Republic of Zambia

ZAMBIA PROGRESS REPORT ON THE BRUSSELS PLAN OF ACTION FOR LEAST DEVELOPED COUNTRIES (LDCs) FOR THE DECADE 2001-2010

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1. Zambia is among 49 Least Developed Countries (LDCs) that are signatories to the Brussels Declaration and Programme of Action for the LDCs (BPOA) that was signed in May, 2001. The aim of the BPOA is to significantly accelerate improvements in human conditions. This was necessitated by the low progress in socio-economic developments registered by the LDCs in the 1990s. The BPOA is based on international development targets, actions by LDCs and commensurate support measures by their development partners, and on the values, principles and objectives of the Millennium Declaration. The BPOA also incorporates political, economic, and social objectives and as appropriate, other United Nations (UN) targets.

2. The 49 LDCs were expected to implement the BPOA during the period 2001 to 2010 and to provide country reports. A meeting to review the implementation of the BPOA is planned for 2011 which is expected to be preceded by regional meetings. Member states are expected to report on their implementation status of the BPOA which will be a basis for discussions at both the regional and global meetings.

3. This is Zambiaôs report on the implementation of the BPOA. The report was compiled using national development plans and Millennium Development Goals (MDGs) progress reports, development cooperation reports and other relevant documents. A validation workshop involving representatives from Parliament, Private Sector, Civil Society and Government was held to discuss the draft report. The report is organized into five sections. Section I is the introduction, section II discusses the national development planning process, section III provides the status of the implementation of the BPoA, while section IV analyses the impact of the global financial and economic crisis on Zambia and section V provides the conclusion and way forward.

4. The Zambian government like other developing countries places poverty reduction at the centre of its development agenda. In this regard, the Millennium Development Goals (MDGs) serve as an important guide to the country's long term development aspirations. The nation's development strategies such as the Poverty Reduction Strategy Paper (PRSP) 2002-2004, Transitional National Development Plan (TNDP) 2002-2005, and the Fifth National Development Plan (FNDP) 2006-2010 have been implemented in line with the BPoA.

5. The country has developed the National Vision 2030 by which she aspires to become a prosperous middle income country by 2030. The National Vision is being operationalised by five year development plans of which the FNDP was the first plan.

6. In the medium term, the national development strategies have been operationalised through the consultative preparation and implementation of the Medium Term Expenditure Framework (MTEF) which is in turn operationalized by annual work plans and budgets. The MTEF has been helping to guide and inform political choices needed for resource allocation.

7. The overriding objective of the national development planning strategies (PRSP, TNDP and FNDP) has been to attain high and sustained economic growth, macroeconomic stability, improved supportive infrastructure, good governance, improved access and quality in the provision of social and public services (especially education, health and water and sanitation), and poverty reduction through employment creation.

8. During the period 2001-2009, Zambia made substantial progress towards meeting BPoA commitments. Some positive trends have been recorded in attainment of the set objectives like macroeconomic stability, good governance, and improved access and quality in the provision of social and public services. Notwithstanding the good performance, poverty levels have remained high, registering very marginal overall decreases and with persistently high levels recorded in rural poverty at 77 percent in 2006.

Commitment 1: Fostering a people centered policy framework

9. The Brussels Programme of Action has two principle targets: attaining an average real GDP growth rate of at least 7 percent per annum; and increasing the ratio of investment to GDP to 25 percent per annum. These targets are in line with the commitment of the Government of the Republic of Zambia as laid out in the country's development strategies. The Poverty Reduction Strategy Paper (2002-2005), the Transitional National Development Plan (TNDP) and the Fifth National Development Plan (FNDP), all envisaged real GDP growth rates of over 7 percent per annum and a significant reduction in poverty.

10. Zambia's economic growth during the period 2001-2010 was robust, with real GDP growth averaging more than 5 percent per annum, driven largely by a pick-up in copper prices and implementation of sound economic policies. The impact of sound economic policies was especially brought to the fore during the global economic slowdown of 2008/9. Real GDP growth was recorded at more than 6 percent compared to negative growth rates in many advanced economies.

