 to 156 pieces in 2005 (see table 8.5).

### Outlook

158. The tourism sector is expected to continue registering strong growth in 2006. This is premised on rising investment levels in the sector and the effects of enhanced marketing, including the Visit Zambia Campaign, which was extended by five years. Further, the new Tourism and Hospitality Act, which is expected to come into effect in 2006, will provide a new regulatory framework that will streamline licensing procedures. This will reduce the cost of doing business in the sector.

**Table 8.5: Confiscations and Other Anti poaching Activities by ZAWA, 2004 and 2005**

Item	2004	2005	% Change
<b>Firearms</b>	<b>1,264</b>	<b>930</b>	<b>(26.4)</b>
Military rifles	100	52	(48.0)
Sport rifles	61	30	(50.8)
Shotguns	214	235	9.8
Home made shotguns	171	168	(1.8)
Muzzle loading guns	718	445	(38.0)
<b>Other Weapons</b>	<b>10,772</b>	<b>9,009</b>	<b>(16.4)</b>
<b>Game meat (kg)</b>	<b>9,220</b>	<b>11,953</b>	<b>29.6</b>
<b>Arrests</b>	<b>1,783</b>	<b>1,690</b>	<b>(5.2)</b>
<b>Patrol man-days</b>	<b>72,393</b>	<b>169,761</b>	<b>134.5</b>
<b>Elephant tusks</b>	<b>112</b>	<b>156</b>	<b>39.3</b>

Source: Zambia Wildlife Authority

## Overview

During the year under review, the sector experienced enormous challenges ranging from external factors to internal structural limitations. The sector was characterized by fuel shortages and load shedding of electricity. This notwithstanding, electricity generation and supply of petroleum products marginally improved.

### Key Policy Developments

160. The Government during the year establishment of national petroleum strategic reserves as a way to secure reliable petroleum supply. Interim measures such as the suspension of import duty and lowering of excise duties were implemented to help restore adequate supply in the wake of the severe fuel crises of 2005. In addition, a statutory instrument was issued, compelling oil-marketing companies to store fifteen days' operating stock.

161. In 2005, the Government continued to facilitate new investments in power generation. This was in view of the impending deficits both in the country and the entire SADC region by the end of the decade. Negotiations for financing of Itezhi-Tezhi, Kariba North and Kafue Lower hydro power stations were undertaken and feasibility studies carried out.

## Sector performance

### Electricity sub - sector

162. Total generation of electricity in 2005 increased by 1.3 percent to 8,568,000 MWh from 8,462,000 MWh in the previous year (see table

9.1). The marginal increase in generation was due to increased generation capacity as a result of the on-going rehabilitation project at the main hydro stations

163. The volume of electricity exports during the year declined by 49.2 percent to 249,292 Mwh from 490, 913 MWh the previous year (see table 9.2). The generation capacity constraints adversely affected the sector's export capacity as ZESCO could only export limited amounts of power during off-peak periods.

164. During the year under review, as part of the on-going commercialization of ZESCO Limited, a cost of service study aimed at determining the economic cost of supplying power to various customer groups, was initiated. The information derived from the study will help in the design of cost reflective tariffs necessary for the utility to meet its operating costs and provide quality and reliable service. During the year, retail tariffs for electricity rose by 11.0 percent. The increase was largely driven by rising operating costs experienced by the main power utility, ZESCO limited.

165. The newly established Rural Electrification Authority (REA) continued to support rural electrification projects, including connection of off-grid diesel generated networks to the national grid. In 2005, a total of K 5.1 billion was spent on the electrification programme and by end-December, 32 rural electrification projects were completed and 53 were on-going. Some of the major projects being carried out were the electrification of Nasanga farm block, Nyimba District and Gwembe Tonga (see table 9.2).

Table 9.1: Electricity Generation (In '000 MWh), 2003-2005

STATION/MONTH						% Growth	% Growth
	2001	2002	2003	2004	2005	2004/03	2005/04
Main Hydro Stations	8,168	9,059	8,044	8,180	8,518	1.7	4.1
Mini Hydro Stations	28	34	42	51	37	21.4	(27.5)
Diesel Stations	17	17	18	17	13	-5.6	(23.5)
Mulungushi	-	81	204	214	-	4.9	-
<b>Total</b>	<b>8,213</b>	<b>9,191</b>	<b>8,308</b>	<b>8,462</b>	<b>8,568</b>	<b>1.9</b>	<b>1.3</b>

Source: Zambia Electricity Supply Cooperation Limited

**Table 9.2: Electricity Exports ,(In MWh) 2003 to 2005**

Country	2003	2004	2005	% Change 2005/2004
	MWh	MWh	MWh	MWh
Congo DR	5,736	3,808	4,390	15.3
Tanzania	11,333	17,757	20,530	15.6
Botswana	14,717	10,907	11,900	9.1
Namibia	21,960	21,570	22,302	3.4
Zimbabwe	3,678	3,607	4,593	27.3
South Africa	647,935	433,265	185,576	(57.2)
<b>Total</b>	<b>705,359</b>	<b>490,913</b>	<b>249,292</b>	<b>(49.2)</b>

Source: Ministry of Energy and Water Development

166. ZESCO Limited in the year continued to implement the Power Rehabilitation Project at its major power stations. The PRP is aimed at enhancing the reliability of ZESCO's generation and transmission infrastructure and is expected to yield additional generation capacity of about 200MW after completion of the project.

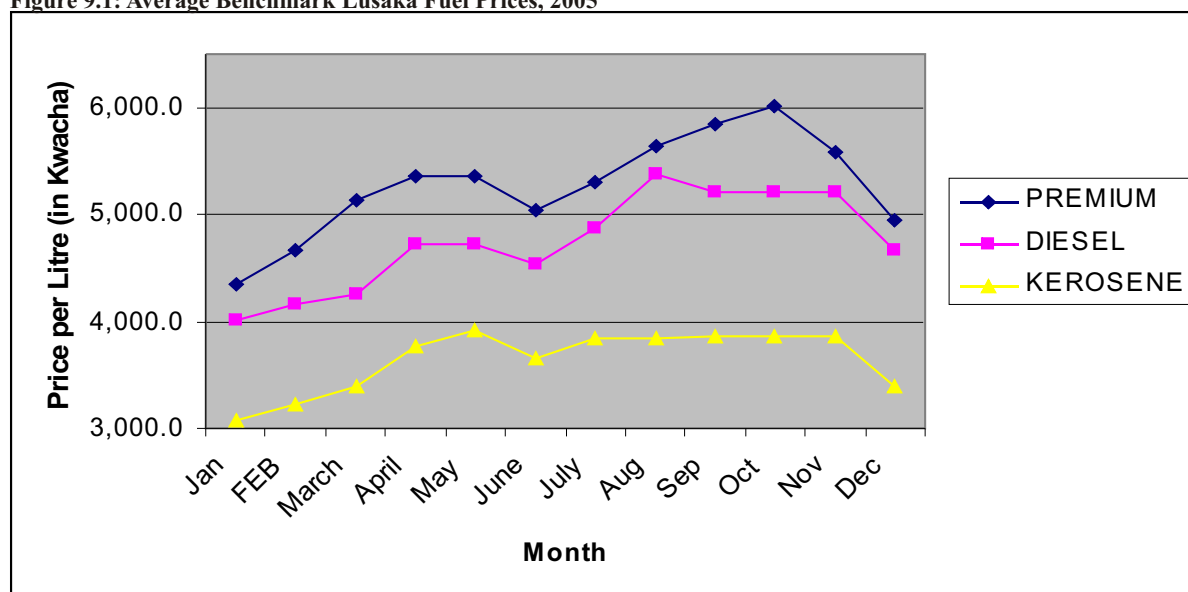
#### Petroleum sector and other fossil fuels

167. The year under review was largely characterised by volatile petroleum prices on the world market, registering unusually high levels for most of the year. By August, the average spot price of crude oil price hit an all time high of US \$65 per barrel in the wake of hurricane Katrina. The price of crude closed the year at about US \$58 per barrel. Consequently, local average fuel pump

prices experienced sharp rises over most of 2005. This was as a result of corresponding trends on the international oil markets.

#### Include diesel/kerosene in figure

168. The supply of petroleum products in the year under review generally reduced. Petrol declined by 3.4 percent, Kerosene by 29.5 percent and LFO by 33.8 percent. Similarly, Avgas declined by 28.2 percent, while Jet A-1 declined by 4.3 percent. Diesel supply, however, increased by 3.2 percent (see table 9.4). This outturn was largely due closures at INDENI oil refinery in July and September to October due to operational problems.

**Figure 9.1: Average Benchmark Lusaka Fuel Prices, 2005**

**Table 9.3: Status of Selected Rural Electrification Projects, end-December 2005**

Province/Project Name			
Central	Estimated cost	Amount Disbursed in Kwacha	Progress/Status
Electrification of Chisamba/Katuba farm bloc	4,982,392,106	550,000,000	90 percent of work done
Electrification of Nansanga farm block	10,000,000	9,144,218,579	75 km of construction works of 33 km have been done, 20 km is remaining.
<b>Copperbelt</b>			
Electrification of Iufwanyama district phase 2	6,348,947,000		Design and preliminary survey completed, construction began.
Electrification of Chibolya - Mufulira	1,231,000,000	1,000,000,000	40 percent of work done and connecting lines was in progress.
Electrification of Miegwe	2,059,758,524	300,000,000	90 percent of work is done, connecting lines was in progress.
<b>Eastern</b>			
Electrification of Nyimba District	7,200,000,000	1,165,625,000	completed
Electrification of Lumezi	3,423,645,000	200,000,000	Project design details and works order completed.
<b>Luapula</b>			
Electrification of Chembe	7,600,000,000	175,000,000	90 percent of work is done.
Electrification of Chipili Mission - Mwense	3,856,146,201	400,000,000	90 percent of work is done.
<b>Lusaka</b>			
Connection of Luangwa to the Grid	56,750,000,000	3,000,000,000	Project design completed and now undergoing surveying.
<b>North Western</b>			
Electrification of Chief Mujimanzovu	2,534,390,000	400,000,000	20 percent of work is done.
Connection of Mufumbwe to the Grid	16,775,000,000	-	The project design has been completed.
Connection of Kabompo to the Grid	20,675,000,000	-	The project design has been completed.
Connection of Zambezi to the Grid	26,525,000,000	-	The project design has been completed.
<b>Northern</b>			
Connection of Kaputa to the Grid	12,000,000,000	2,900,000,000	Detailed surveying and pole pegging is in progress.
Electrification of Choza Tazara Railways	4,500,000,000	1,500,000,000	40 percent of the work is done.
<b>Southern Province</b>			
Electrification of Gwembe Tonga	12,600,000,000	1,150,000,000	60 percent of the work is done.
Electrification of Sikalongo Mission-Choma	567,138,107	567,138,107	30 percent of work is done.
<b>Western</b>			
Electrification of Nkeyema (TBZ)-Area, Kaoma	8,818,394,510	200,000,000	Surveying works is in progress.
Electrification of Shangombo	3,500,000,000	1,000,000,000	Feasibility study and project design has been completed.

