Republic of Zambia

Economic Report 2004

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Ministry of Finance and National Planning

Foreword

For the sixth consecutive year, the economy registered positive economic growth. In 2004, real GDP growth was estimated at 5.0 percent, surpassing the average for the last five years. As in previous years, growth continued to be mainly driven by the primary sectors of agriculture and mining. Growth was also supported by improved macroeconomic and external conditions. The improvement in macroeconomic conditions was largely driven by the firm fiscal stance undertaken by Government in 2004. Thus, budget execution improved resulting in domestic borrowing by Government falling to 1.9 percent of GDP from 5.1 percent in the previous year.

The success in containing fiscal borrowing also eased pressures on interest rates and helped to free resources for lending to the private sector, a welcome development. The exchange rate of the Kwacha against the US dollar also remained stable. External sector developments were also favourable during the year, as high-metal prices contributed to buoyant exports and improvements in the trade balance. Zambia's debt burden, however, is still a major source of concern. Government nevertheless made substantial progress in implementing the reforms required for the country to reach the Completion Point under the Heavily Indebted Poor Countries Initiative. It is expected that the country will reach the Completion Point in early 2005 after assessment by the Bretton Woods Institutions.

Despite expenditure restraint in 2004, funding to the social sectors was increased. As a share of the total national budget, funding rose to 25.9 percent from 24.3 percent in 2003. Most of the increase was to the education sector. However, this was stained by a shortage of teachers, particularly in the rural areas. This situation was aggravated by budgetary constraints that could not allow for the recruitment of the required numbers of teachers. Against the backdrop of large increases in pupil enrolments, the teacher-pupil ratio continued to deteriorate. In the health sector, the situation was the same as the staffing situation for essential workers, especially doctors and nurses continued to worsen.

Coming back to economic performance, there is no doubt that the economy is now broadly on a sustainable growth path, reflecting in part some of the effects of the past reforms and improved policy implementation. However, the rate of economic expansion is still not robust enough to result in significant reductions of poverty. For the size of our economy, we require annual growth rates in the region of between 7-10 percent if poverty levels are to be quickly reduced. Among the reasons why growth is still not yet robust is the low level of private investment and dependency on primary sectors of agriculture and mining. This obviously points to the need for accelerated diversification and improvement in the investment and business climate. In 2004, Government, working with the private sector, prepared a comprehensive Private Sector Development (PSD) Action Plan, which aims at addressing the bottlenecks to investment and private sector development in general. As we enter 2005, it is expected that implementation of the milestones under the PSD Action Plan will be scaled up.

Macroeconomic policies will continue to emphasise fiscal consolidation and prudent monetary and financial policies so as to further strengthen the macroeconomic environment. The benefits of macroeconomic stabilisation were clearly shown in 2004 and it is important that this is sustained. I am confident that this, coupled with continued expansion of mining, tourism and manufacturing activities, will entail an even better economic outlook for 2005.

Dr. Situmbeko Musokotwane
Secretary To The Treasury

Contents

DEVELOPMENTS IN THE GLOBAL ECONOMY

1.0 Overview

Recovery in the global economy in 2004 continued and was broad-based with Gross Domestic Product (GDP) growth projected to average 5 percent compared to 3.9 percent in 2003, the highest for nearly three decades. This growth was underpinned by strong upturn in industrial production and global trade flows, a pick up in private consumption growth and continued strength in investment. The volume of world trade increased by 8.8 percent in 2004 compared to 5.1 percent in 2003.

2. The recovery translated into buoyant global demand, especially from China, resulting in a sharper than expected rise in oil consumption which, in turn pushed crude oil prices to nominal highs and higher price volatility. Oil prices went up by 28.9 percent in 2004 compared to 15.8 percent in 2003. The rise in oil prices was compounded by delays in restoring production in Iraq, industrial unrest in Nigeria and Venezuela and the problems at Yukos, which threatened Russian production. The low inventories and sharp depreciation of the dollar changed supplier behaviour, which also contributed to the rise in crude oil prices.

3. Similarly, non-fuel commodity prices rose sharply compared to 2003, although at an eased rate relative to the increase in oil prices. Particularly, prices of agricultural raw materials and metals went up by 4.3 percent and 31.2 percent, respectively. As for copper, which is Zambia's major export commodity, the price increased by 29.0 percent.

4. Macroeconomic performance was mixed. Inflation, after falling to the lowest level in 30 years in 2003, exhibited an upward trend. Interest rates through mid-June increased significantly triggered by monetary tightening in the United States. In the foreign exchange markets, the U.S. dollar generally experienced a moderate depreciation. Outside Central Europe, most emerging market currencies depreciated, notably in Asia and Latin America, partly reflecting the deterioration in external financing.

5. In Africa, particularly the Sub-Saharan region, strong recovery was registered with real GDP growth projected at 4.6 percent compared to 3.7 percent in 2003. Underlying this growth were improved macroeconomic conditions, global expansion, relatively high non-fuel commodity prices, favourable weather conditions and large expansion in some oil producing countries.

1.1 Performance of the Global Economy Developments in Industrial Countries

6. Real GDP growth in industrial countries in 2004 was projected at 3.6 percent compared to 2.1 percent recorded in 2003. This favourable performance was against a backdrop of increasing oil prices. The expansion in growth continued to be led by the United States (see Table 1.1). Growth in the United States was boosted by accommodative macroeconomic policies, rising corporate profitability and strong labour productivity growth. Inflation in the industrialised countries increased to 2.1 from 1.8 percent in 2003.

7. In Japan, the upturn in real GDP was strong at 4.4 percent compared to 2.5 percent in 2003, largely due to increased external demand notably from China. The upturn was also driven by rising private consumption and investment.

Table 1.1: Overview of the World Economic Outlook Projections
(Annual percent change unless otherwise noted)

	2002	2003	2004*
World Output	**3.0**	**3.9**	**5.0**
Advanced economies	1.6	2.1	3.6
United States	1.9	3.0	4.3
Euro area	0.8	0.5	2.2
Germany	0.1	(0.1)	2.0
France	1.1	0.5	2.6
Italy	0.4	0.3	1.4
Spain	2.2	2.5	2.6
Japan	(0.3)	2.5	4.4
United Kingdom	1.8	2.2	3.4
Canada	3.4	2.0	2.9
Other Advanced economies	3.6	2.4	4.3
Newly industrialized Asian economies	5.0	3.0	5.5
Africa	3.5	4.3	4.5
Sub-Sahara	3.6	3.7	4.6
Central and eastern Europe	4.4	4.5	5.5
Commonwealth of Independent States	5.4	7.8	8.0
Russia	4.7	7.3	7.3
Excluding Russia	7.0	9.0	9.6
Developing Asia	6.6	7.7	7.6
China	8.3	9.1	9.0
India	5.0	7.2	6.4
ASEAN-4[2]	4.3	5.1	5.5
Middle East	4.3	6.0	5.1
Western Hemisphere	(0.1)	1.8	4.6
Brazil	1.9	(0.2)	4.0
Mexico	0.8	1.3	4.0
European Union	1.2	1.1	2.6
World growth based on market exchange rates	1.7	2.7	4.1
World Trade Volume (goods and services)	**3.3**	**5.1**	**8.8**
Imports			
Advanced economies	2.6	3.7	7.6
Other emerging market and developing countries	6.0	11.1	12.8
Countries in transition	11.9	6.3	6.6
Exports	(0.8)	2.2	1.6
Advanced economies	2.2	2.6	8.1
Other emerging market and developing countries	6.6	10.9	10.8
Commodity prices			
Oil[4]	2.5	15.8	28.9
Non-Fuel (average based on world commodity export weights)	0.6	7.1	16.8
Consumer prices			
Advanced economies	1.5	1.8	2.1
Other emerging market and developing countries	6.0	6.1	6.0
Six-month London interbank offered rate (LIBOR, percent)			
On U.S dollar deposits	1.9	1.2	1.6
On euro deposits	3.3	2.3	2.2
On Japanese yen deposits	0.1	0.1	0.1

Source: World Economic Outlook, International Monetary Fund September 2004
*Projections
[1]Using updated purchasing power-parity (PPP) weights, summarized I the Statistical Appendix, Table A.
[2]Mongolia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geographical and similarities in economic structure.
[3]Includes Indonesia, Malaysia and Thailand.
[4]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 $28.89 in 2003; the assumed price is $37.25 in 2004, and $37.25 in 2005.

8. In the United Kingdom, real GDP growth was projected at 3.4 percent, largely driven by strong private consumption, underpinned by sustained income growth and rising housing wealth. In Canada, growth was estimated at 2.9 percent, which was 0.9 percentage points above the 2003 level, largely supported by favourable macroeconomic policies and expansion in global demand. Similarly, in the Euro area, growth was projected to be stronger at 2.2 percent compared to 0.5 percent in 2004. This growth was mainly dependent on external demand and gradual improvement in industrial production and business confidence. However, the composition of growth across countries was uneven (see Table 1.1).

Developments in Emerging Markets

9. In developing Asia, growth remained solid at 7.6 percent, led by booming activity in China and India. In China, very rapid investment and credit growth while in India global expansion and supportive monetary conditions contributed to booming activity. The whole region generally experienced strong domestic demand while current account surpluses and net private direct investment remained high (see Table 1.2). Current account surpluses remained strong across the region due to buoyant electronic exports, competitive exchange rates, increased remittances and gains in market shares in services, especially in South Asia and China.

10. Gross Domestic Product growth rates varied significantly across countries depending on the strength of domestic demand. Economic activity in the ASEAN-4 continued to expand at a solid pace, especially in Malaysia. Among the newly industrialised countries, export-based growth was complemented by the rise in domestic demand in Hong Kong SAR, Singapore and Taiwan Province of China. In contrast, domestic demand in Korea remained weak compounded by the legacy of debt problems of households and domestically oriented enterprises.

Table 1.2: Net Capital Flows[1] in Emerging Asia (In U.S. dollars Billions), 2002-2004

	2002	2003	2004*
Private capital flows[2,3]	25.2	52.8	79.8
Private direct investment, net	53.8	70	77.2
Private portfolio flows, net	(59.6)	5.5	12
Other private capital flows, net[3]	31.2	(2.8)	(9.4)
Official flows, net	(1.8)	(16.3)	(6.9)
Change in reserves[4]	(158.4)	(234.2)	(232.6)

Source: World Economic Outlook, International Monetary Fund, September 2004
* Projections.
[1]Net capital flows comprise net direct investment, net portfolio investment and other long and short-term investment flows including official and private borrowing.
[2]Because of data limitations, "other private capital flows, net" may include some official flows.
[3]Excluding the effects of the recapitalisation of two large commercial banks in China with foreign reserves of the Bank of China (US $45 billion), net private capital flows to emerging Asia in 2003 were US $97.8 billion while other private capital flows net to the region amounted to US $22.2 billion.
[4]A minus sign indicates increase.

Developments in Africa

11. Africa continued to register positive economic performance with real GDP growth estimated at 4.5 percent in 2004, although some individual countries continued to face serious problems. In Sub-Saharan Africa, real GDP growth was projected at 4.6 percent compared to 3.7 percent in 2003 (see Table 1.3). Contributing to this growth were improved macroeconomic conditions and global expansion, which led to higher demand and increased prices for commodities. Additionally, country-specific developments aided growth such as large increases in oil production in Angola, Chad and Equatorial Guinea, recovery of agricultural production in Ethiopia, Malawi and Rwanda from the drought depressed levels of 2003, and improved security conditions in Burundi and Central African Republic.

Table 1.3: Real GDP Growth Rates and Consumer Prices in Selected African Countries, 2002-2004

	Real GDP (%)			Consumer Prices[1]		
	2002	**2003**	**2004***	**2002**	**2003**	**2004***
Africa	**3.5**	**4.3**	**4.5**	**9.7**	**10.3**	**8.4**
Maghreb	**3.3**	**6.2**	**4.2**	**2.1**	**2.2**	**4.0**
Algeria	4.0	6.8	4.5	1.4	2.6	5.4
Morocco	3.2	5.5	3.0	2.8	1.2	2.0
Tunisia	1.7	5.6	5.6	2.8	2.8	3.4
Sub-Sahara	**3.6**	**3.7**	**4.6**	**12.1**	**12.9**	**9.9**
Ethiopia	1.6	(3.9)	11.6	(7.2)	15.1	9.6
Sudan	6.0	6.0	6.6	8.3	7.7	6.5
Great Lakes	**4.8**	**4.1**	**5.2**	**8.3**	**8.3**	**5.5**
Congo, Democratic, **O/w**	3.5	5.6	6.3	25.3	12.8	5.0
Kenya	1.0	1.6	2.3	2.0	9.8	8.1
Tanzania	7.2	7.1	6.3	4.6	4.5	4.3
Uganda	6.8	4.7	5.7	5.7	5.1	3.5
Southern Africa, O/w	**2.3**	**2.8**	**4.8**	**44.2**	**54.3**	**44.6**
Angola	14.4	3.4	11.2	108.9	98.3	56.1
Zimbabwe	(11.2)	(9.3)	(5.2)	140.0	431.7	350.0
Zambia**	4.9	5.1	5.0	26.7	21.5	18.0
West & Central Africa, O/w	**3.6**	**6.7**	**5.4**	**8.4**	**9.5**	**8.3**
Ghana	4.5	5.2	5.2	14.8	26.7	10.8
Nigeria	1.5	10.7	4.0	13.7	14.4	15.8
CFA Franc Zone, O/w	**4.4**	**4.6**	**6.8**	**4.0**	**1.5**	**1.5**
Cameroon[7]	6.5	4.5	4.8	6.3	0.6	0.8
Cote d'lvoire	(1.6)	(2.8)	1.7	3.1	3.3	1.5
South Africa	**3.6**	**1.9**	**2.6**	**9.2**	**5.8**	**2.6**

Source: World Economic Outlook, International Monetary Fund, September 2004

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

*: Projections

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

12. Developments in the external sector, despite the impact of high oil prices in oil importing countries, were favourable with trade balances of many African countries projected to have improved. This improvement was mainly due to the general rise in global non-energy commodities prices, which were estimated to have gone up by 16.8 percent in 2004 compared to 7.1 percent in 2003 (see Table 1.4).