11. The downside to the positive growth recorded over the past decade has been the weak growth-poverty linkage. Poverty statistics indicate that over the decade, headcount poverty has only marginally decreased from 66.8 percent in 1998 to 59.3 percent in 2006. Similarly, extreme poverty declined from 43.2 percent in 1998 to 36.3 percent in 2006. Poverty in Zambia continues to be particularly pronounced in rural areas, though a decline was registered from 83.0 percent in 1998 to 76.8 percent in 2006. With these figures, Zambia is unlikely to meet the MDGs on poverty and hunger.

12. The poor correlation between poverty and growth has been attributed to growth of sectors that are not labour intensive. Output in the economy has been driven by the construction and mining sectors, which are by their nature capital intensive. Pro-poor and labour intensive sectors such as agriculture, where the majority of Zambians are employed, have grown at a slower rate. Low levels of productivity among small and medium scale farmers, largely explain the poor performance of the sector.

ıce at national and international levels

13. At national level, Government has been undertaking measures aimed at enhancing governance. Key reforms have been undertaken in the following areas: (i) Parliamentary reforms; (ii) Public Financial Management; (iii) Decentralization; and (iv) Corruption.

14. The Government has undertaken measures to enhance the policy making, budgetary and oversight role of Parliament by undertaking reforms to enhance the effectiveness of Parliament in discharging its functions. During the preparation of the Vision 2030 and the FNDP, the wide consultative process included parliamentarians, thus enhancing their participation in defining national priorities and policies. In addition, it is mandatory for Parliament to approve the national budget before appropriations can be made by the Executive.

15. Zambia has also made some progress with regard to public financial management. The budget cycle was aligned to the fiscal year in 2009 through a constitutional amendment to ensure that the budget is approved before the start of the fiscal year. This change will allow more time for budget execution starting from January 2010. In addition, new legislation on procurement was passed during the period to make the procurement process more transparent.

16. Progress in the implementation of decentralization reforms has been much slower. Although the Government produced the Local Government and Decentralisation Policy, and the Decentralization Implementation Department (DIP) in 2005, the process has suffered long delays.

17. The Zambian Government has made significant strides in the fight against corruption. As a demonstration of its commitment, several high profile corruption cases have been investigated and prosecuted. These measures are being amplified by political will, including the augmentation of the powers and funding to governance institutions such as the Anti-Corruption Commission, Office of the Auditor General and the Drug Enforcement Commission. Activities aimed at enhancing the operational autonomy of these institutions, such as the Anti-Corruption Policy that was passed in 2009 are among the milestones achieved under good governance. As a result of these measures, Zambia's ranking on the Transparency International Corruption Perception Index improved in 2009.

18. At international level, Zambia is actively involved in promoting good governance among its peers. The country is a signatory to the SADC Protocol on Human Rights and the rule of law, the SADC Protocol on gender and the African Peer Review Mechanism.

n and institutional capacities

19. The implementation of national development frameworks in Zambia have been used to assess the attainment of the MDGs. The government's continued commitment to prudent macroeconomic management and poverty reduction resulted in it's accession to the HIPC completion point and qualification to the MDRI. This positive trend created fiscal space, increased prospects and renewed optimism of attaining MDGs.

20. According to the 2008 MDGs progress report, Zambia has registered positive improvement in social indicators such as decline in maternal mortality rate, improvement in universal primary education indicators arising from the strong supportive environment existing in the country (see Table 1).