Source: Ministry of Energy and Water Development

**Table 9.4: Petroleum Supply (Mt), 2003-2005**

Product	2003	2004	2005*	% Change 2005/2004
Petrol	116,351	119,833	115,708	(3.4)
Kerosene	13,770	14,028	9,888	(29.5)
LSGO	2,799	2,171	-	-
Diesel	221,313	261,986	270,464	3.2
LFO	396	796	527	(33.8)
HFO	-	65,526	66,045	0.8
Lubes	12,187	16,405	16,576	1
Bitumen	909	2,105	-	-
LPG	1,109	3,317	3,422	3.2
Avgas	1,171	1,618	1,161	(28.2)
Jet A-1	21,105	26,643	25,502	(4.3)

Source: Energy Regulation Board

\*Figures for the last quarter of 2005 have been extrapolated from the January - September 2005 figures

169. During the year under review, the number of licensed oil marketing companies increased. The ERB licensed 5 new companies bringing the total to 18. In addition, Government commissioned several studies to investigate various policy options to guarantee security of supply and minimise the level and volatility of fuel prices. An audit of INDENI oil refinery operations was also instituted in the year.

### Outlook

170. The outlook for 2006 is fairly positive in terms of power generation given the progress made in the Power Rehabilitation Project and favourable rains experienced in the 2005/06 rainy season. However, given the rapid growth in demand for electricity arising from the general growth in the economy, there will be need to expedite the sourcing of funds for investment in new electricity generation projects in the year 2006 to forestall worse load shedding in the years to come. Petroleum supply is expected to stabilise as a result of the various measures undertaken by the Government in 2005.



# Manufacturing

## 10

## CHAPTER

### Overview

The manufacturing sector in 2005 grew by 3.8 percent compared to 4.7 percent in 2004. Growth was mainly driven by the food, beverages and tobacco sub-sector. All the sub-sectors of manufacturing registered growth, except for the textile, leather and basic metal products sub-sectors. The improvements in the macroeconomic conditions, including the strengthening of the Kwacha, impacted positively on the performance of the sector.

### Policy Developments

172. In line with the Private Sector Development (PSD) reforms, Government in 2005 set up the institutional framework for the implementation of the PSD Reform Action Plan. The Government also prepared a framework that laid a foundation for the merging of five of the statutory bodies under the Ministry of Commerce, Trade and Industry into the 'Zambia Development Agency' (ZDA) to provide a one-stop-shop to investors.

### Sub-sector performance

173. The Food, beverages and tobacco sub-sector grew by 4.8 percent in 2005 compared to 5.8 percent in 2004. The growth of the sub-sector was mainly due to an increase in production of grain mill products, opaque beer, and sugar and tobacco products. Continued rise in exports, particularly to the European market for sugar, also stimulated growth in the sub-sector..

174. Positive growth was also recorded in the Chemicals, rubber and plastics, Non-metallic mineral products, Wood and wood products and the Paper and paper products sub-sectors, mainly on account of a rise in both domestic and external demand (see table 10.1). For the Non-metallic mineral products sub-sector, which grew by 6.8 percent, increased cement production to meet the rising domestic demand, especially for residential housing and commercial purposes, was the main reason driving growth in the sub-sector. The Fabricated metal products sub-sector also continued to grow and registered a growth of 4.2 percent due to a rise in domestic demand for fabricated metal products, especially to meet the expanding construction activities in the country.

Table 10.1: Manufacturing Sector Value Added By Sub-sector, 2003 -2005

Sub-sector	2003	2004	2005*	% Change 2004/2003	% Change 2005/2004
Food, Beverages and Tobacco	187.7	198.6	208.1	5.8	4.8
Textile, and leather industries	51.3	50.3	48.0	(1.9)	(4.7)
Wood and wood products	24.4	25.4	27.3	4.2	7.5
Paper and Paper products	8.6	8.9	9.7	2.5	9.6
Chemicals, Rubber and Plastic products	26.4	28.6	30.1	8.5	5.1
Non-metallic mineral products	5.6	6.4	6.8	14.4	6.9
Basic metal products	1.4	1.4	1.4	3.1	(3.9)
Fabricated metal products	6.1	6.4	6.6	4.8	4.2
Total manufacturing	311.4	325.9	338.0	4.7	3.7
Total GDP	2,846.5	2,999.2	3,153.5	5.4	5.1
Share of manufacturing in total GDP	10.9	10.9	10.7	0.0	(1.8)

Source: Central statistical Office

175. In the Textiles and leather products sub-sector, however, declined for a second consecutive year. Output declined by 4.7 percent in 2005 having also contracted by 1.9 percent in 2004. The continued poor performance of the sub-sector has been due to several factors, including the stiff competition from imported textile products, particularly from the Far East. The Basic metal products sub-sector also recorded a decline in growth of 3.9 percent. This was attributed to the closure of most enterprises in the sub-sector.

### **Outlook**

176. The sector is expected to continue registering positive growth aided by further improvements in the macroeconomic environment and incentives that have been provided by the Government, especially in the textiles sub-sector. In addition, the expected positive outturn in the agricultural sector is expected to spur the food processing industry of manufacturing.

# Transport and Communications

## 11

## CHAPTER

### Overview

The Transport and communications sector registered a growth of 8.5 percent in 2005 compared to 6.4 per cent in 2004. This expansion emanated from the road and air transport, and communications sub-sectors. The rail transport sub-sector, however, continued to record a decline in performance, mainly on account of poor rail infrastructure.

### Policy Development

178. The Government in 2005 approved the Information and Communications Technology (ICT) Policy. The policy will provide a framework for the overall development of the ICT sector in Zambia. In addition, the Government undertook the review of the Telecommunications Act of 1994 to bring it in line with current developments in the sub-sector.

179. During the year under review, a private sector participation options study for the management of the Tanzania Zambia Railways (TAZARA) was conducted by the Zambia Privatization Agency and its counterpart agency in Tanzania. The study recommended various options on how the private sector could participate in TAZARA, which included outright privatization, formation of a Joint venture company, or concessioning. The Government also commenced a comprehensive review of the Railway Systems of Zambia (RSZ) freight and passenger service concession agreement. This review was necessitated by the unsatisfactory performance of the Concessionaire.

180. In the meteorology sub-sector, the Government commenced the process of preparing a draft meteorological policy. Several consultations were undertaken with various stakeholders and the policy is expected to be in place by 2006.

181. The Government continued with the implementation of institutional reforms in the road sub-sector. In this regard, the Roads Development Agency (RDA), the National Road Fund Agency (NRFA) and the Road Safety Agency (RTSA) created in 2004 become operational in 2005. In line with the PSD reform programme, the Government in 2005 also started the process of developing the Public-Private Sector Partnership policy. This is aimed at providing a framework that would stimulate private sector participation in construction, rehabilitation and maintenance of infrastructure in collaboration with the public sector.

### Sector Performance

#### Railway Transport Sub-sector

182. The performance of the railway sub-sector continued to deteriorate with value added declining by 5.9 percent in 2005 compared to a decline of 1.8 per cent in 2004. The continued poor performance of the sub-sector is mainly attributed to the poor railway infrastructure especially for RSZ. In the case of TAZARA, the continued lack of capitalization in the company has led to the low availability of wagons and locomotives.

Table 11.1: Cargo and Passengers Transported by Rail, 2003-2005

Railway Company	Cargo (mt)				No. of Passengers			
	2003	2004	2005	% Change	2003	2004	2005	% Change
				2005/2004				2005/2004
RSZ	1,422,710	1,235,241	1,133,339	(8.2)	270,000	340,000	332,017	(2.3)
TAZARA	601,870	568,100	622,560	9.6	927,366	829,913	841,322	1.4
<b>Total</b>	<b>2,024,580</b>	<b>1,803,341</b>	<b>1,755,899</b>	<b>(2.6)</b>	<b>1,197,366</b>	<b>1,169,913</b>	<b>1,173,339</b>	<b>0.3</b>

Source: RSZ and TAZARA

183. Total cargo transported by the railway industry declined by 2.6 percent in 2005 to 1,755,899 Mt compared to 1,803,341 Mt in 2004. This decline was attributed to RSZ, where cargo transported declined by 8.2 percent. For TAZARA, cargo transported increased by 9.6 percent (see table 11.1). The number of passengers transported by rail increased marginally by 0.3 percent to 1,173,339 during the year (see table 11.1).

### Air Transport Sub-sector

184. Value added in the air transport sub-sector increased by 21.4 per cent in 2005 compared to

18.1 per cent in 2004. This was primarily due to increased air traffic and passenger movements at major airports. Aircraft movement rose by 3.8 percent to 38,344 in 2005 from 36,926 in 2004. This was on account of the introduction of new flights by the South African Airways and Angola Airline (see table 11.2).

185. Passenger traffic grew by 9.6 percent to 674,925 in 2005 from 615,755 in 2004. The Livingstone and Mfuwe Airports recorded the highest increase in passenger movements reflecting, the rise in tourism activities in the areas (see table 11.3).

**Table 11.2: Aircraft Movement (Take-offs and Landings), 2004 and 2005**

Airport	2004			2005			% change
	Dom	Int	Total	Dom	Int	Total	
Lusaka	13,014	8,453	21,467	13,530	7,783	21,313	(0.7)
Ndola	3,042	2,673	5,715	3,601	2,331	5,932	3.8
Livingstone	1,857	4,294	6,151	2,252	4,643	6,895	12.1
Mfuwe	2,753	840	3,593	3,235	969	4,204	17.0
<b>TOTAL</b>	<b>20,666</b>	<b>16,260</b>	<b>36,926</b>	<b>22,618</b>	<b>15,726</b>	<b>38,344</b>	<b>3.8</b>

Source: National Airports Corporation Limited

### Infrastructure Development in the Air Transport Sub Sector

186. In 2005, the Government continued to undertake infrastructure improvements in the subsector. At the Lusaka International Airport, a sum of K16.7 billion was spent on rehabilitation of taxiways, fire hydrants and renovation of facilities in the control buildings including installation of a main standby generator. Rehabilitation of taxiways and fire hydrants was completed while renovations of facilities in the control buildings were 60 percent complete as at end-2005.