13. Growth in South Africa was projected at 2.5 percent supported by low interest rates and a moderate expansionary fiscal stance (see Table 1.4). The reduction in interest rates was aided by the fall in inflation. The downward trend in inflation was on account of the appreciation of the Rand since the end of 2001. In Nigeria, real GDP slowed down to 4.0 percent in 2004 as the oil boom production of 2003 declined.

14. In the Horn of Africa, economic activity picked up with real GDP projected at 8.6 percent in 2004 compared to 2.0 percent in 2003. This growth was largely driven by the expansion in Ethiopia after the return of normal weather conditions in 2004. Similarly, real GDP growth in the Great Lakes region was on the upturn, at 5.2 percent compared to 4.1 percent in 2003. In Southern Africa, growth was projected at 4.8 percent in 2004 compared to 2.8 percent in 2003. In Angola, real GDP was estimated at 11.0 percent mainly reflecting oil output. In the Maghreb region, growth was registered but at a slower pace than in 2003, due to unfavourable macroeconomic policies.

15. Net private capital flows in Africa improved and stood at US $16.6 billion in 2004 compared to US $14.8 billion in 2004. Most of these capital flows was private Foreign Direct Investment (FDI) which was estimated at US $14.4 billion compared to US $13.6 billion in 2003 (see Table 1.5). The bulk of FDI continued to be directed to a few countries especially those with mineral resources. However, compared to regions like emerging Asia, capital flows to Africa were still very low.

1.2 The Impact of Global Developments on the Zambian Economy

16. The expansion in the global economy translated into higher demand for commodities at higher prices. Prices for non-fuel primary commodities increased by 16.8 percent in 2004 compared to 7.1 percent in 2003. Particularly, metal prices went up by 31.2 percent and impacted positively on Zambia's metal exports in 2004. Similarly prices of agricultural raw materials increased by 4.3 percent, thereby impacting positively on Zambia's non-traditional exports, which are mainly primary agricultural products. Consequently, Zambia's total exports increased by 51 percent to US $1.6 billion.

17. The impact of higher oil prices on the Zambian economy was a rise in the import bill while fuel prices increased and were volatile in 2004. Petrol and diesel prices rose by 22 percent and 27 percent in 2004 compared to 7 percent and 9 percent in 2003, respectively. Petrol and diesel prices were adjusted eight times during the period under review.

1.3 Outlook

18. The global economy is poised for further expansion in 2005, although at a slower rate due to anticipated easing of economic activity in the United States and China. This slowdown is expected to have a dampening effect on non-fuel commodity prices as demand for these commodities is likely to decline, especially, from China. This will adversely affect the current account positions for countries dependent on non-energy commodity exports. Similarly, oil prices are expected to decline, largely due to the anticipated slowdown of growth in China. However, the decline in oil prices may not be very significant due to persistent tensions in Iraq, Venezuela and Nigeria. In addition, the reducing excess capacity in oil exporting countries and the desire by some OPEC Countries for a higher price target in view of the depreciation of the dollar is likely to push prices up. World trade is also expected to decelerate as growth in the global economy slows down.

Chapter 2

DEVELOPMENTS IN THE DOMESTIC ECONOMY

2.1 Overview

Zambia's economic performance further improved in 2004 with real Gross Domestic Product (GDP) growth estimated at 5.0 percent driven by strong expansion in mineral and agricultural production as well as generally favourable external sector conditions. Macroeconomic conditions also improved, thereby aiding growth. The Kwacha remained stable against the United States dollar while interest rates edged downwards. Average annual inflation also declined in 2004, although end year inflation slightly increased.

20. The value of exports grew sharply by 51 percent, mainly due to high world metal prices and increased mineral production. Private capital inflows, especially Foreign Direct Investment (FDI), also rose helping to finance the current account deficit. This, together with increased foreign exchange earnings from exports, helped to build up gross international reserves.

21. Fiscal management tremendously improved with domestic borrowing by government to finance the deficit sharply reduced. This eased pressures on interest rates, which exhibited a downward trend in 2004**.** Spending towards social sectors and priority poverty reduction programmes` also improved in 2004.

2.2 Overview of Macroeconomic Objectives and Policies

22. Government's macroeconomic policy in 2004 was principally focused at restoring fiscal discipline, especially containing government domestic borrowing. This was in the wake of the excessive borrowing in 2003 that reached K1,047.3 billion or 5.1 percent of GDP, thereby causing a steep rise in domestic debt, interest payments and interest rates. A sharp fiscal adjustment to address this growing threat to fiscal sustainability was urgently required as macroeconomic stability and growth were being undermined. Improved fiscal management was also one of the key requirements for reaching agreement on a new Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF).

23. Government's prime fiscal goal was therefore to limit domestic financing of the budget deficit to 2.2 percent of GDP from 5.1 percent the previous year. Government in this respect adopted a series of measures, especially on the expenditure side, aimed at achieving its fiscal goals. The key measures put in place included the containment of civil service remuneration to within 8 percent of GDP and curbing non-priority expenditures. On the revenue side, Government introduced two higher bands of 35 and 40 percent on Pay as You Earn (PAYE) and exempted agriculture from Value Added Tax (VAT), which made input VAT un-claimable. A presumptive tax on turnover for small businesses was also introduced. All these tax measures were introduced with the aim of raising additional revenue.

24. The fiscal programme was also premised on donors disbursing K1,426.6 billion or 5.6 percent of GDP to the budget by way of project assistance and programme support. To facilitate the smooth disbursement of donor flows, especially with regard to programme support, Government envisaged to reach agreement on a new PRGF arrangement with the IMF by June 2004. A new PRGF was one of the requirements for the country to reach the Completion Point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative by the end of the year.

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[1] The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies articulated in a Poverty Reduction Strategy Paper (PRSP). PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

25. Despite a fiscal adjustment, primarily to be achieved through expenditure restraint, Government made a commitment to increase spending to the key social sectors and priority Poverty Reduction Programmes (PRP's). In addition to the fiscal objectives the other macroeconomic objectives in 2004 were: (a) to attain end-year inflation of 15 percent; (b) achieve real GDP growth of at least 3.5 percent; and (c) build Gross International Reserves to an equivalent of 1.5 months of import cover.

2.3 Performance of the Economy

Macroeconomic Performance

26. The macroeconomic environment generally improved when compared to 2003. Real GDP growth was estimated at 5.0 percent maintaining the momentum of the recent years. Interest rates edged downwards while the exchange rate of the Kwacha against the US dollar was stable.

27. Domestic borrowing by Government in 2004 stood at K 496.6 billion or 1.9 percent of GDP against K 1,047 billion or 5.1 percent of GDP in 2003.The out-turn in 2004 was within the year target of 2.2 percent of GDP (see Table 2.1). The reduction in government borrowing in 2004 relative to 2003 contributed to a decline in interest rates. The monthly weighted average treasury bill yield rate fell to 17.8 percent in December 2004 from 19.7 percent in December 2003. Commercial banks' average lending rates also edged downwards to 29.8 percent from 37.7 percent in December 2003.

28. The fall in interest rates in 2004 was also attributed to loose monetary conditions, which were in part driven by a reduction in statutory reserve ratio requirements in late 2003. By the second quarter of 2004, liquidity was however, strong and the Bank of Zambia tightened monetary policy in the second half of the year. Broad money growth, nonetheless, accelerated to 30.2 percent compared to 23.4 percent in 2003 and was higher than the year target by 12.1 percentage points.

Table 2.1: Selected Key Macroeconomic Indicators, 2002-2004

Indicator	2002	2003	2004 Target	2004 Outturn
Real GDP growth	4.9	5.1	3.5	5.0
Overall Budget Deficit (% of GDP)	(6.3)	(6.6)	(6.9)	(3.3)
Domestic Financing of Budget Deficit (% of GDP)		5.1	2.2	1.9
Money Supply Growth (Annual % change)	10.8	23.4	18.1	30.2
Inflation (end-period)	26.7	17.2	15	17.5
Current Account Deficit (% of GDP, Excl grants)	(17.3)	(16.2)		(13.1)
Current Account Deficit (% of GDP, Inc grants)	(6.5)	(7.5)	(6.4	(6.4)
Gross International Reserves (Equivalent months of Import Cover)	2.2	1.3	1.5	1.2

Source: Ministry of Finance and National Planning

29. Average annual inflation in 2004 fell to 18.0 percent from 21.5 percent in 2003. End-year inflation, however, slightly rose to 17.5 percent from 17.2 percent in 2003 and was 2.5 percentage points above the end-year target. This marginal upturn mainly reflected a rise in the prices of non-cereal food products such as meat, which were adversely affected by the outbreak of livestock diseases in many parts of the country. The general sustained upward adjustments in the prices of petroleum products and the sharp depreciation of the Kwacha against the South African rand also contributed to the higher inflation out-turn in 2004.

30. In the foreign exchange market, the Kwacha depreciated by only 1.6 percent against the US dollar compared to a depreciation of 7.2 percent in 2003. However, against the South African rand the Kwacha weakened more, depreciating by 23.0 percent. South Africa is one of Zambia's largest trading partners and accounts for over 45 percent of the country's source of imports. The weakening of the Kwacha against the rand therefore affected the prices of goods originating from South Africa.

31. As a result of the improved macroeconomic management, especially with regard to fiscal performance, the Government and the International Monetary Fund (IMF) in June reached agreement on a new PRGF covering the period up to June 2007.

Domestic Output

32. Preliminary data showed that Real Gross Domestic Product (GDP), measured in value added terms grew by 5.0 percent to K2, 988.9 billion from K2, 846.7 billion in 2003 (See Tables 2.2 and 2.3).

Table 2.2: Sector Growth Rates at Constant 1994 Prices, 1999 - 2004

CONSTANT 1994 PRICES	1999	2000	2001	2002	2003	2004*
Primary sector	**(2.3)**	**1.1**	**1.9**	**3.8**	**4.5**	**7.0**
Agriculture, forestry, and fishing	10.1	1.6	(2.6)	(1.7)	5.1	4.2
Mining and quarrying	(24.8)	0.1	14.0	16.4	3.4	12.6
Secondary sector	**2.9**	**4.0**	**7.5**	**7.2**	**10.9**	**7.4**
Manufacturing	2.8	3.5	4.2	5.7	7.6	5.2
Electricity, gas, and water	2.5	1.2	12.6	(5.2)	0.6	(1.8)
Construction	3.2	6.5	11.5	17.4	21.6	14.6
Tertiary sector	**4.1**	**4.5**	**5.3**	**1.9**	**3.4**	**3.3**
Wholesale and retail trade	4.5	2.3	5.4	5.0	6.1	5.4
Restaurants and hotels	(6.2)	12.3	24.4	4.8	6.8	5.7
Transport, storage, and communications	5.7	2.4	2.8	1.8	5.0	6.3
Financial intermediation and insurance	2.5	(0.6)	0.1	3.5	3.4	3.5
Real estate and business services	13.8	17.0	3.5	4.4	4.0	4.0
Community, social, and personal services	8.4	(0.5)	5.8	1.6	1.5	0.6
Other	**(9.8)**	**7.5**	**10.6**	**(13.8)**	**(7.8)**	**(7.6)**
Taxes	(4.5)	5.2	7.0	(6.8)	(2.9)	(2.5)
FISIM	2.5	2.5	2.5	2.6	2.5	2.5
GDP at Market Prices	2.2	3.6	4.9	3.3	5.1	5.0

Source: Central Statistical Office and Ministry of Finance and National Planning
* Preliminary

33. The main drivers of growth were mining, agriculture, and the wholesale and retail trade sectors**.** Growth in the mining and quarrying sector was particularly impressive at 12.6 percent, due to increased copper production. Total copper production increased by 16.2 percent to 410,971 mt supported by high metal prices and improvements in production techniques, which led to high mineral recoveries at some of the mines. Production also rose due to extraction of high-grade ores at several mines. Furthermore, production resumed at the former Roan Antelope Mining Corporation of Zambia (RAMCOZ) following its successful re-privatization to J &W of Switzerland.

34. Cobalt production, however, marginally declined by 1.6 percent to 6,390 mt from 6,493 mt in 2003, mainly due to a sharp reduction in production at the Konkola Copper Mines (KCM). Coal production, which was characterised by a sustained sharp decline in the last five years recovered in 2004. A total of 103,066 mt was produced compared to 75,516 mt in 2003, representing an increase of 36 percent. This turn around was mainly due to improvements in management and also rehabilitation of some vital equipment at Maamba collieries.

35. A major development in the mining sector was the completion of the construction of the first phase of the Kansanshi Mine in the North Western Province by First Quantum Minerals. The Kansanshi Mine hosts one of the premier undeveloped Copper-Gold deposit in the world and production is scheduled to start in 2005. In addition, Government managed to secure a strategic equity partner, Vedanta Resources of India, for its 51 percent stake in KCM.