Table 1: Trend in MDG indicators, 1990-2015

MDG Indicator	Baseline value 1990	2003	2005	2007	2015 Target
Proportion of people living in extreme poverty	58.2	43.2	36.3	36.5	29.1
Underweight children	25	28	21.1	14.7	12.5
Stunted children	40	47	50	45	20.0
Wasted children	5	5	6.0	5.2	2.5
Net enrolments in prim education	80	76	78	100	100
Proportion of pupils starting grade 1 reaching grade 5	64	73	82	77.8	100
Literacy rate of 15-24 year olds	79	75	70	70	100
Ratio of literate females to males	0.98	0.98	0.95	0.97	
Share of women in wage formal employment	39	35	35		
Infant mortality	107	95	95	70	36
Maternal mortality	649	729		449	162
ESS trend in HIV infection among ANC	20	19.1			20
ZDHS HIV prevalence		16		14	
New cases of malaria per 1000	121	377		89.4	121
Malaria case fatality rate per 1000	11	48		38	11

Source: Zambia MDG Progress Reports
*Note figures for proportion of people living in extreme poverty are based on revised figures for 1998, 2004 & 2006.

21. Zambia's success in increasing primary school net enrolment has been one of the notable achievements reaching almost 100 percent enrolments in 2008. This has been attributed to the various policies in education such as free basic education, re-entry policies, community school education, adult literacy and the school feeding programme.

22. The 2008 Zambia MDGs progress report indicates that the country is likely to achieve gender equality and reversing the spread of HIV/AIDs. There is also potential

lity, reduce malaria incidence and improve access to itation. Nonetheless the country has not performed well in the area of ensuring environmental sustainability.

23. Some of the challenges faced in achieving the MDGs included severe income inequalities, poor access to finance, lack of safety nets to protect people from recurrent shocks and climate change, inadequate human resources especially in health and education, high disease burden and lack of investment in water and sanitation.

ctive capacities to make globalization work for Least Developed Countries

24. Globalization presents a major opportunity for least developed countries to take advantage of economies of scale. This can be facilitated by taking advantage of the improvement in the flow of goods, services, capital and technology. In order to take advantage of globalization, however, certain important pre-requisites, such as infrastructure, a favourable business environment and enhanced research and development must be in place.

26. The growth of infrastructure over the past decade has been mixed despite Zambia's recent economic progress. Progress has been made in extending ICTs and roads to the citizenry but service delivery in water, sanitation and electricity has been weak. Government is aware that sustaining the high growth needed to attain the Millennium Development Goals is not possible without the efficient and effective delivery of infrastructure. The Government further recognizes that this cannot be done through the public sector alone. Accordingly, the Private Public Partnership policy was launched in 2009.

27. Another key pre-requisite to taking advantage of globalization is skills development and research and development. Since the early 1990s, however, investment in research and skills development in the country has reduced, resulting in a shortage of various skills such as artisans.

28. A key policy objective of the Government is to enhance the external competitiveness of the Zambian economy. This can be attained to a large extent by reducing the cost of doing business. The cost of doing business in Zambia is relatively high due to a number of factors such as a cumbersome licensing and regulatory framework, poor infrastructure and high communication costs. In order to fully take advantage of globalization, Government must address these shortcomings in the next decade.

role of trade in development

29. Zambia is a member of the World Trade Organization (WTO) and two regional groupings Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA). The country has actively participated in international trade negotiations such as the Doha round of trade negotiations and those of SADC and COMESA regional groupings. Although benefiting from a variety of preferential market access initiatives, including the European Union (EU) Everything-But-Arms initiative (EBA) and the US African Growth and Opportunity Act (AGOA), Zambia suffers both from capacity constraints to ensure compliance with the rules applying to these schemes and from serious domestic supply-side constraints. As a result, the realization of the full export potential of these initiatives is hampered, and they have generated only negligible additional exports for Zambia compared to the Generalised System of Preferences scheme.

30. Zambia has signed both the COMESA Free Trade Area (FTA) and the SADC Trade Protocol for duty-free access to the regional market for specified products. Implementation of the SADC Trade Protocol commenced in September 2000 with the introduction of tariff preferences leading to an Article XXIV compatible FTA by 2008. Within the FTA of COMESA, it has taken an advanced position concerning autonomous tariff reductions. To encourage foreign direct investment, a number of duty and tax concessions have been put in place, producing a direct effect on fiscal revenues. The reduction of tariff rates associated with the Free Trade Area (FTA) meant that the regionally produced consumer items became more affordable. The Zambian consumer therefore has access to a better and wider variety of goods.