187. At Ndola Airport, Government embarked on the construction of the International Arrivals Hall and installation of power supply automatic

change over cubicle for a standby generator set. As at end-December, the installation of the power supply generator was completed, while the construction works were 95 percent done at a total cost of K663 million.

188. During the year, the works on the extension of the runway to accommodate large aircrafts at the Livingstone Airport commenced. A total of K64.1 billion is expected to be spent on this project and auxiliary works such as the hood extractor system, extension of the apron and the car park. Construction works at Mfuwe airport were also on-going at an expected cost of K172 million.

**Table 11.3: Air Passenger Movements (domestic and International), 2004 and 2005**

Airport	2004			2005			% change
	Dom	Int	Total	Dom	Int	Total	
Lusaka	62,918	327,332	390,250	61,620	358,609	420,229	7.7
Ndola	27,443	51,901	79,344	30,763	46,374	77,137	-2.8
Livingstone	9,218	117,086	126,304	12,613	142,243	154,856	22.6
Mfuwe	16,196	3,661	19,857	19,688	3,015	22,703	14.3
<b>TOTAL</b>	<b>115,775</b>	<b>499,980</b>	<b>615,755</b>	<b>124,684</b>	<b>550,241</b>	<b>674,925</b>	<b>9.6</b>

Source: National Airports Corporation Limited

189. During the year, the works on the extension of the runway to accommodate large aircrafts at the Livingstone Airport commenced. A total of K64.1 billion is expected to be spent on this project and auxiliary works such as the hood extractor system, extension of the apron and the car park. Construction works at Mfuwe airport were also on-going at an expected cost of K172 million.

190. The rehabilitation of Solwezi and Mongu aerodromes were completed during the year at a cost of US \$105,000 and US \$1million, respectively. At South Downs, rehabilitation works were on-going and were expected to cost K1.6 billion.

### Water Transport Sub-Sector

191. Traffic at the county's two main harbours generally increased in 2005. Mpulungu harbour handled 57,255 Mt of cargo in 2005 compared to 46,314 metric tonnes (Mt) in 2004, representing an increase of 23.6 percent. Mulamba harbour in Mongu, however, recorded decline of 11.4 percent to 97.4 Mt in 2005 from 108.5 Mts in 2004. Passenger throughput at Mpulungu rose by 9.4 percent to 8,135 in 2005 from 7,433 passengers in 2004. The increase in traffic throughput can mainly be attributed to increased efficiency of the vessel operators, who undertook more trips, as a result of repair works carried on the vessels. At Mulamba harbour the number of passengers declined by 3.9 percent to 1,596 in 2005 from 1,660 in 2004.

192. During the year under review, the Government procured an 80 seater water vessel for use at Lake Bangweulu, at a cost of K1 billion. A further, K1 billion was released for the purchase of another vessel for Lake Mweru. These purchases were aimed at improving the transport services on the two lakes.

### Communication Sub sector

193. Value added in the Communications sub-sector grew by 9.4 percent in 2005 compared to 5.0 percent in 2004. This was largely due to the expansion in network coverage by mobile phone service providers.

### Mobile and Fixed Lines Segment

194. The total number of active mobile subscribers on all the networks increased by 114.5 per cent from 503,663 to 1,080,256 in 2005 covering more than 80 per cent of the districts in the country. The growth was attributed to the reduced costs of handsets following the reduction of duty, expansion of coverage and provision of a variety of value added services.

195. Celtel, particularly, recorded a phenomenal growth of 159.4 percent in the number of subscribers to 700,438 in 2005. Consequently, their market share grew from 53.6 percent in 2004 to 72.0 percent in 2005. The subscriber base for MTN (formerly Telecel) grew by 129.0 percent in 2005 while that of Cell Z increased by 61.0 per cent. This resulted in the overall mobile teledensity increasing to 8.5 percent in 2005 from 4.5 percent in 2004. The number of fixed telephone lines increased by 2.8 percent from 90,663 in 2004 to 93,175 in 2005. This slow growth was mainly due to the stiff competition from the mobile segment. Consequently the overall fixed line teledensity declined by 0.05 percent from 0.85 percent in 2004 to 0.8 percent in 2005(see table 11.4).

### Internet Segment

196. The total internet subscriber base grew by 33.7 percent to 16,518 in 2005 from 12,352 in 2004. Micro link recorded the most growth from 590 subscribers in 2004 to 1,022 subscribers in 2005, representing a 73.2 percent increase. Zamnet was second registering a growth of 67.8

**Table 11.4: Subscriber base for Phone Service providers, 2003-2005**

Service Provider	Type of service provided	2003	2004	2005	% change 2005/2004
Zamtel	Fixed lines	88,561	90,663	93,175	2.8
Cell Z	Mobile	55000	60,000	96,593	61.0
MTN (Telecel)	Mobile	45151	83000	190,050	129.0
Celtel	Mobile	91,000	270,000	700,438	159.4
Total		279,712	503,663	1,080,256	114.5

Source: Communications Authority of Zambia

**Table 11.5: Internet Subscriber base, 2003- 2005**

Service Provider	Type of service provided	2003	2004	2005	% change
Zamnet	Internet	3,529	3,529	5,920	67.8
Zamtel	Internet	3,983	3,983	5,539	39.1
Coppernet	Internet	3,913	3,913	3,700	(5.4)
Microlink	Internet	346	590	1,022	73.2
Uunet	Internet	221	337	337	0.0
Total		11,992	12,352	16,518	33.7

Source: Communications Authority of Zambia

197. The modest growth in the internet segment compared to that of the mobile segment could be attributed to a number of factors, which included the continued high cost of acquiring computers and limited access to fixed telephony, which forms the main telecommunications infrastructure for Internet access. In addition, the lack of a national telecommunication backbone also contributed to the modest growth in the internet segment. The telecommunication infrastructure backbone constitutes the main telecommunications carrier of traffic in the form of an optic fibre network spanning across the country.

#### Telecentres segment

198. The number of licensed Telecentre operators increased by 8.9 percent to 501 from 460 in 2004. The main services in these telecentres include fixed and cellular voice services internet services, photocopying and faxing. In order to encourage the growth of the sub-sector, the Government in 2005 initiated the review of the legal framework aimed at facilitating the removal of the license fees associated to setting up of telecentres.

#### Outlook

199. The continued expansion of the economy, especially in the mining, agriculture and tourism sectors is expected to spur growth in the transport and communications sector. The mobile segment is also expected to continue growing due to increased investments by the service providers. Prospects are also high in the ICT sub-sector. This is in view of the commencement of the establishment of an optic fibre infrastructure backbone network. The infrastructure is expected to reduce the cost of communication significantly.



# Building and Construction

## Overview

In the year under review, the construction sector continued to register positive growth. Preliminary data indicates that value added in the sector increased by 19.9 percent compared to 20.5 percent in the previous year. Growth in the sector continued to be driven by activities in the road sub-sector and residential housing. In addition, infrastructure development in the copper mines, particularly in the North Western and Copperbelt provinces also contributed to growth in the sector.

## Sector Performance

### Road sub-sector

201. The Government continued with the construction, rehabilitation and maintenance of the road infrastructure. Road works amounting to K147 billion were commissioned during 2005 and included K4.7 billion for bailey bridges and

pontoons for Luapula, Central, Northern and Lusaka provinces. The major road works undertaken included the Chingola Solwezi road, the Petauke Katete road and urban road rehabilitation. The estimated number of kilometers maintained in the year under review was 3,398.

202. Government direct funding to the road sub-sector in the year under review was K247.5 billion against the budgeted K349.2 billion, representing 71.0 percent of the budget allocation. Most of the disbursed funds went towards offsetting accrued debt. In this regard, K118.1 billion out of a K342.6 billion owed to contractors was paid during the year.

203. Under the Poverty Reduction Programme, K72.0 billion was released for rural roads development out of the total budget of K80.0 billion, representing 84.3 percent of the budgeted funds (see table 12.2).

**Table 12.1: Major Road Rehabilitation/upgrading Projects undertaken in 2005**

Project	Work Description	Status	Financing	
			Amount in K'bn	Source
Kashikishi-Lunchinda Rd	Rehabilitation/upgrading	On going	2	GRZ
Mumbwa-Landless Corner Rd	Rehabilitation/upgrading	10km rehabilitation using soil fix	3.5	GRZ
Livingstone-Sesheke Road	Rehabilitation/upgrading	Settlement of counterpart arrears	1.8	GRZ
Accelerated urban roads	rehabilitation of Urban roads	On-going	58	Road Fund
Chingola-Solwezi ,Nyimba Katete	Periodic Maintenance	On-going	79	Road Fund
Makeni – Kafue	Routine maintenance	Completed	5	Road Fund
Bailey bridges and pontoons in Luapula, Central and Northern Provinces	Installation and maintenance		4.7	Road Fund
Lusaka- Mongu and feeder roads along the corridor	Rehabilitation/ Maintenance	167 km completed		Donor
Dundumwezi to Itzehitezhi	feasibility study and Axle Load Control			Donor

Source: Ministry of Works and Supply

### Building sub-sector

204. In the year under review, there was a notable increase in private sector investment in the sector. The major private sector works included shopping malls, office buildings, hotels and housing projects in various parts of the country. Particularly, there was a notable increase in housing construction during the year. As a result of increased construction activities, cement production increased to 571,064 Mt in 2005 from 509,285 Mt the previous year. Because of the rapid increase in demand, the local producer of cement announced plans to set up a new plant in Lusaka at an estimated cost of US \$140 million to be operational by 2008. In addition, another company also commenced the process of setting up a cement company on the copperbelt at an estimated cost of US \$27 million.

205. During the period under review, the construction of the New Chirundu Bridge and Katimamulilo border infrastructure continued, particularly, the freight terminal and the passenger control buildings. A total of K28.7

billion to new Chirundu bridge and K1.4 billion to Katimamulilo bridge infrastructure. The works at Katima Mulilo stalled due to contractual hitches. During the year, several Government Ministries and institutions were accommodated in the New Government Complex.

### Outlook

206. Growth in the construction sector is expected to remain strong in 2006 due to increased investment activities in the economy. This is particularly, premised on the large infrastructure projects that are underway such as road rehabilitation programme by the Government and donors, the Konkola Deep Mining Project by KCM and the development of the Lumwana mine. Other notable projects are the expansion of the Livingstone International Airport. The continued growth in residential housing, especially in the urban centres, where there is a large shortfall in supply, and ongoing investments in hotels and shopping malls, are expected to also stimulate construction in 2006.