36. In the agricultural sector, favourable weather conditions, improved input distribution and increased private investments allowed for a second consecutive year of satisfactory crop production. Maize production was sustained at about 1.2 million mt, resulting into a surplus of 185,000 mt. The other food crops such as millet, sorghum, and paddy rice also recorded positive increases in production**.** Consequently, total national food supply reached a maize-meal equivalent of 2.3 million mt against the national requirement of 1.9 million mt. This resulted in the country being food secure for the second successive year which helped in building up strategic reserves, while some of the surplus was exported.

Table: 2.3: Gross Domestic Product at Constant 1994 Prices, (In Kwacha Billions), 1999-2004

	1999	2000	2001	2002	2003	2004*
Primary sectors	**583.6**	**590.3**	**601.8**	**624.6**	**652.7**	**698.7**
Agriculture, forestry, and fishing	423.3	429.9	418.9	411.7	432.5	450.8
Mining and quarrying	160.3	160.4	182.9	212.9	220.2	247.9
Secondary sectors	**441.7**	**459.2**	**493.6**	**529.0**	**586.5**	**630.0**
Manufacturing	253.7	262.7	273.7	289.4	311.4	327.6
Electricity, gas, and water	72.1	72.9	82.1	77.8	78.3	76.9
Construction	116.0	123.6	137.8	161.8	196.8	225.5
Tertiary sectors	**1,387.4**	**1,449.5**	**1,525.9**	**1,554.3**	**1,607.3**	**1,660.3**
Wholesale and retail trade	446.2	456.6	481.2	505.4	536.4	565.2
Restaurants and hotels	43.0	48.2	60.0	62.9	67.2	71.0
Transport, storage, and communications	154.0	157.7	162.1	165.1	173.3	184.2
Financial intermediation and insurance	206.7	205.4	205.6	212.7	220.0	227.7
Real estate and business services	203.7	238.2	246.6	257.4	267.6	278.2
Community, social, and personal services	193.7	192.8	203.9	207.3	210.5	211.7
Other	**140.1**	**150.6**	**166.5**	**143.5**	**132.3**	**122.3**
Taxes	258.9	272.4	291.4	271.6	263.6	256.9
FISIM	(118.8)	(121.8)	(124.9)	(128.1)	(131.3)	(134.6)
GDP at market prices	**2,412.8**	**2,499.0**	**2,621.3**	**2,707.9**	**2,846.5**	**2,989.0**

Source: Central Statistical Office
* Preliminary

37. The production of the major cash crops was outstanding. Total tobacco production increased by 86.2 percent to an estimated 37,311 mt from 20,035 mt in the 2002/2003 farming season mainly due to an expansion in private investment, improved marketing arrangements and attractive prices. Cotton production rose by 22.3 percent to 144,307mt supported by increased private investments in ginneries as well as the propping up of out-grower schemes by both government and the private sector. The performance of the agricultural sector in 2004, nevertheless, was negatively affected by the exemption of the sector from VAT, which made input VAT un-claimable. The persistent upward adjustments in fuel prices also negatively affected activities in the sector.

38. As for the secondary sectors, manufacturing and construction continued to record positive growth while output declined in the energy sector. Manufacturing activity, which is mostly concentrated in food processing, grew by 5.2 percent owing to favourable agriculture production, improved macroeconomic conditions and increased domestic demand. Growth in the building and construction sector was 14.6 percent, mainly due to public infrastructure works and an acceleration in private residential building.

39. The Power Rehabilitation Programme by ZESCO Limited continued with replacements and rehabilitation of generators at the main hydro power stations. This led to a reduction in generation by 3.1 percent, thereby negatively affecting the overall performance of the energy sector, which declined by 1.8 percent in 2004. Notwithstanding, construction of the 330 Kv power line to the Kansanshi mine was successfully completed by ZESCO Limited during the year at a total cost of US $21 million. As for the petroleum sub-sector, supply during the year was generally normal, although there were frequent price adjustments due to spiralling world oil prices.

40. All the service sectors registered positive growth. The wholesale and retail trade sector, which is the biggest contributor to GDP, grew by 5.4 percent on the back of positive growth in the key sectors. The tourism sector, measured by activities in the hotels, bars and restaurants posted a growth of 5.5 percent. Tourism growth continued to be boosted by improved marketing and investments by the private sector. In addition, there was an increase in the frequency of scheduled flights to the major tourist areas like Livingstone and Mfuwe in the South Luangwa National Parks. The sector, however, continued to be adversely affected by poor infrastructure especially in the majority of the national parks and the high administrative burdens.

41. The general pick up in economic activity, especially in the primary sectors of mining and agriculture, fuelled growth in the transport and communications sector, particularly the road sub-sector. The air transport sub-sector also witnessed an expansion with air traffic movement increasing by 7.4 percent to 17,466 while passenger movement increased by 18.0 percent to 615,606 from 522,904 in 2003. The number of scheduled airlines rose to 14 from 13 last year as one domestic carrier came on stream. The increased activity in air transport reflects mainly the improved economic prospects, especially with regard to tourism. Rail transport sub-sector, however, continued to perform poorly as cargo haulage dropped by 7.1 percent. High freight rates and long transit times continued to make rail transportation uncompetitive.

42. For the communications sub-sector, an expansion in investment programmes by the mobile network operators resulted in a surge in the number of subscribers to 413,000 from 191,051 in 2003, although there were growing concerns about the quality of service. During the year, Government commenced studies on the possibility of commercialising the state owned Zambia Telecommunications Limited (ZAMTEL), including a framework to ensure effective management and regulation of the company. In overall terms, the transport and communications sector registered a growth of 6.3 percent in 2004.

43. The overall condition and performance of the financial and banking services sector was satisfactory, with growth estimated at 3.5 percent. Market capitalization was adequate with all the banks meeting their minimum regulatory capital requirements. The asset quality was satisfactory

with interest earning assets accounting for 76.2 percent of total assets, although non-performing loans increased. During the period January to October 2004, total profits in the banking sector remained satisfactory, despite declining by 28 percent compared to the same period in 2003. This out-turn was mainly due to a 11 percent decrease in income from government securities as well as an increase in specific loan loss provisions. Income on government securities fell as a result of the decline in interest rates during the course of the year.

44. In the external sector, export receipts shot up by 51 percent to US $1,588 million, reflecting high world metal prices and increased domestic mineral production. Metal receipts grew by 64.8 percent to US $1,103 million, surpassing the growth average of the last five years. Non-metal exports (chiefly, horticulture, floriculture, processed foods and textiles) also continued to perform well increasing by 26.6 percent to US$ 485 million. Imports in 2004 rose by 24 percent to US $1,727 million. As a result of export growth out stripping import growth, the merchandise trade balance improved to a deficit of US $109 million or 2.2 percent of GDP from a deficit of US $311 million or 7.2 percent of GDP in 2003. However, the higher interest payments on external debt in the services account and also higher payments on services such as insurance and freight, resulted into the current account deficit (including grants) marginally narrowing to 5.2 percent of GDP from 7.5 percent in 2003.

45. The current account deficit in 2004 was mostly financed by private capital inflows especially FDI, which were estimated at US $344 million compared to US $172 million in 2003. Although FDI flows have sharply increased in the last two years, they have mostly been confined to the mining sector. In 2004, most of the FDI flows were directed at the mining sector, mostly for financing development works at the Kansanshi mine. The other sectors that received FDI flows are agriculture, especially in the cash crop sub-sector and the tourism sector.

46. Zambia's debt burden continued to be high. Total debt stock as at end-December 2004 was estimated at US $7.1 billion or 131 percent of GDP. In terms of debt service, a total of US $ 374 million or 6.9 percent of GDP was paid, out of which US $257 million was paid to the IMF. In 2004, the Government made significant progress in implementing the key reform measures required for reaching the Completion Point under the Enhanced HIPC initiative. It is therefore expected that Zambia would reach the Completion Point in early 2005.

2.4 Labour and Employment Developments

47. During 2004, Government adopted a National Employment and Labour Market Policy after wide consultations with various stakeholders. The policy stipulates the role of Government in creating a conducive environment that will generate employment and ensure an effective and efficient Labour market and further it gives guidance to all Labour matters in the country.

Employment

48. According to the results of the 2002/2003 Living Conditions Monitoring Survey (LCMS III) released in December 2004, the number of persons in the labour force in 2003 was estimated at 4,055,169 out of which 3,517,371 were employed either in the formal or informal sector (aged 12 years and above) (see Table 2.4). Those employed in the formal sector were 597,953 or 14.7 percent of the total labour force while 2,919,418 or 86.7 percent of the labour force were employed in the informal sector while 13.3 percent were unemployed.

[2] Assessment will be made on the performance for the whole of 2004. However, such assessment can only be made in early 2005.

Table 2.4: Status of Employment in Zambia, Formal and Informal Sectors as of 2003

Sex/Residence/Province	Formal Sector		Informal Sector		Number of Persons employed 12 years and above
	Number of persons	Percent	Number of persons	Percent	
All Zambia	**597,953**	**17**	**2,919,418**	**83**	**3,517,371**
Male	441,813	24	1,399,076	76	1,840,889
Female	150,883	9	1,525,599	91	1,676,482
Rural	179,981	7	2,391,172	93	2,571,153
Urban	416,336	44	529,882	56	946,218
Small scale farmers	143,945	6	2,255,136	94	2,399,081
Medium scale farmers	6,489	17	31,684	83	38,173
Large scale farmers	533	25	1,599	75	2,132
Non-agricultural	35,577	27	96,190	73	131,767
Low cost areas	280,603	38	457,827	62	738,430
Medium cost areas	51,495	57	38,847	43	90,342
High cost areas	85,736	73	31,710	27	117,446
Central	46,231	12	339,029	88	385,260
Copperbelt	160,024	36	284,486	64	444,510
Eastern	42,739	7	567,815	93	610,554
Luapula	15,363	5	291,906	95	307,269
Lusaka	170,919	46	200,645	54	371,564
Northern	36,253	7	481,646	93	517,899
North Western	12,677	6	198,606	94	211,283
Southern	94,068	25	282,204	75	376,272
Western	11,710	4	281,050	96	292,760

Source: Central Statistical Office, Living Conditions Monitoring Survey III, 2002/3

Earnings in the Formal Sector

49. According to the Quarterly Employment and Earnings Inquiry, average earnings in the formal sector amounted to K808, 375 in the first quarter of 2004. This was above the poverty line of K575,206 for the period. In terms of earnings by sector, average monthly earnings were the highest in the parastatal sector. These stood at K1,162,698.00, outstripping any of the earnings in the other sectors by wide margins (see Table 2.5). It was the only sector, which had earnings far above the poverty line.

Table 2.5: Average Earnings by Sector

Sector	2nd Quarter 2003	3rd Quarter 2003	4th Quarter 2003	1st Quarter 2004
Central Government	384,031	675,380	75,327	676,489
Local Government	423,869	305,395	346,101	410,410
Parastatal	1,162,698	1,670,318	1,873,516	1,924,071
Private	401,085	595,407	632,833	659,646
Total	**713,384**	**739,258**	**784,043**	**808,375**

Source: Central Statistical Office, Quarterly Employment and Earnings Inquiry, 2004

2.5 Status on Poverty

50. Despite the economic upturn recorded in the last six years, poverty levels in Zambia are still very high. According to the results of the 2002/2003 LCMS III, the incidence of poverty was estimated at 67 percent with extreme poverty estimated at 46 percent. Rural areas continued to experience the highest levels of poverty estimated at 72 percent in the urban areas. Furthermore, the Survey revealed that income distribution continued to be highly uneven (see Table 2.6). Although there are signs of an increase in employment levels recently, Zambia's rate of economic expansion, which has averaged 4.7 percent in the last four years, is still not robust enough to result in higher employment levels and also a significant reduction in poverty.

Table 2.6: Poverty Situation, 1996 -2002

	1996	1998	2002*
National Incidence (%)	78.0	73.0	67.0
Incidence of Extreme Poverty (%)	66.0	58.0	46.0
Rural Poverty (% rural Population)	89.0	83.0	72.0
Urban Poor (% of Urban Population	60.0	56.0	28.0
Income Distribution (Gini Coefficients)	0.61	0.66	0.57

Source: Central Statistical Office
* The methodology used in 2002 was different from the other years.

2.6 Structural Reforms

51. The implementation of structural reforms was generally on track in 2004. The focus was mainly on improving public expenditure management, addressing the problems of the state-owned non-bank financial institutions, and removing the bottlenecks to private sector development.

52. Government in June thus approved the Public Expenditure Management and Financial Accounting Reforms (PEMFAR) Action Plan, which, contains a broad and detailed programme of reforms to improve public expenditure management. In addition a Financial Sector Development Plan (FSDP), which broadly aims at addressing the weaknesses in the financial sector, including the state owned non-bank financial institutions, was approved by Government. In line with the FSDP, Government began restructuring the two state owned non-bank financial institutions, namely the National Savings and Credit Bank and the Zambia National Building Society. Government also began the process of restructuring the Development Bank of Zambia. In this regard, EXIM Bank of India was brought in as an equity partner in DBZ.

53. The Government, in collaboration with the private sector and other stakeholders prepared a comprehensive Private Sector Development Initiative (PSDI) Action Plan aimed at improving the environment for private sector growth. Some of the major elements of the PSDI are to revise business regulations and to develop a new policy on tax incentives. As part of the PSDI process, Government completed a review of related legislation to ensure consistency between the Investment Act and the PSDI.

54. As part of the parastatal reform programme, the commercialisation of ZESCO Limited reached an advanced stage in 2004 with most of the reform measures having been undertaken. These measures included the amendment of the energy regulation Board and Electricity Acts, settlement of the outstanding electricity bills for central government and water utilities. The Government paid a total sum of K100.0 billion to settle the bills for these consumer units. Negotiations for the sale of the equity in the Zambia National Commercial Bank (ZNCB) to the preferred bidder reached an advanced stage. However, conclusion for the sale was still uncertain.