31. Zambia signed the COMESA customs union that came into effect in 2009. The customs union is expected to enhance intra-regional trade, promote cross-border investment and serves to attract investment both Foreign Direct Investment (FDI) and domestic investment. Nonetheless, the COMESA customs Union faces challenges that need to be resolved.

32. Major Initiatives among regional trade groupings including robust regional infrastructure, such as roads, power pools, bridges and border facilities is key in fostering accelerated regional economic development. Zambia participates in a number of regional infrastructure projects including:

i) Construction of Kazungula bridge which is funded by the African Development Bank (AfDB) through SADC;
ii) Southern African Power Pool (SAPP) project where member states can import power in case of deficit, as well as export when member states have surplus;

onal Information Infrastructure (optic fibre), that otswana, Zimbabwe and Namibia;

iv) The one stop border post project at Chirundu between Zambia and Zimbabwe;

v) The pilot regional bond guarantee scheme that involves Zambia, South Africa, Malawi, Zimbabwe and Democratic Republic of Congo. This pilot has significantly reduced the transit time, from two days to one day; and

vi) Zambia stands to benefit from the new partnership for Africa's Development's (NEPAD) Pan African Infrastructure Development Fund (PAIDF) through SADC.

33. During the period 2001-2009, Zambia benefited from duty free market access regionally and internationally. The EU and other OECD countries remained important export markets, accounting for about 50 per cent of total exports. Regional trade accounted for 41 percent of Zambia's total exports and 58 percent of total imports. South Africa is the single largest partner country (46 percent of imports, 18 percent of exports), importing copper, electricity, tobacco, cotton and sugar, and exporting to Zambia in return a wide range of capital and consumer goods.

34. Zambia's major export product continued to be copper during the period under review. However, on account of the export diversification programmes, export earnings from Non-Traditional Exports (NTEs) have also increased over time (see Table 2).

Table 2: Performance of the Export Sector, 2000 – 2008, (US $ million)

Year	Imports	Exports	NTE	Copper price (per tonne)	TOT**
2000	978	746.2	256.23	1,813.5	76.3
2001	1,253	884.1	302.47	1,578.3	70.5
2002	1,204	965.2	368.33	1,559.5	107.3
2003	2,151	1,065.0	415.18	1,779.1	87.8
2004	2,580	1,824.7	484.91	2,865.9	88.8
2005	2,580	2,208.2	565.69	3,678.9	120.1
2006	3,024	3,890.7	757.2	6, 474.33	128.6
2007	4,007	4,617	826.59	7,126.41	204.3
2008	5,060	5,089	1, 480*	6,437.64	100.6

Source: CSO, ADB, African Economic Outlook. * Preliminary, ** 2000 = 100

35. The increase in NTEs were driven by exports of cement and lime, wheat and mesulin, gasoil, burley tobacco, gemstones, fresh fruits and vegetables and processed food. Products such as copper wire, electrical cables, cane sugar, fresh flowers, cotton lint and cotton yarn, recorded reduced earnings.

economically from international trade, there have d;

i. Overlapping membership to regional trade groupings which has resulted in a multiplicity of obligations;
ii. Policy differences among regional groupings and lack of adequate enforcement mechanisms;
iii. High transaction costs;
iv. Limited resources to support adequate institutional and technical mechanisms;
v. Lack of comparable, timely and reliable data to facilitate surveillance;
vi. Lack of appropriate compensation mechanism to address variations in initial conditions (e.g., compensating countries for loss in revenue due to trade liberalization);
vii. Constraints in human resources;
viii. Increased traffic and volumes of trade, posing a risk to local infrastructure;
ix. Stiff competition for domestic firms arising from competition from the region; and
x. Pressure on the national budget that arises from fiscal rules in regional groupings.