**Table 12.2: Status on Rural Road Development, 2005**

Province	Targeted Distance in (km)	(K billion)	Status
Central	515.9	3.7	119.3 km completed while procurement of works were in progress for 5 roads.
Copperbelt	484.9	3.1	154.25 km completed, 9 km of pothole stabilization and patching for 1 road while procurement of works were on going for another road
Eastern	515.6	9.9	271 km completed while procurement of works were in progress for 4 roads.
Luapula	492.6	3.1	1 culvert completed, 277 km completed while procurement of works were in progress for 4 roads
Lusaka	125.4	3.1	20 km completed, ongoing works on 93.4 km while procurement of works were in progress for 3 roads.
Northern	1,151.6	17.6	143.2 km completed , works on the Mbesuma bridge stalled while procurement of works were in progress for 6 roads.
N/Western	1,209.2	16.9	174 km completed, pothole patching completed 241 km while procurement of works were in progress for 2 roads.
Southern	3,72.6	12	358.2 k m completed while works were on going on 14.2 km
Western	474.2	2.6	191 km completed while procurement of works were in progress for 8 roads.
TOTAL	4969.4	72	1707.95 km completed

Source: Ministry of Works and Supply

# Education

## Overview

The education sector continued to register progress in 2005, especially with regard to access, retention and completion at the basic school level. The gender parity at basic school level also improved significantly. At high school level, although access increased, it remained low compared to the basic school level due to limited classroom space. Generally, the rural provinces considerably lagged behind with respect to education provision at both basic and high school levels. During the year, funding to the sector improved, although the sector continued to face a critical shortage of teachers as well as teaching and learning materials at all levels.

## Policy Developments and Measures in 2005

208. The Government continued to implement the Free Basic Education policy and interventions to remove barriers to education for Orphans and Vulnerable Children (OVCs) and Children with Special Educational Needs (CSEN). Policy directives on HIV/AIDS were also executed. The Technical Education, Vocational and Entrepreneurship Training (TEVET) Fund, which is intended to support the provision of skills training by the TEVET training providers, was established during the year.

### Basic school sub-sector

#### Enrolments

209. Total pupil enrolments at the basic school level (Grade 1-9), increased by 13.1 percent to 2,848,357 in 2005. Male enrolments increased by 12.1 percent to 1,458,329 and accounted for 51.2 percent of total enrolments, while female enrolments rose by 14.1 percent to 1,390,028 and accounted for 48.8 percent of total basic school enrolments. The gender parity ratio at the basic school level improved from 0.93 in 2004 to 0.95 in 2005 (see table 13.1). The continued growth in the basic school enrolments was in part as a result

of the free basic education policy, sensitisation programmes, School Health and Nutrition (SHN) programme and the provision of bursaries to OVCs. A total of K3 billion was disbursed to over 14,000 deserving OVCs in 2005.

**Table 13.1: Enrolments at Basic Schools level by Gender, 2003-2005**

	2003	2004	2005	% Change 2005/2004
Female	1,101,949	1,218,611	1,390,028	14.1
Male	1,184,666	1,300,530	1,458,329	12.1
<b>Total</b>	<b>2,286,615</b>	<b>2,519,141</b>	<b>2,848,357</b>	<b>13.1</b>

Source: Ministry of Education

210. At regional level, enrolments increased in all the provinces with North Western province recording the highest growth (see table 13.2). There were, however, wide disparities in terms of gender balance. The gender parity ratio was highest in Lusaka province at 1.04 followed by the Copperbelt province at 1.02. Central and Southern provinces recorded a gender parity ratio equivalent to the national average, where as Eastern, Luapula, North Western, Northern and Western provinces had gender parity ratios below the national average of 0.95 (see table 13.2).

211. Consistent with the rise in enrolments, the national Gross Enrolment Ratio (GER) improved to 104.6 percent in 2005 from 93.1 percent in 2004 (see table 13.3). Significant gains were made in the GER for females, which rose to 101.8 percent from 86.4 percent in 2004. The GER for males increased to 107.4 percent from 93.2 percent in 2004. The Net Enrolment Ratio (NER) also continued to improve, with the national average increasing to 92.3 percent from 82.7 percent in 2004. The greatest gains were made with regard to the NER for females, which improved to 91.7 percent from 78.2 percent in 2004, almost equalling that of boys, which was 92.9 percent (see table 13.3).

**Table 13.2: Enrolments and Gender Parity Ratios at Basic School level, 2004 and 2005**

	Enrolments			Gender Parity Index	
	2004	2005	%change	2004	2005
Central	275,250	319,105	15.6	0.94	0.95
Copperbelt	442,452	507,538	14.7	1.00	1.02
Eastern	274,108	307,303	11.9	0.93	0.94
Luapula	196,331	219,486	11.7	0.87	0.90
Lusaka	288,886	332,007	14.9	1.03	1.04
N. Western	154,004	179,254	16.4	0.89	0.91
Northern	363,883	394,603	8.3	0.86	0.88
Southern	352,910	398,428	12.6	0.94	0.95
Western	171,317	190,633	11.3	0.92	0.93
<b>National</b>	<b>2,519,141</b>	<b>2,848,357</b>	<b>13.1</b>	<b>0.94</b>	<b>0.95</b>

Source: Ministry of Education

212. Although both gross and net enrolments improved, there were large disparities between provinces. The Copperbelt province had the highest GER of 121.7 percent followed by Southern and Northern provinces at 115.2 percent and 113.7 percent, respectively. The other provinces had their GER below the national average with Eastern province recording the lowest (see table 13.4). Milenge District in Luapula Province was the worst performing district with a GER of 23.0 percent.

213. The completion rates for both male and female marginally improved in all provinces (see table 13.5). The national average completion rate in 2005 was 42.7 percent compared to 38.5 percent in 2004. The completion rate for boys was 46.4 percent compared to 39.1 percent for females. The low completion rates for females is mainly due to some cultural beliefs, which tend to discriminate against the girl child. Although completion rates improved at grade nine level, in comparison with grade seven level, they remained very low (see table 13.5).

**Table 13.3: Basic School Gross and Net Enrolment Ratios, 2003-2005**

	2003	2004	2005	Change 2005/2004
<b>Gross Enrolment Ratio</b>				
Female	84.1	86.4	101.8	15.4
Male	91.2	93.23	107.4	14.2
Average	<b>87.7</b>	<b>93.1</b>	104.6	11.5
<b>Net Enrolment Ratio</b>				
Female	77.2	78.2	91.7	13.5
Male	80.5	80.7	92.9	12.2
<b>Average</b>	<b>78.8</b>	<b>82.7</b>	<b>92.3</b>	<b>9.6</b>

Source: Ministry of Education

**Table 13.4: Basic School (Grades 1-9) Gross Enrolment Ratios by Gender and Province 2004 - 2005**

	2004		2005	
	Total	Male	Female	Total
Central	98.2	115.7	109.7	112.7
Copperbelt	104.8	121.6	121.8	121.7
Eastern	73.4	83.2	78.9	81.0
Luapula	84.7	98.2	89.7	94.0
Lusaka	80.3	91.4	93.5	92.4
N. Western	96.5	114.6	104.7	109.6
Northern	106.2	120.8	106.6	113.7
Southern	103.1	119.3	111.1	115.2
Western	88.4	101.6	93.8	97.7
<b>National</b>	<b>93.1</b>	<b>107.4</b>	<b>101.8</b>	<b>104.6</b>

Source: Ministry of Education

### Teachers Situation at the Basic School Level

214. The number of teachers at the basic school level declined by 7.4 percent to 42,362 in 2005, from 45,761 in 2004. The national basic school requirement was estimated at 48,357, leaving a shortfall of 5,995 teachers during the year.

### Pupil-Teacher Ratio

215. The national average pupil-teacher ratio at the basic school level worsened to 55.3 in 2005 from 52.6 in 2004. This was against the national recommended ratio of not more than 45.0. Northern province had the highest pupil teacher ratio of 70.8 followed by Eastern and Central provinces at 62.4 and 58.5, respectively. The ratio was lowest in Lusaka and Copperbelt provinces where it was 42.8 and 49.0, respectively (see figure 13.1).

### School Infrastructure and Education Materials

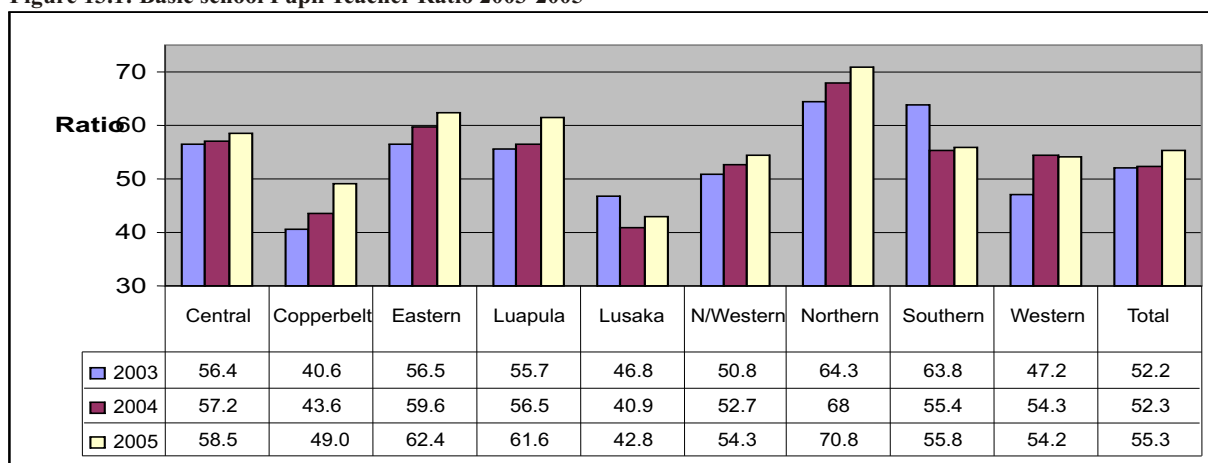
216. The number of basic schools in 2005 increased by 18.2 percent to 7,543. Out of this total, 4,969 or 65.9 percent were run by Government.

217. During the year under review, the supply of education materials to basic schools improved as a result of increased purchases by the Government. The Government spent a total of K1.5 billion to procure 234,000 text books. In addition, a total of K4.1 billion was spent to purchase text books and Teachers' Guides for Grade 1. As a result, the book-pupil ratio at basic school increased to 7.5 in 2005 from 6.4 in 2004.