[3] The 2002 poverty numbers should not be literally compared with the other years. This is because the methodology used was different which cannot allow for comparison.

2.7 Domestic Debt

55. The total domestic debt stock as at end-2004 stood at K5,498.9 billion, representing a 6 percent increase from the 2003 stock of K5,186 billion. The increase was accounted for by a rise in government securities and pension arrears (employer contributions). However, the BoZ Kwacha bridge loan, domestic arrears and awards and compensations reduced (see Table 2.7).

56. The indebtness of the Government to the banking and non-banking system through treasury bills and bonds increased, though at a declining rate. Government securities increased by 11.5 percent to K2, 522.6 billion at end-2004 from K2, 261.71 billion in 2003. This was against a sharp increase of 44.7 percent between end-2002 and 2003. Pension arrears also increased by 33.3 percent to K429.5 billion from K322.1 billion at end-2003 on account of the continued accruing of arrears on pension contributions by the Government.

57. Domestic arrears declined by 0.3 percent to K577.4 billion in 2004 from K578.9 in 2003, largely due to Government payments to road contractors and suppliers of goods and services. However, the Personal Emoluments and Recurrent Departmental Charges components of domestic arrears marginally increased in the review period, largely due to Government implementation of the Commitment Control System (CCS). Arrears on PEs and RDC's increased by 3.7 percent to K284.2 billion at end 2004 from K274 billion at end 2003.

58. The BoZ Kwacha bridge loan and awards and compensations declined by 4.7 and 41 percent respectively. The decrease in these components was largely due to repayments of the debts by Government and in the case of the bridge loan, strict monetary policy in 2004.

59. Government in 2004 started a program of dismantling the huge domestic debt over the medium term. In this regard, negotiations with some of the largest creditors, particularly road contractors were initiated. In addition, the contracting of new supplier's credit was curtailed through the strict implementation of the Commitment Control System (CCS).

Table 2.7: Domestic Debt (In Kwacha Billions), 2003 and 2004

Debt Category	End-Dec. 2003	End-Dec. 2004	% Change 2004/2003	% share total 2004
Government Securities	2,261.71	2,522.60	11.54	45.9
(Treasury Bills)	1,127.60	1,293.70	14.73	23.5
(GRZ Bonds)	1,134.11	1,228.90	8.36	22.3
BoZ Forex Bridge Loan to GRZ	-	-	0.00	-
BoZ Kwacha Bridge Loan to GRZ	261.03	248.63	(4.75)	4.5
Consolidated Bond	1,646.74	1,646.74	0.00	29.9
Domestic Arrears	578.93	577.36	(0.27)	10.5
(Capital)	305.00	293.17	(3.88)	5.3
(PE's & RDC's)	274.00	284.19	3.72	5.2
Pension Arrears	322.10	429.5	33.34	7.8
(Employer's Contributions)	262.70	370.1	40.88	6.7
(Employees Contributions)	-	-	0.00	-
NAPSA(RAMCOZ)	32.40	32.40	0.00	0.6
NAPSA (GRZ)	27.00	27.00	0.00	0.5
Contingent Liabilities	15.00	15.00	0.00	0.3
Awards and Compensations	100.66	58.98	(41.41)	1.1
Others	15.00	15.00	0.00	0.3
GRAND TOTAL	**5,186.17**	**5,498.81**	**6.03**	

Source: Ministry of Finance and National Planning

BUDGET PERFORMANCE

3.1 Overview

The main fiscal objectives in 2004 were to limit domestic borrowing to 2.2 percent of GDP and reorient spending towards priority areas. Limiting domestic borrowing was also a key pre-requisite for getting back on a Poverty Reduction Growth Facility (PRGF).

61. In this regard, Government expected to raise domestic revenues amounting to K4,782.6 billion and proposed to spend a total of K5,287 billion. Additionally, Government was expected to mobilise K1,434 billion or 5.6 percent of GDP from external sources. The shortfall of K504.4 billion was to be financed through domestic borrowing.

62. Preliminary data indicate that domestic revenue was below target by 2.1 percent while domestically financed expenditures below ceiling by 2.6 percent and that funding to priority reduction programmes improved in 2004. In addition, in flows on programme grants amounted K234.7 billion against the estimate of K143.1 billion.

3.2 Domestic Revenues Performance

63. Total domestic revenue collection amounted to K4,678.6 billion, which was below target by 2.1 percent. This outturn was attributed to below target collections of non-tax revenue by 35.2 percent. Tax revenue on the other hand was above target by 0.3 percent (see Table 3.8.)

Table 3.8: Central Government Budget Operations (in Kwacha millions), 2004

	2004 Budget	Out-turn	Variance
I. REVENUE AND GRANTS	**6,209,395**	**6,087,967**	**(121,428)**
1. REVENUE	**4,782,735**	**4,678,308**	**(104,427)**
Tax revenue	**4,536,881**	**4,551,541**	**14,660**
Income tax	**2,047,881**	**2,037,783**	**(10,098)**
Corporate Income Tax	382,600	331,930	(50,670)
Personal Income Tax	1,657,698	1,701,366	43,668
PAYE	1,428,700	1,482,604	53,904
w/holding taxes	228,998	213,042	(15,956)
Medical Levy	3,500	5,719	2,219
Royalty	4,083	4,487	404
Domestic goods & services	**1,241,600**	**1,060,328**	**(181,272)**
Excise duties	627,900	606,943	(20,957)
o/w fuel levy	75,000	121,533	46,533
Domestic VAT	613,700	453,385	(160,315)
Trade taxes	**1,247,400**	**1,453,431**	**206,031**
Import VAT	755,400	909,011	153,611
Import tariffs	492,000	544,420	52,420
Nontax revenue (fees and fines)	**133,000**	**86,119**	**(46,881)**
Miscellaneous revenues (dividends)	**36,000**	**26,198**	**(9,802)**
Dividends	30,000	18,512	(11,488)
Capital & Interest Repayments	6,000	1,335	(4,665)
Exceptional Revenues (Fertilizer)	**76,854**	**14,449**	**(62,405)**
Fertilizer Recoveries	**52,500**	**12,768**	**(39,732)**
ERB Licence Fees	**16,854**	**1,681**	**(15,173)**
Non- Tax Arrears	**7,500**	**-**	**(7,500)**
2. GRANTS	**1,426,660**	**1,409,659**	**(148,001)**
Program	143,100	234,659	91,559
Project	1,283,560	1,175,000	(108,560)
II. TOTAL EXPENDITURES	**7,993,990**	**6,951,844**	**(1,042,146)**
1. CURRENT EXPENDITURES	**4,707,990**	**4,667,298**	**(40,692)**
Wages and salaries	**2,018,400**	**2,011,764**	**(6,636)**
o/w Housing allowance	86,400	86,400	-
Public service retrenchment /1	**33,000**	**20,058**	**(12,942)**
Recurrent departmental charges (RDCs)	**685,600**	**835,062**	**149,462**
Arrears clearance	76,700	84,265	7,565
housing allowance	26,700	30,364	3,664
non-housing allowance	50,000	53,901	3,901
Elections & constitutional review	26,000	19,228	(6,772)
Award and Compensations (Court decision)	20,000	35,233	15,233
Presidential Affairs	18,000	23,168	5,168
Other RDCs	544,900	673,167	128,267
Transfers and Pensions	**419,400**	**446,126**	**26,726**
Settlement statutory arrears (pensions)	30,000	27,086	(2,914)
Other	389,400	419,040	29,640
Domestic Interest /2	**927,460**	**745,579**	**(181,881)**
External Debt Interest Paid	**216,300**	**180,781**	**(35,519)**
Other current expenditures	**395,830**	**414,710**	**18,880**
Financial restructuring	119,630	108,105	(11,525)
ZRA	118,000	118,000	-
Maize Reserve in Rotating Fund (HIPC- PRP)	47,200	47,200	-
Fertilizer Price Support + Input Pack (HIPC-PRP)	99,000	125,700	26,700
Constitutional posts	12,000	15,705	3,705
Contingency	**12,000**	**13,219**	**1,219**
2. CAPITAL EXPENDITURES	**3,286,000**	**2,284,546**	**(1,001,454)**
Domestically financed	**601,400**	**584,546**	**(16,854)**
of which: HIPC-PRPs	**366,300**	**342,027**	**(24,273)**
Counterpart PRPs	40,000	7,972	(32,028)
GRZ Road Projects	80,000	20,040	(59,960)
Fuel levy	75,000	112,337	37,337
Ordinary Capital	61,100	90,978	29,878
REF	9,000	9,013	13
Land Development Fund	6,000	-	(6,000)
Counterpart (Ordinary)	4,000	10,151	6,151
Foreign financed	**2,684,600**	**1,700,000**	**(984,600)**
III. Overall balance	**(1,784,595)**	**(863,876)**	**920,719**
Domestic balance	**(350,555)**	**(318,819)**	**31,736**

Source: Ministry of Finance & National Planning

Tax Revenue

64. Total tax revenue collected as at end-December 2004 stood at K4,551.5 billion, which was 0.3 percent above target. This favourable performance was due to higher than target collections on personal income tax and trade taxes by 2.6 percent and 16.5 percent respectively (see Table 3.8).

Income Tax

65. Total income tax collections in 2004 amounted to K2,037.8 billion. This was below target by 0.5 percent owing to below target collections on corporate income tax stemming from the impact of a sharp decline in interest rates on Government securities. The decline in the interest rates on Government securities affected the level of profits and dividend payments in the financial sector. In the other categories of income tax, collections on personal income tax were above target by 2.6 percent. This was on account of above target collections in Pay As You Earn by 3.8 percent, mainly arising from arrears collected from some mining companies and Government institutions.

66. Mineral royalty collections for the year were K4.5 billion or 9.9 percent above target. This favourable outcome was due to enhanced compliance in the sector.

Tax on Domestic Goods and Services

67. Collections from taxes on domestic goods and services stood at K1, 060.3 billion, reflecting an under-performance of 14.5 percent. This was due to the less than target collections on domestic VAT by 26.1 percent largely due to the increase in claims from the mining sector, which averaged around 85.8 percent of the total VAT claims. Excise duty collections were K606.9 billion against the target of K627.9 billion, representing a shortfall of K20.7 billion or 3.3 percent.

Trade Taxes

68. Trade taxes stood at K1, 453.4 billion, exceeding the target by 16.5 percent. The favourable out-turn in both imports VAT and tariffs explained this favourable outcome. Import VAT and tariffs were above target by 20.3 percent and 10.7 percent respectively mainly as a result of enhanced enforcement measures and increased activity in the mining sector.

Non-tax Revenue

69. Non-tax collections at K86.1 billion were below target of K133 billion by 35.2 percent owing to the non-revision of fees and fines on which projections were based.

Exceptional Revenue

70. Exceptional revenue collections during the year were below the target of K76.8 billion by 81.2 percent. This was mainly due to Government's incomplete recovery of fertilizer loans under the Fertilizer Support Programme. More of the recoveries are expected in 2005.

Miscellaneous Revenue

71. During the period under review, miscellaneous revenues stood at K26.1 billion, against the target of K36 billion. Shortfalls in dividends and on-lending on Government investments explained this unsatisfactory performance.

Grants

72. Total foreign grants to the budget in 2004 amounted to K1,409.7 billion which was K148.0 billion or 10.4 percent below target of K1,426.6 billion. This was on account of lower disbursements on project grants by 8.5 percent (see Table 3.8).

3.3 Total Expenditures

73. During the year total expenditures amounted to K6,951.8 billion which was below the level envisaged for the year by 13.0 percent. This out-turn was on account of large shortfalls on capital expenditures by 30.5 percent, mainly due to lower disbursements on foreign financed capital expenditures. Domestically financed Capital expenditures at K584.5 billion were also below target by 2.8 percent.

3.3.1 Expenditures by category

Wages and Salaries

74. Expenditure on wages and salaries as at end-December 2004 stood at K2,011.8 billion or 7.8 percent of GDP. The spending on wages and salaries was K6.6 billion or 0.3 percent below the annual ceiling of K2,018.4 billion (see Table 3.8).

Recurrent Departmental Charges

75. Funding towards Recurrent Departmental Charges (RDC's) stood at K835.1 billion in 2004. This was K149.5 billion or 21.8 percent above target. The over expenditure was mainly due to higher than programmed expenditure arising from settlement of court cases and clearance of both housing and non housing domestic arrears. The general increase in Government operations, including payments to commercial utilities, operational expenses of the defence wings and Presidential Affairs also contributed to this out-turn.

Transfers and Pensions

76. A total sum of K446.1 billion was released for transfers and pensions, which was above the end year ceiling by 6.4 percent. Out of the amount released, K27.1 billion went to the Public Service Pension Fund to reduce on the outstanding debt.

Domestic and External Interest Payments

77. Interest payments on domestic debt for the year amounted to K745.6 billion and this was below the target of K927.5 billion by K181.9 billion or 19.6 percent. The lower than programmed payments on domestic interest were mainly due to reduced Government borrowing. External debt service payments in 2004 amounted to K180.8 billion. This was below ceiling by 16.4 percent.

Other Current Expenditures

78. Total releases on other current expenditures amounted to K414.7 billion, against the programmed target of K395.8 billion. This rise was attributed to the higher than programmed releases for the fertilizer support programme whose subsidy was maintained at 50 percent instead of 25 percent planned at the beginning of year.

Capital Expenditures

79. A total of K584.5 billion was released towards capital programmes and was below target of K601.4 billion by K16.9 billion. Of the amount released, a sum of K112.3 billion was released to the Road Fund. This was above target of K75 billion by 49.8 percent on account of higher than anticipated fuel prices. Releases for ordinary capital were also above target by 48.9 percent. Releases for counterpart funds on donor-financed projects were K10.2 billion against a sum of K4 billion that was estimated for the year.