Vulnerability Assessment and Mitigation

37. In Zambia the frequency of natural hazards such as droughts and floods has been on the increase. The situation has been exacerbated by the vulnerability of households to food insecurity. In response, Zambia conducts two vulnerability assessments annually. These are the rapid vulnerability assessment and the in-depth vulnerability and needs assessment. The results of these assessments set the basis for short term interventions and mitigation measures in Food Security, Health and Nutrition, Water and Sanitation, Education, Social Protection, Human Settlement and Shelter and basic infrastructure such as feeder roads and bridges. Long term interventions are dealt with in sector specific policies and strategies.

Protecting the Environment

38. In Zambia, the human impact on the environment largely matches the population footprint, with major negative influences resulting from localized but intensive mining, industrial, agricultural and urban activities. The deforestation rate is high by world standards and its effects are widespread.

39. Zambia is one of many countries threatened by climate change. Unsustainable wildlife and fisheries practices also contribute to the loss of biodiversity. Policies, legislative structures and development strategies are available to facilitate the mitigation of existing negative environmental effects and constrain new ones. But institutional capacities at all levels (government, private sector, civil society and the community) are weak. And although the economy is growing, financial resources for environmental management and controls are limited.

40. The above notwithstanding, some successes were recorded. Notable achievements scored in the sector included establishment of Forest Credit Facility, reclassification and management of Zambia's protected areas (Chiawa and Bangweulu); reaching agreement to cooperate with Botswana, Zimbabwe, Namibia and Angola on management of the Okavango-Zambezi Conservation Trans-frontier; establishment of 500 hectares of national local supply plantation; and the commencement of Environmental and Natural Resources Mainstreaming Programme (ENRP) and formulation of the National Adaptation Programme of Action.

ncial resources

41. The enhancement of resource mobilization over the decade 2001-2009 was a challenge. In the final stage of the period (2005-2009), the aim was to raise total revenues as a ratio of GDP to 17.7 percent of GDP. This was barely attained as total revenues were estimated at 17.1 percent of GDP over the period. In large part, this was due to multiplicity of tax incentives; poor capture of the informal sector and lower than programmed releases from cooperating partners. In addition, lower than programmed donor support compounded the situation.

42. The Government offers a variety of incentives aimed at encouraging inflows of foreign direct investment. These incentives are generally offered under the Zambia Development Agency Act, and are offered across a broad spectrum of sectors, depending on the pledged level of investment. The trade-off between attracting investment and the tax effort has generally been negative, which has resulted in a reduction in tax collections. The tax collection effort has been worsened by development agreements that Government entered into with mining agreements, which by and large, are disadvantageous to the country.

43. The poor tax collection effort has been compounded by the presence of a large informal sector, which is difficult to capture in the tax bracket. The cumbersome business regulatory system, which discourages the formal set-up of businesses, is a key reason for the current situation. The situation has been worsened by limited efforts by the tax authorities to capture these informal businesses.

44. External grants generally showed a declining trend over the decade. As a percentage of GDP, it was envisaged that total grants would average more than 6 percent of GDP over the period 2005-2009. However, grants averaged about 4.4 percent of GDP, largely on account of governance related complications, especially in the road and health sectors.

45. As regards to external resources mobilization, government has undertaken various initiatives that are aimed at enhancing the effectiveness and efficiency of development cooperation by promoting cooperation and alignment of resources. In this regard, Government has signed the Harmonization in Practices memorandum of understanding with cooperating partners and Joint Assistance Strategy (2007-2010) among others in line with the Paris.

46. Government is aware that attaining the country`s development objectives will require increasing resources for infrastructure and human capital. Sustained efforts to open up fiscal space on both the revenue and spending side is paramount if the declining trend in tax revenue relative to the growth of the economy is to be reversed.

to incentives, enhancing tax compliance and be important in addressing the current scenario.

47. The Zambian economy showed remarkable resilience against the effects of the global economic crisis. Growth for 2009 is estimated at over 6 percent, which is generally in line with trends over the past few years. This outturn was largely on account of the pick-up in mineral production and agriculture, which compensated the slowdown in the tertiary sector. Other macroeconomic indicators such as inflation, the current account balance and the exchange rate were also within immediate past trends. However, the performance of the stock market, and trade and consumption taxes was not satisfactory.