**Table 13.5: Completion Rates at Basic School level by Gender and Province, 2004 and 2005**

	2004		2005 Grade 7			2005 Grade 9		
	Grades 1-7	Grades 1 - 9	Male	Female	Total	Male	Female	Total
Central	80.6	37.7	103.6	95.9	99.7	70.6	66.0	68.3
Copperbelt	88.6	60.6	93.2	82.2	87.7	49.4	44.2	46.8
Eastern	49.3	23.1	90.4	91.3	90.8	44.8	41.3	43.0
Luapula	53.1	27.7	99.3	85.8	92.5	51.8	41.9	46.8
Lusaka	83.1	38.7	71.9	54.6	63.3	36.6	26.9	31.9
N. Western	65.4	39.0	92.3	64.8	78.5	40.0	29.1	34.6
Northern	70.2	33.6	65.5	48.0	56.8	27.4	20.0	23.8
Southern	80.9	44.1	83.7	61.7	72.7	51.1	36.7	43.9
Western	60.7	30.0	75.5	62.5	69.0	38.0	29.9	33.9
<b>National</b>	<b>72.0</b>	<b>38.5</b>	<b>87.6</b>	<b>74.3</b>	<b>80.9</b>	<b>46.4</b>	<b>39.1</b>	<b>42.7</b>

Source: Ministry of Education

**Figure 13.1: Basic school Pupil Teacher Ratio 2003-2005**

## High School Sub-Sector

### Enrolments

218. Enrolments at the high school level increased by 5.9 percent to 167,612 from 158,238 in 2004 (see figure 13.2). The increase was partly as a result of an expansion in the number of high schools to 322 from 319 in 2004. In addition, some basic schools were upgraded to high school level, thereby contributing to the increase in enrolments.

219. The Gross Enrolment Ratio at the high school level, however, remained very low at 21.7 percent, indicating that access to high school education was still relatively limited. In particular the GER for females was 19.4 percent compared to 24.1 percent for males (see table 13.6).

**Table 13.6: Gross Enrolment Ratio (Percent) at high school level, 2003-2005**

	2003	2004	2005
female	12.13	18.8	19.41
male	15.04	24.1	24.07
National	13.9	16.5	21.7

Source: Ministry of Education

### High School Sub-Sector Teacher Situation

220. The number of teachers at the high school level increased by 20.8 percent to 9,833 from 8,143 in 2004 (see table 13.7). This was mainly due to the direct recruitment by high school boards.

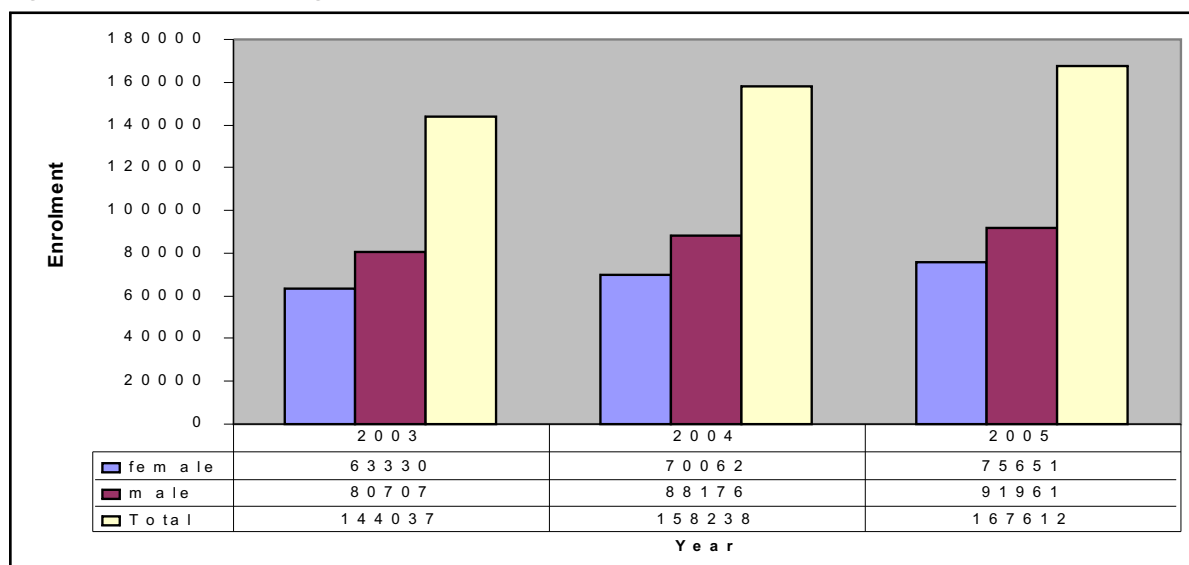
**Table 13.7: Teachers in High Schools by Agency and Province, 2005**

	GRZ	Private/ Church	Grant Aid.	Comm.	Unknown	Total
Central	736	132	172	3	0	1,043
Copperbelt	1,991	566	131	0	0	2,688
Eastern	588	45	248	1	0	882
Luapula	473	17	135	0	2	627
Lusaka	906	203	129	0	0	1,238
N. Western	515	0	48	0	0	563
Northern	622	17	102	24	8	773
Southern	589	303	484	0	75	1,451
Western	398	65	70	35	0	568
Total	6,818	1,348	1,519	63	85	9,833

Source: Ministry of Education



Figure 13.2: Enrolments in High School, 2003-2005



221. The pupil-teacher ratio at high school level improved to 21.8 in 2005, from 22.3 in 2004. The Copperbelt province had the highest ratio at 24.7 followed by Western and North-western province at 24.0 and 23.0, respectively (see figure 13.3). The lowest was Lusaka province with a pupil-teacher ratio of 18.6.

### Tertiary Education Sub-sector

#### Teacher Education

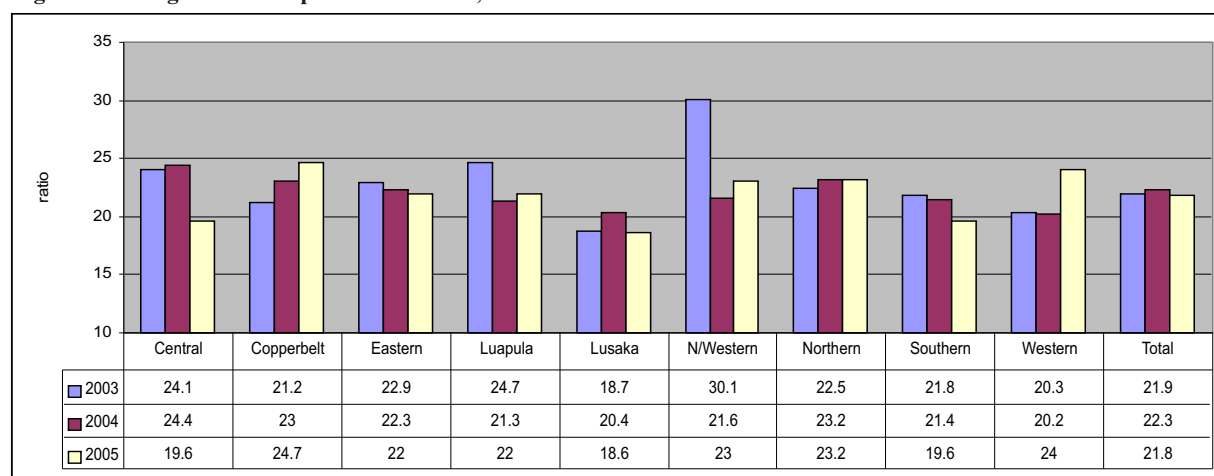
222. During 2005, there were a total of 14 Government run colleges of education and nine privately run registered colleges providing teacher training. Total enrolments in the Government run colleges increased by 31.5 percent to 11,526 in 2005 from 8,763 in 2004 (see Table 13.8). A total of 5,763 graduated from

these colleges in 2005 compared to 4,382 in 2004, representing an increase of 31.5 percent.

223. To address the teacher shortage at Grades 8 9, four diploma classes were opened at Mufulira and David Livingstone Colleges of education on a pilot basis. In order to improve the conditions in the colleges of Education the water systems and hostels were rehabilitated and furniture procured.

224. Most of the infrastructure in almost all the teacher training colleges, however, was in a deplorable state. The libraries are full of outdated materials and also require restocking if they are to meet the expectations in terms of quality. During the year, the Government using PRP funding rehabilitated lecturers' houses at Mansa, Kasama, Chipata, and Kitwe teachers training colleges.

Figure 13.3: High School Pupil Teacher Ratio, 2003-2005



**Table 13.8: Student Enrolments in Government Colleges of Education, 2003-2005**

	2003			2004			2005		
College	Male	Female	Total	Male	Female	Total	Male	Female	Total
Charles Lwanga	195	191	386	407	358	765	348	376	724
Chipata	179	170	349	359	306	665	410	464	874
David L/stone	187	266	453	329	392	721	346	460	806
Kasama	163	183	346	369	339	708	352	430	782
Kitwe	296	384	680	510	755	1265	766	1258	2024
Malcom Moffat	251	313	564	204	200	404	424	702	1126
Mansa	220	156	376	345	337	682	356	474	830
Mongu	176	172	348	314	361	675	312	566	878
Mufulira	144	222	366	321	424	745	242	682	924
Solwezi	196	206	402	385	423	808	416	580	996
COSETCO	281	216	497	120	85	205	248	260	202
Nkrumah	254	196	450	324	268	592	406	340	746
ZAMISE	48	75	123	48	75	123	88	196	142
NISTICOL	225	180	405	225	180	405	464	480	472
<b>TOTAL</b>	<b>2,815</b>	<b>2,930</b>	<b>5,745</b>	<b>4,260</b>	<b>4,503</b>	<b>8,763</b>	<b>5,178</b>	<b>7,268</b>	<b>11,526</b>

Source: Ministry of Education

### University Education

225. Total enrolments at the country's two public universities increased by 14.7 percent to 12,900 in 2005 from 11,245 in 2004. Enrolments at the University of Zambia (UNZA) and Copperbelt University (CBU) increased by 13.4 percent and 18.2 percent, respectively. Out of the total enrolments of 12,900 in 2005, UNZA accounted for 71.7 percent, while the CBU accounted for 28.3 percent (see table 13.9). UNZA enrolled a total of 9,249 students in 2005 out of which 5,780 were male and 3,469 were female giving a gender parity ratio of 0.6 compared to 0.55 in 2004. CBU enrolled a total of 3,651 students, out of which, 723 were female.

226. The gender parity ratio at university level has continued to be low at 0.48 in 2005 from 0.46 in 2004 and 0.43 in 2003. This was despite the affirmative action being taken by both Bursaries Committee and the two universities.