Social Sector Expenditures

80. Total releases in nominal terms to the social sectors increased to K1,371.6 billion in 2004 from K 1,164.0 billion and was above target for the year by K69.1 billion. As a share of the total national budget, releases to the social sectors in 2004 rose to 25.9 percent compared to 24.3 percent in 2003 (see Table 3.9).

Table 3.9: Funding to the Social Sectors as % of National Budget and GDP, 2003 & 2004

	2003		2004	
	Budget	Releases	Budget	Releases
As % of Total National Budget				
Sector				
Education	13.2	14.3	15.5	15.9
Health	9.9	8.7	6.9	8.1
Water and Sanitation	0.6	0.3	0.7	0.4
Other*	0.4	0.9	1.6	1.5
Total	**24.1**	**24.3**	**24.7**	**25.9**
As % of GDP				
Education	2.6	3.4	3.2	3.3
Health	1.9	2.1	1.4	1.7
Water and Sanitation	0.1	0.1	0.1	0.1
Other[1]	0.1	0.2	0.3	0.3
Total	**4.7**	**5.7**	**5.1**	**5.3**
Total National Budget[2] (K billion)	3,974.9	4,789.1	5,276.4	5,298.5
Nominal GDP **(K billion)**	20,305.2	20,305.2	25,578.0	25,813.8

Source: Ministry of Finance and National Planning

[1]comprises social safety net and disaster relief management sectors

[2]Includes domestically financed expenditure and budget support but excludes foreign financed capital that do not flow through the budget

Table 3.10: Allocations and Releases to the Social Sectors (In kwacha billion and as a % of discretionary budget), 2003 & 2004

	2003		2004	
	In Billions of Kwacha			
Sector	**Budget**	**Releases**	**Budget**	**Releases**
Education	524.8	686	818.7	841.9
Health	392.5	419	365.3	426.6
Water and Sanitation	23.2	16	34.5	22.6
Other*	16.5	43	84	80.5
Total	**957.0**	**1,164.0**	**1,302.5**	**1,371.6**
	As % of Discretionary Budget			
Education	18.7	19.7	21.7	22.7
Health	14.0	12.0	9.7	11.5
Water and Sanitation	0.8	0.5	0.9	0.6
Other*	0.6	1.2	2.2	2.2
Total	**34.1**	**33.4**	**34.5**	**36.9**
Discretionary Budget	**2,803.0**	**3,483.2**	**3,775.5**	**3,714.4**

Source: Ministry of Finance and National Planning
Other* comprises social safety net and disaster relief management sectors

81. In terms of sectoral breakdown, releases to the education sector, which constitute the bulk of social sector spending, increased to K841.9 billion or 15.9 percent of the total national budget from K686 billion or 14.3 percent of total national budget in 2003. Releases towards the health sector in 2004 amounted to K426.6 billion compared to K419 billion in 2003 (see Table 3.10). However, as a share of the national budget, releases to the health sector fell to 8.1 percent from 8.7 percent in 2003 (see Table 3.9).

82. In terms of the discretionary budget, the K1,371.6 billion released to the social sectors in 2004 represented 39 percent of the total discretionary budget compared to 33.4 percent in 2003. Of the total amount released K841.9 billion, representing 22.7 percent of the total discretionary budget went to the education sector compared to 19.7 percent in 2003. As for the health sector, a total of K426.6 billion or 11.5 percent of the discretionary budget was funded compared to 12 percent in 2003. The funding to water and sanitation was K22.6 billion or 0.6 percent of the discretionary budget. This was an improvement compared to K16 billion or 0.5 percent of discretionary budget released in 2003 (see Table 3.10)

83. As a proportion of GDP, the releases to social sectors stood at 5.3 percent compared to 5.7 percent in 2003.

Poverty Reduction Expenditures

84. In 2004, Government planned to spend K534.6 billion on priority poverty reduction programmes. As end-December, K527.1 billion or 99 percent of the total was released. This was a marked improvement over the releases in 2003 when 88.4 percent was released.

3.4 Budget Deficit and its Financing

85. The out-turn in domestic revenues of K4,678.6 billion and domestically financed expenditure of K4,997.1 billion resulted in a domestic budget deficit of K318.8 billion or 1.2 percent of GDP, which was within the ceiling of 2.2 percent of GDP for the year. The deficit was financed through domestic borrowing.

Chapter 4

MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

4.1 Overview

The primary focus of monetary policy in 2004 was price stability. In this regard, end-year inflation was targeted to be 15.0 percent. Consistent with the inflation targets, reserve money and broad money growth was to be limited to 5.7 and 18.2 percent respectively.

87. Consequently, overall inflation slightly increased to 17.5 percent from 17.2 percent at end-2003 and was 2.5 percentage points above the year target of 15 percent. The exchange rate of the Kwacha against the US dollar remained stable through out the year. However, the Kwacha weakened against the South African Rand.

4.2 Monetary Developments

Broad Money

88. Broad money (M3) grew from K4,468.0 billion in December 2003 to K5,817.0 billion in December 2004, representing a growth of 30.2 percent, compared to the growth of 23.4 percent in 2003. This growth was equivalent to 12.7 percent in real terms compared to a real growth of 6.3 percent in 2003. M3 growth in 2004 was 12.1 percentage points higher than the end-December programme target of 18.1 percent. As a proportion of GDP, Broad money increased to 28.3 percent in 2004 from 21.8 percent in 2003. The increase in M3 growth was attributed to the increase in net foreign assets by 10.1 percent and net domestic assets by 1.6 percent. However, the contribution of net foreign assets to broad money growth slowed down to 4.3 percent from 28.1 percent in 2003 while that of net domestic assets increased to 2.3 percent compared to a drop of 19.6 percent in 2003.

Domestic Credit

89. Total banking system credit rose by 20.0 percent to K4,747.0 billion in 2004 from K3,955.0 billion in 2003. This was 4.5 percentage points above the programme target of 15.5 percent. In real terms, domestic credit increased by 2.5 percent. Domestic credit to the public and private enterprises increased by 51.1 percent and 59.9 percent, respectively. Following this increase, the contribution of credit to private enterprises to the expansion in domestic credit rose to 16.6 percent in 2004 from 8.6 percent in 2003. Similarly, the contribution of credit to the public enterprises to domestic credit increased to 1.5 percent from 0.8 percent the previous year.

Inflation Developments

90. The overall end year inflation slightly increased to 17.5 percent in December 2004 from 17.2 percent registered in December 2003 (see Table 4.1). The out-turn in 2004 was 2.5 percentage points above target. The developments in annual inflation were, largely explained by the relatively higher non-cereal food prices and overall effects of upward adjustments in fuel prices. However, cereal prices were stable following a good harvest during the 2003/2004 agricultural season.

91. Annual food inflation increased by 2.8 percentage points to 16.3 percent at end-December 2004 from 13.5 percent at end-December 2003. The increase in the annual food inflation was largely on account of the relatively higher non-cereal food prices during the period under review. However, other food prices, especially for maize remained stable due to the food surplus in the 2004/ 2005 consumption period. Consequently, annual food inflation remained largely in line with the projection of 17.4 percent for December 2004.

92. Annual non-food inflation declined by 2.8 percentage points in 2004 to 18.9 percent in 2003. The favourable developments in non-food inflation were mainly due to the stability of the exchange rate of the Kwacha against the US dollar, which resulted from an increase in supply of foreign exchange to the market.

Table 4.1: Inflation Developments (%), Dec 2002 - Dec 2004

	Overall Inflation			Food Inflation			Non Food Inflation		
	Monthly	Annual	Year-to date	Monthly	Annual	Year-to date	Monthly	Annual	Year-to date
Dec 2002	4.6	26.6	26.7	6.3	35.5	35.5	2.5	17.2	17.2
Jan 2003	2.3	24.3	2.3	3.2	31.1	3.2	1.1	16.5	1.1
Feb	1.7	22.9	4.1	0.5	27.1	3.8	3.3	18.0	4.5
Mar	0.8	22.6	4.9	(0.7)	25.7	3.0	2.6	19.0	7.2
Apr	0.2	23.9	5.1	(0.7)	26.9	2.3	1.3	20.5	8.6
May	0.9	23.7	6.1	(0.4)	24.9	1.9	2.5	22.4	11.2
June	(0.2)	21.9	5.8	(1.3)	22.1	0.6	0.9	21.8	12.3
July	(0.1)	20.2	5.7	(0.6)	19.3	0.0	0.5	21.1	12.8
Aug	1.4	20.3	7.2	1.9	19.7	1.9	1.0	21.0	13.9
Sept	2.2	21.1	9.6	3.2	21.2	5.1	1.1	21.0	15.1
Oct	1.8	21.1	11.6	2.4	21.0	7.6	1.2	21.3	16.5
Nov	2.0	19.1	13.9	1.9	16.6	9.7	2.2	22.1	19.0
Dec	2.9	17.2	17.2	3.5	13.5	13.5	2.2	21.7	21.7
Jan 2004	2.6	17.4	2.6	2.3	12.5	2.3	2.9	23.8	2.9
Feb	1.1	16.8	3.7	0.9	12.9	3.2	1.4	21.6	4.4
Mar	1.5	17.6	5.3	2.0	15.9	5.2	1.0	19.6	5.2
Apr	0.3	17.8	5.6	(0.4)	16.3	4.8	1.1	19.4	6.5
May	0.7	17.4	6.3	0.1	16.9	5.0	1.3	18.0	7.8
June	0.8	18.6	7.1	0.3	18.7	5.2	1.3	18.5	9.3
July	0.6	19.5	7.8	0.4	19.9	5.6	0.9	19.0	10.3
Aug	1.0	18.9	8.8	0.9	18.7	6.5	1.1	19.2	11.5
Sept	1.2	17.8	10.2	0.6	15.7	7.2	1.9	20.1	13.6
Oct	2.1	18.0	12.4	2.7	16.0	10.0	1.3	20.3	15.1
Nov	2.3	18.3	15.0	2.6	16.8	12.9	1.9	20.0	17.3
Dec	2.2	17.5	17.5	3.0	16.3	16.3	1.3	18.9	18.9

Source: Central Statistical Office and Bank of Zambia

Interest Rates Developments

93. During 2004, nominal yield rates on Treasury bills generally exhibited a downward trend, reflecting loose monetary conditions. The monthly weighted average Treasury bill yield rate fell to 17.8 percent in December 2004 from 19.7 percent in December 2003 (see Table 4.2). Yield rates on Government bonds declined with the monthly weighted average yield rates on the 12-month and 18-month bonds, falling to 19.6 percent and 20.8 percent from 22.0 and 25.2 percent in 2003, respectively. Similarly, yield rates on the 24-month bond portfolio fell to 22.0 percent from 26.1 percent at end 2003.

94. Consistent with the fall in yield rates on Treasury bills and Government bonds, commercial banks' lending and savings rates edged downwards. The average lending and savings rates fell to 29.8 percent and 5.6 percent in December 2004 from 37.7 percent and 7.6 percent in December 2003, respectively (see Table 4.2). The general downward trend in interest rates was mainly due to loose liquidity conditions and Government's prudent fiscal policy.

Table 4.2: Interest Rates Development (In %) 2000-2004

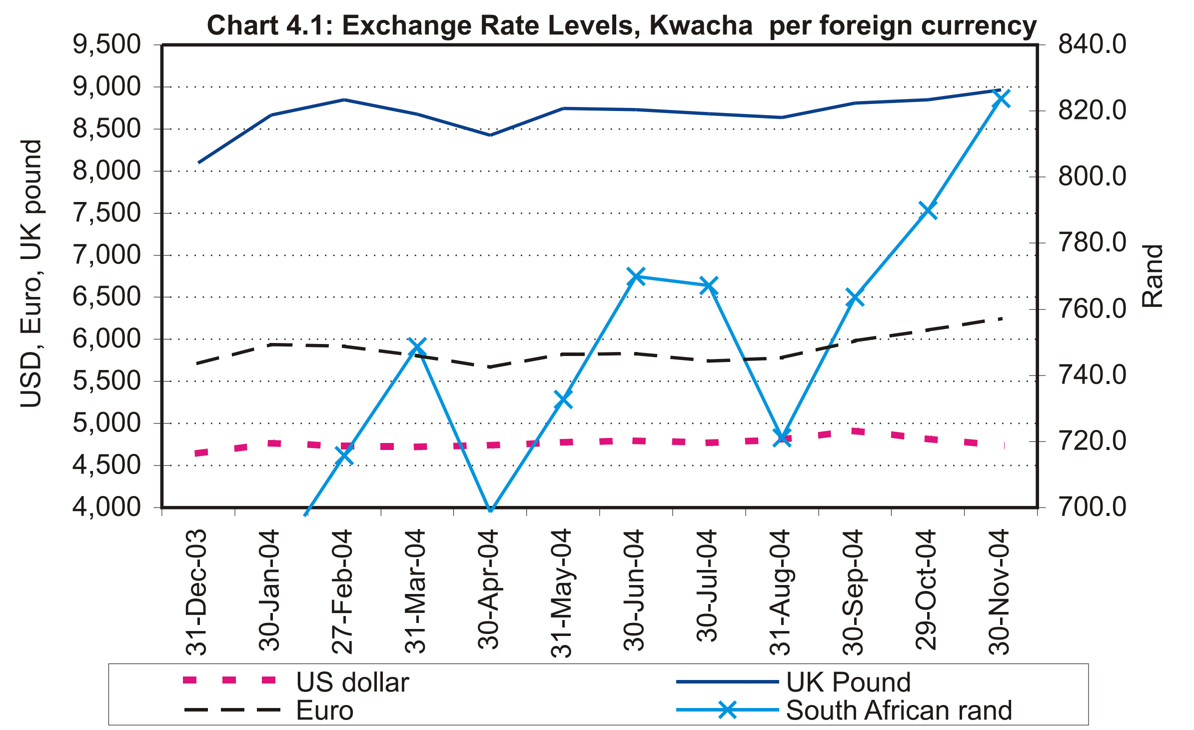
	Year - End					End - Quarter 2004			
	2000	2001	2002	2003	2004 *	Mar	Jun	Sep	Dec
28-day Treasury bill	11.0	41.5	24.7	24.7	-	-	-	-	-
91-day Treasury bill	34.0	50.5	31.6	18.2	15.9	7.6	5.8	12.7	16.3
182-day Treasury bill	36.7	50.4	31.7	19.8	17.8	8.9	6.5	14.3	18.3
273-day Treasury bill	38.7	46.4	31.9	21.1	18.8	10.6	7.9	14.9	19.3
WATBR	33.8	48.2	31.3	19.7	16.7	9.0	6.7	14.6	17.8
12-month Bond	38.7	54.1	39.1	22.0	19.4	14.6	8.2	14.4	19.6
18-month Bond	43.3	54.9	39.4	25.2	20.5	16.5	11.0	17.0	20.8
24-month Bond	45.8	55.4	40.0	26.1	22.0	19.3	13.7	18.7	22.0
WALBR	37.5	46.7	42.8	37.7	30.0	31.8	29.8	30.0	29.8
ALR	45.9	54.6	50.3	45.3	37.4	39.1	36.9	37.4	37.1
ASR	11.5	8.7	8.0	7.6	5.6	6.8	6.6	6.1	5.6
Deposit >K20 m (30 days)	17.8	19.8	20.2	17.9	8.3	9.9	8.3	8.0	8.2