48. The impact of the crisis on fiscal policy in Zambia was large. As a result of weaker international copper prices, the mining sector was significantly impacted. This led to reduced profitability in the sector, resulting in lower tax revenues to the Treasury. Furthermore, with the resultant job losses in the sector, income tax revenues were adversely affected. In addition, there were second-order effects as lower consumption by displaced workers and firms led to lower VAT and excise duty revenues to the Government.

49. In response to the weaker outlook for revenues, the Government had to realign its resources to ensure that priority expenditures, particularly those in infrastructure and social sectors, are safeguarded. Non-priority expenditures were either reduced or eliminated. More importantly, in order to finance the larger than expected fiscal deficit, the Government increased its domestic and external borrowing in 2009 in order to ensure adequate funding for the poverty reduction programmes.

50. The monetary sector was not adversely affected by the effects of the global economic crisis. This in part has been the result of Zambiaôs financial sector being less integrated with global financial networks, resulting in less exposure to the toxic assets that have led to financial sector turmoil elsewhere.

51. The major concern following the slowdown in copper prices in the second half of 2008 was the effect this would have on the mining sector. During this period, some major mining companies suspended their operations or placed their mines under care and maintenance, resulting in a loss of over 10,000 jobs. Although to a lesser extent, job losses also occurred in demand driven sectors such as tourism.

52. In view of the need for continued investment in the economy, the Government embarked on a series of measures aimed at mitigating the impact of the global crisis on the Zambian economy. The core of these efforts was to diversify the economy away from reliance on copper as the main export. Focus was placed on developing the agriculture, tourism, and manufacturing sectors. The Government undertook a number of infrastructure projects in these sectors and worked on streamlining the business environment in the country. In addition to these measures, tax incentives, such as an increase in the threshold on personal income tax and suspension of some taxes to mining operators were put in place.

53. Zambia has not attained the growth rate of 7 percent envisaged by the BPoA due a number of constraints such as high dependence on the mining sector, low labour productivity in the agriculture sector, poor access to finance, scarcity of specialized skills, poor infrastructure and poor health. Despite posting positive growth averaging 5 percent over the period, this has not translated in notable reduction in poverty levels particularly in rural areas. Zambia's population continued to be vulnerable to food insecurity because of increased exposure to natural hazards.

54. In order to make significant progress towards attainment of the commitments in the BPoA, strategies and measures that address all the above constraints should be undertaken. In particular, the following actions at national level are paramount:

- Implementation of targeted interventions aimed at improving the welfare of the extremely poor;
- The benefits of economic growth should be directed toward proven pro-poor interventions;
- Equity-based strategies to enable the extremely poor access resources;
- Continue to maintain macroeconomic stability in order to spur further growth;
- Address sources of instability, such as the foreign exchange rate volatility and high interest rates;
- Improve incentives in non-mining areas, such as tourism, agriculture and manufacturing;
- Implement policies and strategies for economic diversification;
- improve access to capital through financial deepening;
- Improve extension service provision, especially for small scale farmers;
- Encouragement of out-grower scheme to link small scale and commercial farmers;
- Improvement of infrastructure, especially in rural areas in order to allow access to markets;
- Increase access to credit for MSMEs by lowering the cost of borrowing;
- Enhance the competitiveness of MSMEs;
- Improve the business environment; and
- Environmental issues must be given more consideration, especially in view of the increase in exposure to droughts and floods

55. At regional and international level, the following are the recommended actions:

- The international community must as soon as possible reach consensus on environmental matters, especially following the less than satisfactory outcome from the Copenhagen conference;

nmitment for duty free and quota free market access
LDCs; and

- Resource mobilization is essential if future programmes of action have to be successful. Cooperating partners must ensure that aid, especially to pro-poor sector does not attract stringent conditionalities. In addition, rich economies should fulfill their commitments, such as the Monterrey Consensus of dedicating 0.7 percent of their GNI as aid to developing countries;