227. The two universities continued to face low staffing levels and high indebtedness to utility companies and various creditors. Furthermore, the level of funding to these institutions remained low and was only sufficient to cover personal emoluments. In 2004, the two institutions had received some funds under the Poverty Reduction Programme (PRP). CBU had received K2.3 billion and the UNZA K4.9 billion. These funds were mostly utilised in 2005 for rehabilitation works.

**Table 13.9: Enrolments at the UNZA and CBU by Gender, 2003 - 2005**

	2003			2004			2005		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>CBU</b>	2,039	495	2,534	2,465	625	3,090	2,928	723	3,651
<b>UNZA</b>	4,822	2,494	7,316	5,251	2,095	7,346	5,780	3,469	9,249
<b>TOTAL</b>	<b>6,861</b>	<b>2,989</b>	<b>9,850</b>	<b>7,716</b>	<b>2,720</b>	<b>10,436</b>	<b>8,708</b>	<b>4,192</b>	<b>12,900</b>

Source: Ministry of Education

### Technical, Vocational and Entrepreneurship Training sub-sector

228. During the year under review, the Technical, Vocational and Entrepreneurship Training (TEVET) sector continued to experience growth both in terms of number of institutions and enrolment. The number of registered institutions providing technical and vocational training rose to 319, from 314 in 2004. Most of these institutions were in Lusaka province, totalling 106, followed by the Copperbelt and Southern Provinces with 76 and 47, respectively (see table 13.10). Out of the total of the 319 TEVET institutions registered in 2005, a total of 58 or 18 percent of the total were run by church organisations while those owned by government were 50 or 16 percent of the total. Student enrolments in the TEVET institutions increased by 5.4 percent to 27,986 in 2005 (see table 13.10). This increase was consistent with the increase in the number of the institutions registered under TEVETA in 2004.

238. A total of US \$4m was invested in the rehabilitation and re-equipping of various training institutions across the country. These included the Northern Technical College (NORTEC) in Ndola; Technical and Vocational Teachers College (TVTC) and Luanshya Trades Training Institute in Luanshya; Kitwe Vocational Training Centre (KVTC); Mansa Trades Training Institute and Mansa Skills Training Centre; Livingstone Institute of Business and Engineering Studies (LIBES); and Mwinilunga Trades Training Institute. The rehabilitations were made possible with the assistance of cooperating partners through the TEVET Development Programme.

229. The major constraints faced during the year were largely inadequate human resources due to high staff turnover. In addition, obsolete and inadequate equipment and training materials continued to affect TEVET institutions. .

**Table 13.10: Registered TEVET institutions by province, 2003-2005**

PROVINCE	2003	2004	2005	% Change 2005/2004
Lusaka	113.0	119.0	106.0	(10.9)
Copperbelt	63.0	76.0	76.0	-
Central	9.0	11.0	15.0	36.4
Southern	30.0	37.0	47.0	27.0
North-western	4.0	12.0	13.0	8.3
Northern	8.0	15.0	13.0	(13.3)
Western	7.0	25.0	24.0	(4.0)
Eastern	13.0	12.0	15.0	25.0
Luapula	7.0	7.0	10.0	42.9
<b>TOTAL</b>	<b>254.0</b>	<b>314.0</b>	<b>319.0</b>	<b>1.6</b>
<b>ENROLMENTS</b>				
Male	12,439	16,455	17,260	4.9
Female	9,782	10,104	10,726	6.2
Total	22,221	26,559	27,986	5.4

Source: Ministry of Education

### Poverty Reduction Programmes

230. During 2005, a total of K13.8 billion was disbursed under the PRP funding to the education sector. The majority of the PRP funding in 2005, amounting to K6.9 billion was disbursed for the construction of teacher's rural houses. The other programmes supported were bursary schemes and community schools which took up K3.4 billion a K1.4 billion, respectively. However, most of the PRP funds were disbursed late in the year and the activities will be carried out in 2006.

231. With regard to TEVET, a total of K1 billion was disbursed as PRP funding. This was mostly used for rehabilitation of hostels at Lukashya and Mansa Trades Training Institutes and the construction of classroom blocks at Mongu and Solwezi Trades Training Institutes. An additional K400m was used to procure kitchen equipment for selected training institutes offering boarding facilities.

### Financing of the Education Sector

232. Financing to the education sector improved compared to 2004. A total of K1,593.7 billion was disbursed to the sector, out of which 66.5 percent was from the Government and 33.5 percent from cooperating partners (see table 13.11).

#### Domestic Resources

233. The Government budget allocation to the education sector in 2005 was K913.5 billion. By the end of the year, a total of K1,062.6 billion, representing 116.3 percent of the budgetary allocation was released. The budgetary release in 2005 represented 22.6 percent of the discretionary budget, down from 22.7 percent in 2004. Out of the budgetary releases in 2005, a total of K618.8 billion or 71.0 percent was for personal emoluments.

**Table 13.11: : Financing of the Education Sector (K Billions), 2004-2005**

	2004	2005	% Change 2005/2004
<b>Government</b>	841.9	<b>1,062.6</b>	26.0
of Which MOE	795.0	1,016.1	27.8
TEVET	11.6	10.8	12.1
Other	35.0	35.7	2.0
<b>Donor</b>	<b>418.7</b>	<b>533.2</b>	27.3
Pool Funding	226.3	389.3	72.0
Designated	148.8	100.3	(32.6)
Other	73.6	73.3	(0.4)
<b>Total</b>	<b>1,260.6</b>	<b>1,593.8</b>	26.4

Source: Ministry of Education and Ministry of Finance and National Planning

## Overview

The health sector recorded improvements in systems developments and process indicators such as the immunization coverage and availability of basic drugs. Health service delivery output indicators, however, improved marginally. Malaria continued to be the leading cause of both mortality and morbidity. In addition, the human resource position and infrastructure remained inadequate, thereby constraining smooth delivery of health care services. During the year, Zambia was enlisted by the World Health organization (WHO) as a polio-free country.

## Policy Developments

235. In order to meet the target of rolling ARVs to a population of 100,000 patients by the end of 2005, a key policy development in 2005 was the introduction of free Anti-Retroviral (ARV) drugs. Further, the National Health Services Act and the Radiation and Ionizing Acts were repealed. The repealing of the Acts was aimed at strengthening health care service delivery.

## Sector Performance

### Disease Burden

236. During the first half of 2005, there was generally a marginal decline in the incidence of all diseases and mortality. Mortality, nevertheless remained high with, the first five causes of death being Malaria, Tuberculosis, Diarrhoea, Pneumonia and trauma-related diseases (see table 14.1).

### Malaria

237. Malaria continued to be the leading cause of morbidity and mortality. The incidence rate, however, decreased to 200 per 1,000 population in the first half of 2005 from 214.4 per 1,000 population during the same period in 2004. Similarly, deaths attributable to malaria declined to 4,139 in 2005 from 4,765 in 2004.

238. The decline in malaria incidence and mortality rate was mainly due to preventive and curative measures put in place such as Insecticide Treated Nets (ITNs), Indoor Residual Spraying (IRS), and Coartem use. The IRS coverage in 2005 was 217,340 households covering five districts against the target of 56,000 eligible households. The proportion of pregnant women receiving Intermittent Presumptive Treatment (IPT) improved from 22 percent in 2001 to 75 percent in 2004. As for the percentage of pregnant women sleeping under ITNs, this improved from 11 percent in 2001 to 16 percent in 2004. In addition, the percentage of malaria cases being appropriately treated with Coartem in the target districts improved from nil in 2001 to 35.6 percent in 2004.

### Respiratory Infections (Non-Pneumonia)

239. There was a significant decline in deaths recorded attributable to non-pneumonia respiratory infections in 2005, which stood at 432 compared to 633 while the incidence rate at 78.7 percent, remained almost at the 2004 level.

240. Tuberculosis (TB), which is one of the major health non-pneumonia respiratory infections, remained one of the first five causes of mortality, despite management of TB recording tremendous improvement in recent years. The Directly Observed Treatment (DOTs) coverage as at end-2002 stood at 100 percent while the cure rates progressively improved over the years from 50 percent in 2001, 67 percent in 2002, and 72.5 percent in 2003. The case detection rate of all forms of TB stood at 81 percent, slightly below the target of 85 percent. Case detection rate for smear positives stood at 60 percent in 2005, against the 70 percent target. Given the long duration of treatment for TB, it was not possible to give progress on indicators for 2004 and 2005 as the cohorts for these years are still being evaluated.

**Table 14.1: Top Ten Disease, 2004 and 2005**

Diagnosis	Year	Incidence/* 1000cases	Total Diagnosis*	Inpatient deaths*
Malaria	2005	200.1	2,398,539	4,139
	2004	214.4	2,423,184	4,765
Respiratory infection: on pneumonia	2005	78.7	943,042	432
	2004	79	892,594	633
Diarrhea-non-bloody	2005	34.2	410,255	1,331
	2004	36.6	413,701	1,335
Respiratory infection Pneumonia	2005	21.9	263,085	2,061
	2004	23.3	263,449	1,942
Trauma: accidents, injuries, wounds, burns	2005	21.8	260,860	418
	2004	22.7	256,434	388
Skin infectious	2005	21.6	258,739	52
	2004	21.4	242,292	61
Eye infections	2005	18.6	223,065	0
	2004	19.3	217,679	1
Ear, nose, throat	2005	12.1	145,041	58
	2004	12.0	135,010	6
Digestive system(not infection)	2005	9.2	109,926	295
	2004	9.5	107,424	354
Muscular skeletal and connective tissue(not trauma)	2005	8.9	106,977	35
	2004	8.7	98,758	29

Source: Ministry of Health

\*based on second quarter data

241. In order to improve the cure rate for TB, the 4 Fixed Dose Combination (4FDC) was piloted in Central province and will be scaled up to other provinces. One of the constraints in the conventional treatment of TB was that patients had to take a large number of tablets, usually 9 to 16 per day for 2 months (initial phase of treatment), followed by 3 to 9 tablets daily for 4 to 6 months in the continuation phase. Using 4FDCs, the numbers of tablets to be taken are reduced to as few as three or four per day for the whole course of the treatment.

### HIV/AIDS

242. HIV/AIDS, which ranked number 21 in terms of morbidity, was the second leading cause of mortality with 2,693 in-patient deaths and Case Fatality Rate (CFR) of 230.1 per 1,000 population. According to the Health Management Information System (HMIS), the number of people contracting HIV in 2005 declined to 3.5 cases per 1,000 population from 3.9 cases per 1,000 population in 2004. This outturn could be largely attributed to the positive impact of sensitization programmes.

243. The number of clients counselled and tested for HIV improved from 450,000 in 2004, to 725,829 in 2005, against the target of 707,755.