Source: Bank of Zambia

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

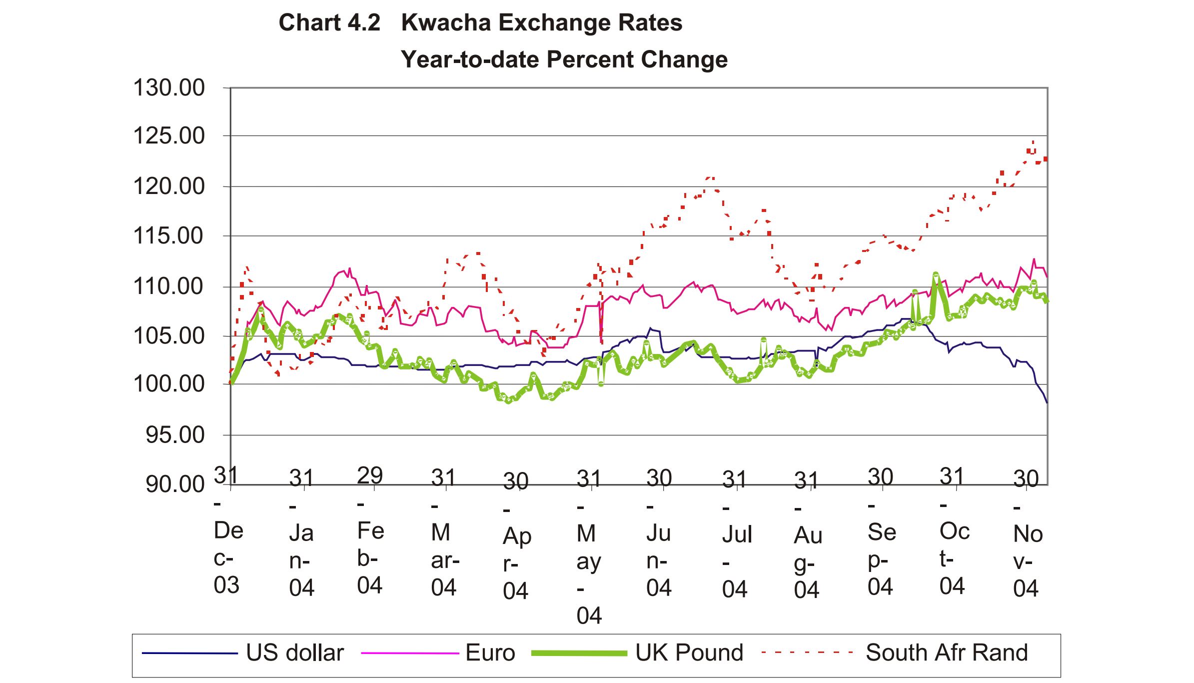
Exchange Rate Developments

95. During the year, the Kwacha depreciated against major trading partner currencies. By end-December 2004, the K/USD exchange rate depreciated by 1.6 percent to K4,670.94 compared with a depreciation of 7.2 percent recorded in 2003. The Kwacha depreciated by 14.6 percent against the South African rand to K827.20 while the exchange rates against the pound sterling and the euro depreciated by 11.3 percent and 18.6 percent, respectively (see Charts 4.1 and 4.2).



Source: Bank of Zambia

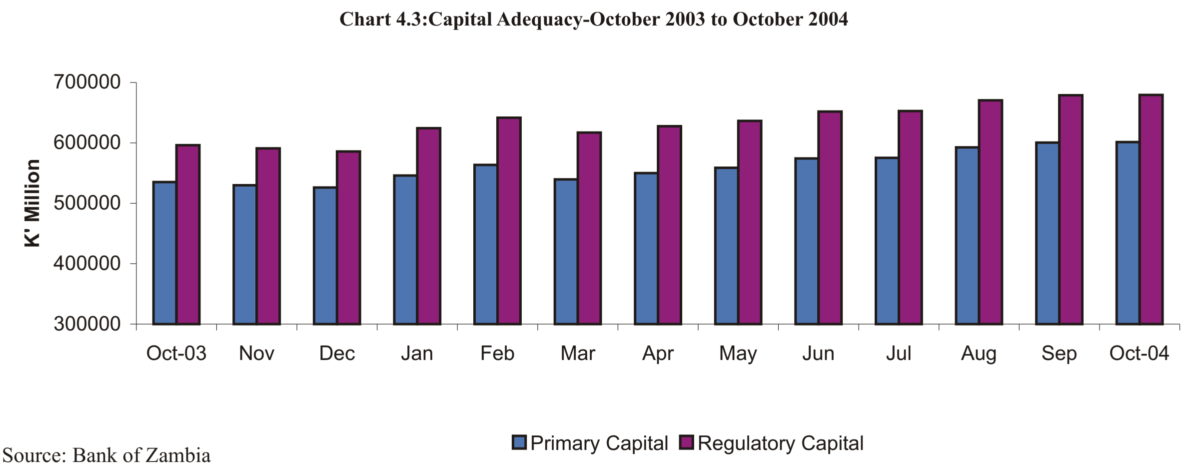
96. The supply of foreign exchange to the market tremendously increased in 2004. Commercial banks recorded net purchases from the non-bank sector worth US $112.6 million up to October 2004 compared to net sales of US $83.1 million in 2003. The improved supply of foreign exchange was also reflected by the BoZ increased presence in the market, mainly with a view to purchasing the excess liquidity. The Bank sold a total of US $3.5 million up to October 2004 compared with total sales of US $14.0 million in 2003, while over the same period, the Bank purchases from the market amounted to US $102.1 million up to October 2004 compared to US $32.5 million in 2003. This increase led to the stability of the Kwacha /dollar during the year.



Source: Bank of Zambia

4.3 Banking Sector Developments

97. The overall financial condition and performance of the banking sector during the period January to October was satisfactory. Capitalisation was adequate and all banks had capital adequacy ratios in excess of the minimum prudential requirements of 5 percent and 10 percent for primary and regulatory capital, respectively. The primary capital for the industry increased to K601.4 billion in October 2004 compared to K535.2 billion in October 2003, representing an increase of 12 percent. Regulatory capital also went up by 14 percent to K679.4 billion over the same period. The increase in capital was largely as a result of the rise in retained earnings by 15 percent while that of regulatory capital was further enhanced by an increase in eligible subordinated debt by 63 percent or K30.0 billion.



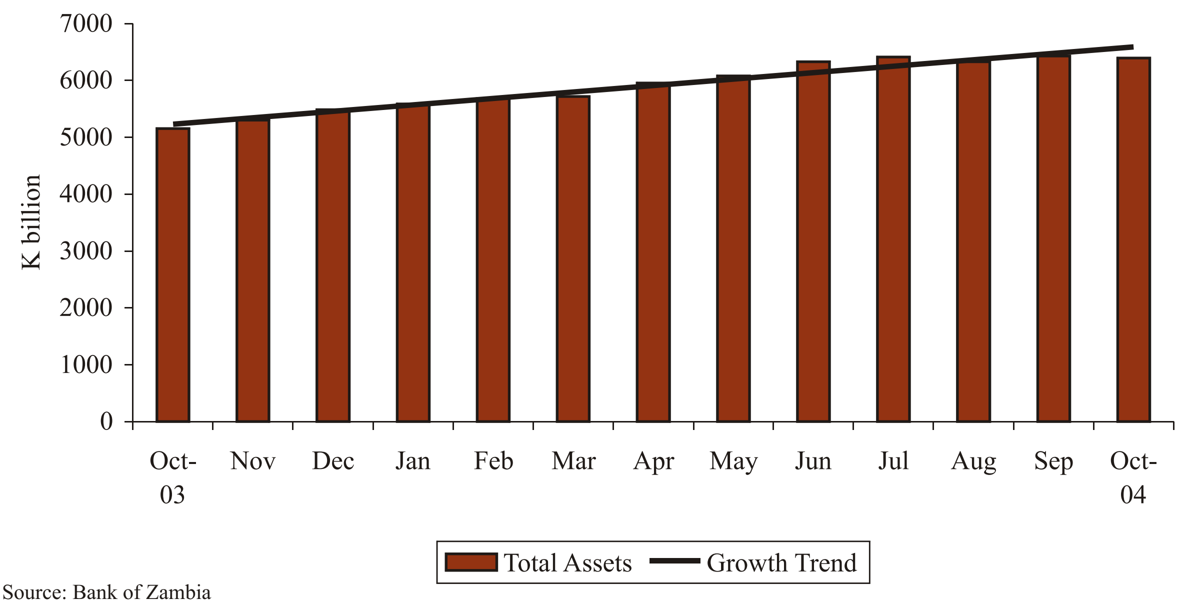
Source: Bank of Zambia

98. In terms of risk, the primary and regulatory capital to risk weighted assets ratios were 19.8 percent and 22.4 percent in October 2004 compared to 21.8 percent and 24.3 percent in October 2003, respectively. This was largely on account of an increase in risk weighted assets due to a shift in the industry's asset structure from low risk government securities into high risk loans and leases.

99. The asset quality of the banking sector in 2004 was satisfactory. Total assets increased by 24 percent to K6,396.7 billion in October 2004 compared to K5,155.4 billion in October 2003. In terms of total asset composition, net loans and leases, investment in government securities and balances with banks abroad continued to account for the largest proportion of total assets. The three assets accounted for 70 percent of total assets compared to 66 percent in 2003.

100. The banking sector's overall credit risk increased as reflected by a rise in gross non-performing loans, which accounted for 7.9 percent of total gross loans in 2004 compared to 5.5 percent in October 2003. The allowance for loan losses to non-performing loans stood at 81.8 percent compared to 88.1 percent in October 2003

Chart 4.4:Total Assets-October 2003-October 2004



Source: Bank of Zambia

101. The banking sector's earnings performance in the period January to October 2004 was satisfactory despite a decline in profitability. The sector's profit before tax amounted to K178.2 billion, a drop of 28 percent over the profit levels in the same period in 2003. The reduced profitability was on account of a drop in government securities income by 11 percent or K33.9 billion and an increase in specific loan loss provisions by K70.3 billion. The decline in earnings was also reflected in the significant fall in the return on assets and equity ratios to 3.4 percent and 31.5 percent from 6.0 percent and 53.0 percent, respectively.

4.4 Non-Bank Financial Institution Developments

102. As at end-October 2004, the formal non-bank financial sector under the supervisory ambit of the BoZ comprised nine leasing companies; three building societies; one savings and credit bank; one Development bank; two micro finance institutions and 30 bureau de change.

103. Despite the improved economic performance in 2004, only the leasing financial institutions and the bureau de change sectors registered fair performance. These were adequately capitalised, had satisfactory asset quality, earnings performance and liquidity.

104. The overall financial condition and performance of the leasing sector was fair. As at end-October 2004, the leasing sector was adequately capitalised with aggregate regulatory capital of K34.5 billion, a decline of 3 percent from the capitalisation as at the end of 2003. The decline was as a result of an adjustment to regulatory capital amounting to K4.0 billion for a potential lease and loan loss provision. As for the bureau de change, the sector recorded an aggregate profit before tax of K2.1 billion in the period January to October 2004 compared to K1.1 billion during the corresponding period of 2003. The increase in the profits was largely due to the opening of an additional bureau de change and the strategic branch expansion of a number of the top tier bureau de change. In addition, the capital position increased by 27 percent to K5.9 billion.

4.5 Other Developments

105. Government in 2004 approved the Financial Sector Development Plan (FSDP), which is aimed at resolving weaknesses in the financial sector. In line with the FSDP, Government commenced the process of addressing the problems of state owned nonbank financial institutions (NBFIs). In this regard, a committee to coordinate the process of reviewing appropriate legislation was constituted. The review process is aimed at repealing or harmonising the various pieces of legislation in the financial sector with the Banking and Financial Services Act (BFSA). Further, Government through the BoZ is developing appropriate guidelines and regulations for credit reference bureau.