This improvement could be attributed to the free ARVs, which are now easily accessible by clients, including sensitisation. The provision of free ARVs also improved resulting in 42,000 patients reached in 2005 from 15,000 patients in 2004.

### Polio

244. Zambia, in 2005, was certified polio free by the World Health Organisation. As a result the country was enlisted to countries whose polio-free documentation is accepted worldwide.

### Integrated Reproductive Health

245. The number of health workers both public and private trained in revised syndromic management of sexually transmitted infections improved to 2,263 against the target of 2,890 by March 2005. In addition, sensitization programmes on various reproductive health issues were undertaken in the public media, which included 13 television programme series.



246. The number of supervised deliveries increased from 39 percent in 2001, to 61 percent in 2004 and to 66 percent by third quarter of 2005 (see table 14.2). The main challenges in this area included shortage of appropriately trained staff, social cultural factors leading to delays in seeking health care, poor transport resulting in delay in reaching health facilities. The poor quality of antenatal care, inadequate appropriate infrastructure and equipment as well as inadequacy of drugs and other essentials also contributed to these challenges.

### Child Health and Nutrition

247. Full immunization coverage in 2005 improved and reached 90 percent compared to 80

percent in 2004. Coverage rates for measles, DPT3 and polio was in the range of 80 to 85 percent while that of BCG was above 90 percent of the eligible populations.

### Human Resource Situation

248. The human resource situation in 2005 remained inadequate with all categories of staff estimated at less than 50 percent of the recommended operational capacity (see Table 14.3). The worst hit category of staff was nurses and other paramedics. This was due to poor conditions of service resulting in brain drain as well as the slow pace of recruitment. This critical shortage of staff has affected the service provision through out the country.

**Table 14.2: Health Service Delivery Indicators, 2003-2005**

Indicator	2003	2004	2005*
Health Center Outpatient Per capita Attendance	0.86	0.76	0.7
First Antenatal Coverage (%)	95	97	90
Average Antenatal Visits	3.3	3.1	3.6
Supervised Deliveries (%)	55	61	66
Fully Immunized Children under 1 year (%)	74	80	90
Underweight prevalence(%weight)	21	17	15
New Family Planning Acceptors Rate per 1000	123	127	104.6
Health Center Staff Load	17	17.4	17.5
Drug Kits Opened per 1000 patients.	0.73	0.93	1.18

Source: Ministry of Health

\*: As at quarter 3

249. The drug supply situation continued to improve in 2005 as 14,380 health center kits were imported at an estimated cost of US \$3.1 million compared to 12,500 kits imported in 2004. This resulted in an improvement of drug kits opened per 1,000 patients to 1.18 from 0.93 in 2004.

### Infrastructure and Equipment

250. Construction of 17 rural health posts was completed and 37 others were under construction in 2005. Out of the 17 health posts constructed, 10 of them received medical equipment. Work also commenced on the rehabilitation and extension of 20 rural health centers that were awarded contracts in 2004. Currently, there are a total of 1,210 health centres out of which 973 are in rural areas and 237 urban areas.

251. During the year, the Kafue District Hospital was opened to the public. Further, construction works on the new hospital in Isoka commenced and four Nursing Schools were under construction. Furthermore, construction of a radiotherapy centre at the University Teaching Hospital was about 85 percent completed in 2005.

### Financing of the Sector

252. Total budget releases to the health sector were K480.0 billion, which was above budgetary allocation by 11.1 percent of K432.0 billion. Of the total releases, K394.9 billion was meant for poverty reduction programmes. As a share of the total discretionary budget, releases to the health sector in 2005 decreased to 10.2 percent compared to 12.0 percent in 2004.

**Table 14.3: Human Resource Staffing Levels Against Recommended levels, 2003-2005**

Staff category	2003	2004	2005	% Change	Recommended	Variance
Doctors	756	693	646	(6.8)	2,300	1,654
Clinical officers	1,338	1,165	1,161	(0.3)	4,000	2,839
Nurses	8,665	8,356	8,369	0.2	22,332	13,963
Laboratory	471	454	417	(8.1)	1,560	1,143
Pharmacists	61	24	108	350.0	162	54
Other Paramedics	850	840	1,138	35.5	9,006	7,868
<b>Total</b>	<b>12,141</b>	<b>11,532</b>	<b>11,839</b>	<b>2.7</b>	<b>39,360.0</b>	<b>27,521</b>

Source: Ministry of Health

253. By June 2005, a total of US \$38.8 million was received from the Global Fund to fight malaria, TB and HIV/AIDS. Further, US \$254,414 was received through ZANARA to support various HIV/AIDS activities such as implementation of multi-sectoral behavioural change, distribution of free condoms, expansion of access to safe blood, expansion of programmes targeting high risk groups and expansion of access to quality Prevention of Mother to Child Transmission (PMTCT).

# Gender and Development

## Overview

During the period under review, Government continued to facilitate the main streaming of gender in policies and programmes in order to make development gender responsive. In this regard, the institutional framework was further strengthened by the establishment of additional gender sub-committees in various parts of the country. In addition, gender policy issues were integrated in several sectoral policy initiatives, designed by line ministries and other implementing agencies. Nonetheless, the number of women in decision making positions remained low.

## Policy Developments

255. During the period under review, the institutional framework for gender main streaming was further strengthened by the establishment of twenty five gender sub-committees of the District Development Coordinating Committees, bringing the total to 61. The creation of committees was in conformity with the National Gender Strategic Plan, which was adopted in 2004.

256. A draft Gender Policy for the Ministry of Science, Technology and Vocational Training was consolidated in 2005 and will be finalised and submitted for adoption in 2006. In addition, a draft National Action Plan on HIV/AIDS for women and girls was finalised during the year with inputs from the 61 gender subcommittees from provinces. Further, gender training programmes aimed at building capacity in gender analysis were also conducted in various Government institutions, which included Cabinet Office and the Ministry of Lands.

## Gender and Decision Making

257. Women continued to be under-represented at all levels of decision making, despite Zambia being a signatory to the SADC Gender Declaration on Gender and Development of 1997, which demands 30 percent representation of women in decision-making positions at all levels. The number of women in senior positions remained virtually unchanged in 2005, as compared to the previous year.

258. At Cabinet level, the number of female ministers was 5 out of the total of 21 (see table 15.1). At Deputy Minister and Parliamentary levels, female representation remained low at 8.9 and 19 percent, respectively.

**Table 15.1: Percentage of Women in decision-making position for selected positions**

Positions/Year	2003	2004	2005
Members of Parliament	12.0	12.0	19
Cabinet Ministers	25.0		23.8
Deputy Ministers	9.8	7.0	8.9

Source: Cabinet Office

259. In the Public Service, female representation at various levels was still low. Female Permanent Secretaries accounted for 15.8 percent while female directors stood at 21.3 percent. The percentage for deputy director and assistant directors stood at 43.6 percent and 21.0 percent, respectively (see table 15.2).

260. The pattern of low levels of women representation continued at levels of specialised appointed commissions and committee, such as the Constitution Review Commission (CRC), which had 15 percent representation. This was also the case with the Electoral Reform and Technical Committee (ERT), where representation was below 30 percent.

15

CHAPTER

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assistant directors stood at 43.6 percent and 21.0 percent, respectively (see table 15.2).

263. The pattern of low levels of women representation continued at levels of specialised appointed commissions and committee, such as the Constitution Review Commission (CRC), which had 15 percent representation. This was also the case with the Electoral Reform and Technical Committee (ERT), where representation was below 30 percent.

**Table 15.2: Male and Female Representation in the Civil Service, 2005**

Position in Civil Service	Male	Female	Total Number	% Female/Total
Permanent Secretary	32	6	38	15.8
Deputy Permanent Secretary	14	1	15	6.7
Director	59	16	75	21.3
Deputy Director	58	31	71	43.7
District Commissioner	57	11	68	16.2
Assistant Director	140	37	177	20.9

Source: Cabinet Office

# Social Protection

## 16

## CHAPTER

### Overview

During the year under review, the Government continued to support the provision of social protection to the poor and vulnerable groups. This was mainly through the implementation of the Public Welfare Assistance Schemes (PWAS), Street Children Activities, Child Care Upgrading Programme (CCUP), Peri Urban Self Help (PUSH), National Trust for the Disabled (NTD) and the Micro-Bankers Trust (MBT). The aim of these programmes is to provide direct assistance to the most vulnerable persons.

### Social Welfare Programmes

#### Public Welfare Assistance Schemes

264. The PWAS remained Government's major social safety net programme and was operational in all the districts. During the year, a total of K10.4 billion was disbursed to the programme compared to K7.2 billion in 2004, representing an increment of 44.1 percent. Consequently, the number of beneficiaries increased by 12.2 percent to 130,000 in 2005 from 115 947 in 2004. Out of the total beneficiaries 61.3 percent or 79 690 were female (see table 16.1).

#### Street children activities

265. The problem of street children continued to worsen in the review period. Given this situation, Government undertook several measures, which included the recruitment of street children into the national service and revival of District Street Children's Committee (DSCC) in the Districts. A total of K50 million was spent on 60 000 street children in 2005.

### Child Care Upgrading Programme (CCUP)

266. Government, through the Child Care Upgrading Programme (CCUP) trained 675 childcare givers in 19 districts in 2005. It is estimated that over 253,738 children indirectly benefited through service provision from knowledge acquired by those trained. In addition, a total of 46,000 copies of minimum standards guidelines were printed and distributed, while an additional 10,000 copies were printed in seven major local languages.

### Micro-Bankers Trust

267. In 2005 the Micro-Bankers Trust (MBT) disbursed a total of K2.2 billion compared to K1.7 billion in 2004, representing an increase of 29.4 percent. Thus a total of 6,333 beneficiaries were reached of which, 70 percent were females (see table 16.2). Compared to 2004, the number of beneficiaries increased by 75.0 percent from 3,619

### Programme Against Malnutrition (PAM)

268. Government continued to implement the food security programme during the year under review. In 2005, the Government disbursed K20 billion and reached 9,000 beneficiaries. This was a significant decline compared to 2004, when 150,000 beneficiaries were reached. This was on account of a reduction in funding to the programme (see table 16.4).