106. In line with the FSDP, Government began the process of restructuring the other two non-bank financial institutions namely, the National Savings and Credit Bank and Zambia National Building Society. Furthermore, the restructuring of the Development Bank of Zambia continued in 2004 and EXIM Bank of India came in as the new equity partner.

4.6 Outlook

107. In 2005, Government's monetary policy will remain focused on lowering inflation through the formulation and implementation of appropriate monetary and supervisory policies that will ensure price and financial systems stability. Government in line with the FSDP will commence the implementation of monitoring mechanisms for the state-owned NBFIs to ensure that their financial condition and performance improves. In addition, the harmonisation exercise of the various financial sector Acts of Parliament with the BFSA will be done, which will ensure the thorough regulation and supervision of the entire financial sector. Further, it is envisaged that the development of the regulatory and supervisory framework and draft guidelines for the Development Finance Institutions and the Housing Finance Institutions will be finalised.

EXTERNAL SECTOR DEVELOPMENTS

5.1 Overview

Zambia's external prospects in 2004 showed mixed out-turns. Though the current account deficit slightly narrowed, the debt stock increased substantially while external aid inflows were less than projected.

5.2 External Debt

109. The external debt stock at end 2004 stood at US $7.1 billion, up by 9 percent from US $6.5 billion in 2003 (see Table 5.1). The increase in external debt was accounted for by government debt, which rose by 11.3 percent to US $6.6 million in 2004 from US $5.95 million in 2003. As in previous years, a large portion of government debt was owed to multilateral institutions (see Table 5.1).

110. Private debt continued to decline and reduced by 15 percent to US $460 million from US $546.7 million in 2003.

Table 5.1: External Debt Stock (In US $ millions), 2001-2004

	2001	2002	2003	2004
Multilateral	**3,313.7**	**3,855.1**	**3,703.1**	**3,872.0**
ADB/ADF	318.7	318.7	217.2	311.0
World Bank	1,837.1	2,491.0	2,294.4	2,359.0
IMF	948.2	965.9	1,065.1	890.0
Others	209.7	102.0	126.3	312.0
Bilateral	**3,091.8**	**2,614.8**	**2,245.4**	**2,748.0**
Paris Club	2,713.9	2,343.1	2,000.0	2,483.0
Non-Paris Club	377.9	271.7	245.4	265.0
Total Government Debt	**6,405.5**	**6,469.9**	**5,948.5**	**6,620.0**
Private and Parastatal	**717.5**	**670.4**	**546.6**	**460.0**
Total External Debt	**7,123.0**	**7,140.3**	**6,495.1**	**7,080.0**

Source: Ministry of Finance and National Planning

111. In 2004, debt service payments amounted to US $373.2 million of which US $259.5 million was to the IMF. The bulk of the debt service was to the multilateral institutions and accounted for 84 percent of total payments. The remainder was to Paris Club and non-Paris Club members totalling 11.4 percent and 4.3 percent, respectively.

112. The debt service was paid by a budgetary allocation of K216 billion out of which K180 billion was paid. In addition, the bulk of the US $64.8 million received as programme support was used for debt service. Furthermore, all the funds received from the IMF under the PRGF were used on payment of debt to that institution. In terms of the debt service export ratio, there was an increase to 20.8 percent in 2004 from 15 percent in 2003, largely reflecting the higher increase in debt payments compared to exports.

5.3 External Aid

113. In 2004, a total of US $789.1 million was expected as external aid out of which US $475.6 million was to be in form of project support and US $313.5 million as programme support. Preliminary data indicates that only US $297.9 million, representing 38 percent of the total funds expected was received.

114. Out of the estimated US $298.0 million that was received, US $233.3 million or 78.2 percent was for project support and the remainder of US $64.8 million was programme support. The project inflows only represented 49 percent of the expected total of US $475.6 million (see Table 5.2). As in previous years, the lower than programmed project financing was due to inadequate and untimely provision of counterpart funds by Government and also bureaucratic procedures by both Government and some cooperating partners.

Table 5.2: Project Financing (In US $ millions), 2002-2004

	2002 Actual	2003 Proj	2003 Actual	2004 Proj	2004 Actual
Bilateral	274.1	316.4	183.1	307.3	138.4
Multilateral	161.0	300.0	164.6	168.3	94.8
Total	**435.0**	**616.4**	**347.6**	**475.6**	**233.2**

Source: Ministry of Finance and National Planning

115. The bulk of the project financing in 2004 was from bilateral cooperating partners who provided 59 percent of total receipts with the remainder coming from multilateral institutions at 41 percent (see Table 5.2). Preliminary data indicates that the bulk of project financing received in 2004 was earmarked for social sectors, especially health and education. The health sector received the largest portion of project financing in 2004 amounting to 42.9 percent while the education sector received 40.6 percent. The remainder of the aid went to support programmes in agriculture, roads, water and governance.

116. As for programme support, the inflows received during the year were only 21 percent of the US $313.5 million that was expected (see Table 5.3). The lesser than programmed inflows were due to administrative bottlenecks by Government and cooperating partners as well as failure, by Government, to meet certain conditionalities for the disbursement of the funds.

Table 5.3: Programme Support (In US $ millions), 2000-2004

	2000	2001	2002	2003	2004
United Kingdom	21.7	0	0	0	0
USAID	1.5	0	0	0	0
Netherlands (Firth Dimension)	8.4	20.6	0	0	0
France	0	0	0	0	0
China	0	0	0	2	0
Germany	0	0	0	0	0
Others	0	0	0	0	0
Total Bilateral Financing	31.6	20.6	0	2	0
World Bank	140.3	43.9	56.3	19.9	20.7
IMF	26.5	95.3	172.8	0	0
EU	0	10.5	68.7	34.9	44.1
ADB	13.3	0	13.2	0	0
Total Multilateral	180.1	149.7	311	54.8	64.8
Total Programme Support	**211.7**	**170.3**	**311.0**	**56.8**	**64.8**

Source: Ministry of Finance and National Planning

5.4 Progress made under the HIPC Initiative

117. In October 2004 a tripartite (World Bank, IMF, Government) assessment on the progress in implementing HIPC triggers was undertaken. The assessment indicated that implementation was generally on course. (See Box 5.1). The next tripartite assessment is expected in the first quarter of 2005. This assessment will determine whether Zambia has met the HIPC completion point Triggers.

5.5 Balance of Payments Developments

Trade Balance

118. The merchandise trade balance improved from a deficit of US $311 million in 2003 to US $109 million in 2004. The improvement in the merchandise trade balance occurred due to a higher increase in the value of merchandise exports compared to imports. Exports increased by 51 percent to US $1,588 million from US $1,052 million in 2003 while imports increased by 24 percent to US $1, 727 million in 2004 from US $1, 393 million in 2003 (see Table 5.4).

119. Exports for both metals and non-metals increased by 65 percent and 27 percent respectively. In the metal sector, both copper and cobalt export earnings rose. Copper export receipts rose by 62 percent to US $985 million from US $607 million in 2003 on account of increased export volumes and high prices. Copper exports volumes rose by 9 percent to 384,000mt in 2004 from 353,000mt in 2003. Similarly, realized copper prices increased by 49 percent to US $1.16 per pound in 2004 from US $0.78 per pound in 2003.

120. In the case of cobalt, export earnings surged by 90 percent to US $118 million in 2004 from US $62 million in 2003. The increase in cobalt export revenue was largely due to a 170 percent rise in cobalt prices to US $22.7 per pound from US $8.4 per pound in 2003.

121. Preliminary estimates indicated that the non-metal sector recorded an increase in earnings of 27 percent to US $485 million from US $383 million in 2003. The increased earnings in the non-metal sector largely emanated from improved sales for chemical and pharmaceutical products, engineering products (cables) and primary agriculture products.

122. The value of imports also increased by 24 percent to US $1,727 million in 2004 from US $1,393 million in 2003.The bulk of imports during the review period were capital equipment destined for the mining sector.

Services and Incomes Account

123. The services account, unlike the trade balance, worsened in 2004 to US $254 million from US $238 million in 2003. This reflected the increase in trade and Zambia's reliance on the rest of the world for services such as insurance and transport.

124. The incomes account deficit deteriorated by 84.2 percent to US $304 million from US $148 million in 2003.

Box 5.1: Progress on the Implementation of HIPC Completion Point triggers as at end October 2004	
Reforms Objectives/ measures	**Status**
Poverty Reduction	
Adoption of PRSP to be prepared through a participatory process, and satisfactory progress with the implementation and monitoring of the PRSP for at least one year based on annual report.	The PRSP was prepared and adopted through a consultative process. Implementation is ongoing. The first annual progress report was completed in April 2004. Progress in implementing and monitoring the PRSP was limited. However, from July 2003, PRSP implementation was significantly scaled up and a second PRSP progress report was prepared.
Social Sectors	
Progress in combating HIV/AIDS full staffing of secretariat to National HIV/AIDS/TB council.	Full staffing for the original NAC structure was done. NAC was recruiting according to its new organizational structure.
Integrate HIV/AIDS awareness and prevention programs in the pre-service and in-service programs in at least ten key ministries.	Pre-service and in-service programmes for ten ministries was done. In addition, all line ministries had awareness programmes integrated into their programmes.
Progress in education sector reform as indicated by the following:	
Increasing the share of education in the discretionary budget from 8.5 percent in 1999 to at least 20.5 percent.	The out-turn in 2004 was estimated at 22.7 percent.
Raising the stating compensation of teacher in rural areas above the poverty line for a household, as defined by Central statistics office.	The minimum monthly salary as at September 2004 was K787,996, which is above the K575,206 as defined by CSO during the same period. The salary is higher if 20 percent rural hardship allowance is added.
An action plan for increasing student retention in Northern, Eastern, North Western, Western provinces, and Luapula Province.	This has been observed using various strategies such as the bursaries scheme, PAGE programme and re-entry policy
Progress in health sector reform as indicated by:	
Implementation and scaling up of an action plan for malaria	Action plan has been scaled up as seen through the introduction of Co-artem, the increase in the number of functional laboratories and distribution of Insecticide Treated Nets (ITNs).
Procedures and mechanism for the procurement of drug reorganized to be fully transparent and efficient.	In line with agreements with cooperating partners, all procurements are done by CBoH. The income and expenditure report for 2001 and 2002 were finalized and are due to be released.
Timely release of complete, detailed, annual health expenditure data; and	
Actual cash releases to district Health Management Boards shall be at least 80 percent of the amount budgeted	Actual cash releases to district Health Boards averaged above 80 percent.
Macroeconomic and structural reforms	
Maintenance of a stable macroeconomic environment, as evidenced by satisfactory performance under a program support by PRGF arrangement.	A new PRGF agreed in June 2004. First review undertaken in October 2004 and was satisfactory. Second review expected in early 2005.
Implementation of an Integrated Financial Management Information system (IFMIS) on a pilot basis for at least three ministries and mid-term review of the pilot program.	Programme delayed due to procurement bottlenecks.
Implementation of a Medium-term Expenditure Framework (MTEF) prepared by MoFNP and approved by the Cabinet.	MTEF for 2004-06 was prepared; Cabinet approved the MTEF along with the 2004 budget parameters. Green paper for 2005-2007 was prepared.
Restructuring and issue of international bidding documents for the sale of a majority (controlling) interest in power company, ZESCO.	The Government is implementing a strategy to commercialize ZESCO.
Issuance of international bidding documents for the sale of majority (controlling) interest in the Zambian National Commercial Bank.	International bidding documents were issued in 2002. In 2004, negotiations for sale to the preferred bidder were on-going.

Source: Ministry of Finance and National Planning

Current Account

125. The movements in the trade balance and the services and income account resulted in a reduction of the deficit in the current account by 8.3 percent to US $642 million from US $700 million in 2003.

Capital and Financial Account

126. In 2004, the capital and financial accounts balance reduced by 3.4 percent to US $367 million from US $380 million in 2003. This was due to an increase in project grants from US $240 million in 2003 to US $246 million in 2004. Additionally, Foreign Direct Investment increased from US $172 million in 2003 to US $344 million in 2004.

Overall Balance and Financing

127. The overall balance improved by 29.9 percent to a deficit of US $225 million from US $321 million in 2003 as a result of the marginal improvement in the current account balance and the higher increase in the capital and financial accounts. Debt relief of US $276 million and balance of payments loans and grants amounting to US $65 million financed the deficit.