Table 16.1: Funding to the PWAS (in K' billion), 2003-2005

	2003	2004	2005
	K' billion		
<b>Budgetary Allocation</b>	5.7	7.8	10
<b>Actual Release</b>	5.3	7.2	10.4
	Beneficiaries		
Female	61,682	68,262	79,690
Male	43,361	47 685	50,310
<b>Total</b>	105,043	115,947	130,000

Source: Ministry of Community Development and Social Services

**Table 16.2: Micro Bankers Trust activities in 2005**

Province/ Area	No. Of Groups	Clients			Loan Amount	Loan Amount Disbursed by Gender	
					K' Million		
Name		Male	Female	Total	Disbursed	Male	Female
Eastern	46	249	1,560	1,809	132,802,209	26,950,000	105,852,209
Northern	23	55	127	182	197,980,000	46,450,000	151,530,000
Northern / Chimu	48	294	259	553	31,038,500	9,676,000	21,362,500
Lusaka	42	103	542	645	567,754,435	154,588,000	413,166,435
Lusaka / Naluyanda	27	327	324	651	161,980,000	74,880,000	87,100,000
Kabwe	54	150	458	608	272,295,000	135,030,000	137,265,000
N/Western	14	36	93	129	40,000,000	10,866,664	29,133,336
Southern	48	122	292	414	227,210,000	84,350,000	142,860,000
Central-Ddap	5	48	16	64	20,270,900	12,300,000	7,970,900
Western-Senanga	74	101	210	311	54,924,056	6,835,440	48,088,616
Mufurila	35	161	226	387	162,850,000	75,121,293	87,728,707
Chingola	34	34	76	110	30,750,000	9,698,776	21,051,224
Dbu	8	94	45	139	100,165,000	64,495,000	35,670,000
Masaiti	28	96	147	243	141,750,000	62,850,000	78,900,000
Kaoma	12	33	55	88	47,300,000	17,800,000	29,500,000
TOTAL	498	1,903	4,430	6,333	2,189,070,100	791,891,173	1,397,178,927

Source: Ministry of community Development and Social Services

In terms of beneficiaries being weaned from the programme, 14,214 graduated in 2003/2004 agriculture season while for the 2004/2005 the number of beneficiaries from the 2004/2005

season is expected to be low as most beneficiaries were affected by the partial drought (see table 16.3).

**Table 16.3: Funding and Number of Beneficiaries for the Food Security Pack program, 2003-2005**

Season	Funding received (K' Billion)	Actual beneficiaries supported	Graduating
2002/2003	26	130,000	13,382
2003/2004	43	150,000	14,214
2004/2005	20	9,000	-
<b>Total</b>	<b>113.9</b>	<b>479,000</b>	

Source: Ministry of Community Development and Social Services



**Table 16.4: Food Distributions and Beneficiaries, 2005**

Programme Activity	Operation Area	Beneficiaries			Food distributed (Mt)
		Target	Actual	%	
Access for Basic Education (ABE)	124 basic schools and community schools in Southern & Eastern Provinces	70,000	58,000	(83)	1,177
Nutrition Programme for Vulnerable Group (NPVG)	Central, Copperbelt, Eastern, Lusaka, Southern & Western provinces	70,250	105,000	149	5,765
Food For Asset (FFA)	Eastern, Copperbelt, Southern & Western provinces	4,5849	21,296	(46)	431
<b>Total</b>		<b>186,099</b>	<b>184,296</b>	<b>99</b>	<b>7,373</b>

Source: Ministry of Community Development and Social Services

### Food Programme Management

269. In 2005, Government, continued to facilitate the implementation of the GRZ/WFP Country Programme. Under the programme, a total of 7,373 Mt of food was distributed to 184,296 beneficiaries (see table 16.4).

### Peri Urban Self Help (PUSH)

270. In the year 2005, Government increased funding to Peri Urban Self Help (PUSH) by 51.9 percent to K4.1 billion from K2.7 billion in 2004. PUSH, expanded the Food for Asset (FFA) programme to Western province apart from the traditional provinces of Southern, Central and Copperbelt provinces. The expansion of the programme was mainly as a result of the partial drought experienced in the last farming season.

A total of 34,173 vulnerable beneficiaries were supported under this programme out of which, 20,504 or 60 percent were women. During the year, 20 crush pens for livestock vaccination and 40 livestock water ponds were built in Senanga and Shangombo. Earth dams and wells were also rehabilitated in Southern province to harvest rain water, while on the Copperbelt, 20 fish ponds were constructed.

### National Trust for the Disabled

271. In 2005, the NTD disbursed loans amounting to K41.5 million and made recoveries of K10.1 million. During the year, a total of 53 beneficiaries were reached (see table 16.5). The Trust spent K279, 463,370 in 2005 on training of persons with disabilities in business development

**Table 16.5: Number of Beneficiaries and Amounts Disbursed by NTD in 2005**

District	No. of Beneficiaries	M	F	Loan Disbursed (K' Million)	Repayments (K'Million)
Lufwanyama	13	7	6	6,500,000	-
Lusaka	21	12	9	25,470,000	8,529,500
Mambwe	19	5	14	9,500,000	1,600,000
<b>Total</b>	<b>53</b>	<b>24</b>	<b>29</b>	<b>41,470,000</b>	<b>10,129,500</b>

Source: Ministry Of Community Development and Social Services

# Economic Prospects and Policies In 2006

## Global Economy

**E**xpansion in the global economy, in 2006, is expected to continue at a stable rate. This expansion, will largely, still be driven by the United States of America, China and a recovering Japanese economy. Performance is also projected to improve in Europe. In Africa, growth is anticipated to be stable, with oil exporters benefiting from high oil revenues. However, further increases in energy prices could slow down global growth, particularly for oil importing countries.

273. In the commodity markets, prices of agricultural products are expected to be stable, although a decline is possible due to a supply response to high prices experienced in the pervious period. Metals prices, including that of copper, are also likely to gradually ease. In the oil markets, supply is could increase at a marginally faster pace than demand. Consequently, crude-oil prices are not expected to fall rapidly.

## Domestic Economy

274. Economic growth in 2006 is expected to be stronger than in 2005. Real GDP is forecast to expand by at least 6 percent compared to 5.1 in 2005. A recovery of agriculture, following the favourable weather conditions experienced in the 2005/2006 agricultural season, has raised the prospects for improved food crop harvests. Mining output is also projected to be stronger, largely on account of the expanded production capacity as well as re-capitalization in the existing mines. The resolution of the temporary setbacks experienced in 2005, such as fuel supply disruptions and labour disputes, should also contribute to higher mineral production in 2006.

275. Construction activity, which has recently been one of the major drivers of economic growth, is also projected to remain solid, supported by the rapid housing construction and commercial retail activities around the major urban centres. In addition, large mining investments, such as the Konkola Deep Mining Project and the Lumwana project in the Northwestern province, and several current

sizeable investments in tourism, will sustain a higher construction growth. Significant private sector investments, in excess of US \$100 million, in the cement industry are already underway with the construction of two plants. The construction is expected to commence in Lusaka and Ndola, respectively. Overall, strong private investment, therefore, should remain the main driver of growth in 2006.

276. Apart from private sector investment activity, significant public works programmes in the road sector have been planned for 2006. The government has allocated nearly 2.4 percent of GDP for road projects in 2006. The expansion of the Livingstone International Airport, which commenced in December 2005, will also be one of the largest major public works programmes in 2006.

277. Macroeconomic conditions should improve further in 2006. Inflation is expected to continue on a downward trend as Government is targeting an end-year inflation rate of 10 percent. The improved prospects for food harvests should contribute to a decline in overall food prices, which increased in 2005. This will be aided by an expected, relatively, stable Kwacha. However, this optimism could be tapered off, should there be a rise in world energy prices.

278. In the exchange rate market, supply is expected to remain high, particularly from mining sources. The kwacha, which rapidly appreciated in the last quarter of 2005, should however, be much more stable this year as it is expected to find its equilibrium. The Government will remain committed to a flexible exchange rate regime. However, in the light of the recent sharp erosion of the international competitiveness following the progressive strengthening of the kwacha, structural policies on enhancing the productivity and reducing the cost of doing business in the local economy will have to be accelerated.

279. The large spreads between deposit and lending rates as well as high real interest rates in the banking system in Zambia, have been recognized as a major structural problems. Even with improvements in macroeconomic conditions, commercial banks lending rates have remained too high, in part reflecting the cost inefficiencies in the industry. It is clear that the banking industry needs to be more cost effective if the economy is to benefit from progress being made with regard to macroeconomic stabilization.

280. As one way of tackling these structural problems in the banking system, the Government is implementing the Financial Sector Development Plan. In 2006 and beyond, the major challenge of the Government will be the implementation of the FSDP for Zambia. In particular, the Government will focus on, amongst others, the following:

- i. Establishment of a Credit Reference Bureau to be licensed by the BoZ;
- ii. Completion of the business plan and draft law for the Deposit Protection Scheme;
- iii. Finalisation of proposed amendments to the Banking and Financial Services Act (BFSA);
- iv. Finalisation of amendments to the BoZ Act;
- v. Approval of the Payments Systems Bill;
- vi. Issuance of interim guidelines for the supervision and regulation of money transmission services in Zambia, pending the enactment of the Payments Systems Bill;
- vii. Modernisation of the Building Societies Act;
- viii. Incorporation of state-owned financial institutions under the Companies Act; and
- ix. Finalisation of the national market survey on the demand and supply of financial services in Zambia.

292. Other structural reforms during 2006 will

continue to focus on improving public expenditure management and financial accountability through the PEMFA and removing obstacles to business entry and investment through the PSD programme.

281. The Zambia Development Agency (ZDA), a “one stop shop” is planned to be set up in 2006. It will bring together the operations of five statutory bodies, namely, Zambia Investment Centre (ZIC), Zambia Export Processing Zones Authority (ZEPSA), Export Board of Zambia (EBZ), Zambia Privatisation Agency (ZPA) and Small Enterprise Development Board (SEDB). The establishment of the ZDC will be one of the major PSD reform milestones.

282. Other key PSD milestones, will be the coming into effect of a new Investment Act and a Tourism and Hospitality Act. The latter, will be key in streamlining the regulatory and licensing framework in tourism, which is currently perceived to be cumbersome. The other important PSD reform will be the liberalization of the international gateway. This will allow private phone service providers to make cheaper international calls, thereby reducing the high cost of international calls from Zambia.

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283. On the social front, policies will remain focused on enhancing service delivery and quality in the education and health sectors. In particular, the fight against the HIV/AIDS pandemic will continue to be vigorously pursued. The main area of concern in both education and health sectors is, clearly, the critical shortage of frontline personnel. Undoubtedly, the inadequacy of frontline personnel has adversely constrained service delivery and outcomes in the two critical sectors.

284. In education, it is also important to begin seriously addressing the limited classroom space at the high-school level. This is necessary if the school system is to match the significant increase in basic school enrolments witnessed in recent years. Although funding to the two sectors is rising, efficiency and effectiveness in programme implementation needs to be significantly scaled up, if outcomes are to match the increased financial resources being provided. This is also true for other important sectors such as roads.