Table 5.4: Balance of Payments (In US $ millions), 2001-2004

	2001	2002	2003	2004
	Est.	Est.	Est.	Est.
Current account balance	(758)	(652)	(700)	(642)
Trade balance	(342)	(259)	(311)	(109)
Exports, f.o.b.	884	916	1,052	1,588
Metal sector	590	560	669	1103
Non-metal	295	357	383	485
Imports, f.o.b.	(1253)	(1204)	(1,393)	(1,727)
Metal sector	(310)	(176)	(169)	(286)
Non-metal	(943)	(1028)	(1,224)	(1,441)
Goods procured in ports by carriers	27	28	29	31
Services (net)	(228)	(245)	(238)	(254)
Receipts	144	136	165	176
Payments	(372)	(381)	(403)	(456)
Income (net)	(168)	(155)	(148)	(304)
Of which: interest payments	(144)	(137)	(131)	(117)
Current Transfers (net)	(20)	7	(3)	(25)
Capital Account 5/	222	238	380	367
Project grants (capital)	222	236	240	246
Financial Account	245	2	140	121
Official loan disbursement (net)	(96)	(122)	(141)	(114)
Disbursement	136	111	101	110
Amortization (-)	(233)	(234)	(242)	(224)
Change in net foreign assets of commercial banks	9	(53)	48	(90)
Private capital (net)	301	178	233	324
Foreign direct investment	72	0	172	334
Errors and omissions, short term capital	(75)	31	(2)	50
Overall balance	(399)	(383)	(321)	(225)
Financing	399	383	321	225
Change in net international reserves of Bank of Zambia (- incr) 1/	(124)	(225)	(164)	(41)
Gross official reserves of BoZ	0	(169)	87	(25)
BoZ liabilities	(5)	(6)	(6)	(6)
IMF (net)	(119)	(50)	(244)	(10)
Other foreign assets of BoZ				
Debt Relief	436	437	391	276
Debt relief (non-HIPC) 2/	170	171	154	120
Debt relief (HIPC, including IMF)	266	266	237	156
of which IMF	150	153	171	0
Paris Club	65	64	16	100
Other Debt Related Items	(19)	21	(10)	(14)
Net change in arrears (+ incr)	31	12	48	(60)
BOP support grants	31	69	45	44
BOP support loans 1/	44	69	10	21
Financing gap (+)	0	0	0	0
Memorandum items:				
Nominal GDP (millions of US $)	3,640	3,776	4,318	5,409
Current account balance excluding grants (percent of GDP)	(20.8)	17.3	(16.2)	(11.9)
Terms of trade (percentage change)	(1.7)	(6.7)	4.2	20.3
Copper volume (MT.'000)	297	330	353	384
Copper price (US$/lb)	0.77	0.7	0.78	1.16
Gross official Reserves 3/	114	283	197	222
Debt service cash payments($Usm)5/	142	123	187	373
Official budget debt service	70	50	108	114

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

Chapter 6

AGRICULTURE, FORESTRY AND FISHING SECTOR

6.1 Overview

Performance in the agriculture, forestry and fishing sector in 2004 was favourable for the second consecutive year. Real GDP growth in the sector increased by 7.5 percent in 2004 compared to 4.5 percent in 2003. This was largely due to an improvement in the agriculture sub-sector. The good weather conditions underpinned by improved crop husbandry practices and input availability resulted in improved agricultural performance.

128. Government continued to implement the Fertilizer Support Programme (FSP) and the Food Security Pack Programme (FSPP) aimed at improving input supply in the country, which in turn increased national food production and food security. In addition, Government supported the Agriculture Commercialisation Programme (ACP), which provides a framework for components such as out-grower schemes, research and extension services and smallholder enterprise development and marketing that boosted growth in the sector.

129. Performance of the sector, however, continued to be constrained by poor access roads, compounded by increases in diesel prices, high electricity tariffs, diminishing capacity in Government supported agricultural research and extension services. Major outbreaks of livestock diseases in many parts of the country also contributed to problems experienced in the sector.

6.2 Sector Performance

Input Supply

130. Government scaled up the programme of distributing inputs to farmers during the 2003/2004 agricultural season. In this regard, 150,000 households received inputs under the FSP compared to 120,000 households in the previous season. A total of 60,000 mt and 3,000 mt of fertiliser and seed, respectively, were distributed compared to 48,000 mt and 2,400 mt of fertiliser and seed in the previous season.

131. With regard to the FSPP, 150,000 households benefited compared to 131,919 in the 2002/2003 agricultural season. About 660 mt of maize seed was distributed in the 2003/2004 agricultural season compared to 623 mt in the 2002/2003 agricultural season. Furthermore, Government continued to support out-grower schemes in various parts of the country. In this regard a total of 7,800 farmers were reached through Government support in addition to other farmers directly supported by the out-grower companies. The out-grower schemes covered coffee, cotton, tobacco, paprika, vegetables, cashew and dairy.

Crop Production

132. Crop production, especially, cash crops increased for the second consecutive season (see Table 6.1). This was mainly on account of the favourable weather conditions and improved input supply. Generally, normal rainfall, suitable for crop growing was received in almost all parts of the country. However, heavy rainfall causing floods in North-Western, Western and Eastern provinces was experienced, which negatively affected crop production in a few localised areas.

a) Maize

133. Maize production increased marginally by 0.5 percent to 1,213,607 mt in the 2003/2004 agricultural season despite a 13 percent decrease in area planted. The marginal increase in maize production was as a result of a 16 percent rise in the national average yield rate. The reduction in area planted, among others, can be attributed to farmers diversifying away from maize towards more profitable crops such as cotton. Farmers are diversifying away from maize due to unfavourable market conditions for maize, which make it relatively less profitable in comparison to other crops. Furthermore, the reduced use of draught power as a result of high cattle mortality also explained the reduction in hectarage.

b) Seed Cotton

134. Cotton production increased by 22.3 percent to 144,307 mt. in the 2003/2004 agricultural season (see Table 6.1). This rise was mainly attributed to the large investment in ginneries by private companies and financing by Government to major cotton ginning companies for on lending to small-scale cotton growers. The cotton companies have also created favourable market conditions that have resulted in better marketing and pricing which has attracted more farmers into cotton production.

c) Tobacco

135. Both Virginia and Burley tobacco recorded outstanding increases in production of 94.2 percent and 81.4 percent, respectively (see Table 6.1). This reflected the effects of the large private investments into tobacco production, which has been experienced in the recent years. Furthermore, improved marketing arrangements and favourable prices stimulated production. As a result of the rise in production, tobacco exports increased by 11.7 percent to US $8.8 million in 2004

d) Coffee

136. Production of coffee in 2004 remained stable at 6,500 mt as it was in 2003. However, due to an increase in the price of coffee, the value of production increased by 13.5 percent to US $8.4 million. The value of coffee exports also increased by 9.3 percent to US $7.5 million in 2004 from US $6.9 million in 2003.

e) Groundnuts

137. Production of groundnuts, which has been experiencing growth in recent years, recorded a decline of 15.5 percent (see Table 6.1). This could be partly explained by farmers switching to growing other cash crops such as cotton and tobacco, which have higher returns.

Table 6.1: Crop Production(In mt), 2003 & 2004

Crop	2002/2003	2003/2004	% Change
Maize	1,207,202	1,213,601	0.5
Sorghum	20,300	24,467	20.5
Millet	35,331	39,784	12.6
Paddy Rice	10,743	11,699	8.8
Wheat	- [1]	82,858	-
Cassava	981,757	911,673	(7.1)
Groundnuts	82,549	69,696	(15.5)
Soya beans	42,120	54,687	29.8
Mixed Beans	24,097	18,161	(24.6)
Seed Cotton	118,000	144,307	22.3
Coffee	6,500	6,500	0
Virginia Tobacco	7,522	14,608	94.2
Burley Tobacco	12,513	22,703	81.2

Source: Ministry of Agriculture and Cooperatives and Central Statistical Office

[1] The wheat survey was not undertaken

Livestock

138. Cattle population declined by 1.4 percent to 2,341,970 in 2004 from 2,375, 453 in 2003. This fall was largely attributed to the outbreak of livestock diseases in many parts of the country. However, the population of goats and pigs increased moderately during the same period. Goats increased by 4 percent to 1,002,376 in 2004 while pigs increased by 7 percent to 286,726 in 2004. This was mainly attributed to the fact that besides cattle, other types of livestock did not experience disease outbreaks. There were also livestock re-stocking activities supported by both Government and NGOs. The Livestock Development Trust (LDT) continued to play a key role in supporting re-stocking, which included importation of some livestock species such as donkeys.

6.3 Food Security Position

139. The country experienced a favourable food security situation for the second consecutive year due to increased domestic production in the 2003/2004 agricultural season and a carry-over maize stock of 179,735 mt from the previous consumption-year. The country had a surplus maize supply of 185,000 mt, representing an increase of 54 percent over the previous consumption-year. The surplus allowed the Food Reserve Agency (FRA) to purchase 104,433 mt of maize. The purchases by FRA were used for both strategic reserve build up and commercial trading including exports. The surplus from cassava was also substantial amounting to 232,250 mt. However, wheat and rice recorded deficits of 43,819 mt and 6,500 mt, respectively. These deficits will mainly be met through commercial imports. The overall food surplus was a maize equivalent of 345,114 mt (see Table 6.2).

Table 6.2: Food Balance Sheet for 2003/2004 (In mt), Based on the 2003/2004 Crop Forecast

	Maize	Sorghum/ Millet	Rice	Wheat	Cassava	Other tubers	Total (maize-meal equivalent)
A. Opening stocks (1st May 2003)	179,735	4,342	270	13,323	0	727	**175,772**
B. Production (2003/2004)	1,213,601	64,251	11,699	82,858	911,673	114,737	**2,092,462**
C. Total Availability (A+B)	1,393,336	68,593	11,969	96,181	911,673	115,464	**2,268,234**
D. Staple food requirements							
1. Human consumption	1,020,156	64,380	17,884	134,357	660,190	109,727	**1,726,205**
2. Food reserve stocks (net)	55,000	-	-	-	1,000	-	**50,428**
3. Stock feed	50,000	-	-	-	-	-	**45,000**
4. Breweries	15,000	-	-	-	-	-	**13,500**
5. Seed	7,500	1,000	-	1,500	-	-	**8,733**
7. Losses	60,680	3,213	585	4,143	18,233	5,737	**79,255**
Total requirements	1,208,336	68,593	18,469	140,000	679,423	115,464	**1,923,120**
E. Surplus/deficit	185,000	0	(6,500)	(43,819)	232,250	0	**345,114**
F. Food relief requirements	0	-	-	0	-	-	**0**
G.Commercial import requirements	0	0	6,500	43,819	0	0	**0**

Source: Ministry of Agriculture and Cooperatives

MINING AND QUARRYING SECTOR

7.1 Overview

The performance of the mining and quarrying sector was `impressive with the sector's growth estimated at 18.4 percent compared to 3.4 percent in 2003. The favourable performance was due to increased production of copper underpinned by high world metal prices.

142. During the year, Government sold its 51 percent stake in Konkola Copper Mines (KCM) to Vendata Resources of India and also concluded the sale of Luanshya Mines. Government also prepared a draft gemstone policy, which will among others, facilitate the establishment of a gemstone exchange.

7.2 Sector Performance

Metal mining Sub-sector

143. Copper production in 2004 rose by 16.2 percent to 410,971 mt from 353,594 mt in 2003 (see Table 7.1). The rise in production was attributed to increased levels of investment and technological innovation undertaken by the mining companies. High-grade ore recoveries, better machinery and an increased supply of sulphuric, further contributed to the expansion in production. Chambishi Metals Plc and Mopani Copper Mines in particular, recorded notable increases in production.

Table 7.1: Metal Production (in mt) 2001 - 2004

Period	2001	2002	2003	2004	% Change 2004/2003
Copper	298,195	337,743	353,584	410,971	16.2
Cobalt	4,37 6	3,984	6,491	6,390	(1.6)

Source: Mining Companies

144. Cobalt production marginally declined by 1.6 percent to 6,390 mt in the period under review compared to 6,493 mt in 2003. This decline was mainly as a result of reduced production at KCM.

145. Overall, valued added in the metal mining sub-sector rose to K 255 billion from K216 billion in 2003, representing a growth of 18.4 percent.

Metal Prices

146. In 2004, metal prices continued to rise. The average realized price of copper increased by 53.8 percent to US $1.20 per pound from US $0.78 per pound in 2003 (see Table 7.2). Similarly, the average realized price of cobalt increased to US $22.30 per pound in 2004 from US $8.40 per pound in 2003. The increase in metal prices was reflective of rising copper and cobalt demand, especially from China.

Table 7.2: Average Copper and Cobalt Prices (US Dollars per pound) 2002-2004

Period	2002	2003*	2004*	% change 2004/ 2003
Copper	0.70	0.78	1.20	53.8
Cobalt	7.30	8.40	22.30	165.5

Source: Bank of Zambia

* Realized Prices

Other Mining and Quarrying Sub-Sector

147. The other Mining and Quarrying sub-sector registered a growth of 25.1 percent mainly on account of recovery in coal production. Coal production increased by 36.0 percent to 103,066 mt from 75,516 mt last year. Much of the increased production occurred in the second half of the year and was as a result of a change in the production arrangements put in place by the new management at Maamba Collieries. Quarrying activities continued to expand as construction, especially of residential housing has risen.

7.3 Major Developments

148. The RAMCOZ/Luanshya Mines was successfully privatised to J & W Holdings AG of Switzerland, which took over the assets in January 2004. Production at the mine started in June 2004 after rehabilitation of the Baluba mineshaft and concentrator. The Muliashi and Baluba North Deposits, which were part of the RAMCOZ assets under Binani Group of Companies, were however, yet to be sold by end of 2004. During the year, Vendata Resources of India acquired 51 percent equity interest in Konkola Copper Mines (KCM) at a cost of US $48 million.

149. During the review period, the construction of the first phase of the Kansanshi mining project in Solwezi was completed and production was expected to commence in the first quarter of 2005. Similarly, ZESCO Limited completed the construction of a new power line to Kansanshi mines and has proceeded to extend the grid towards the Lumwana ore body in Kasempa.

150. The five-year European Union (EU) funded Mining Sector Diversification Programme (MSDP), which started in 2002 continued to be inaccessible to small-scale miners. Of the total Euro16.5 million earmarked for loan application, only Euros 2.5 million has been approved since 2002.

151. Prospecting and Exploration activities continued during the review year. The scope of exploration and prospecting expanded to include other non-traditional metals, such as base metals, precious metals, gemstones and industrial minerals. Preliminary data showed positive indications of gold deposits in Petauke and Mumbwa, nickel in Mazabuka, diamonds in Western Province and additional copper in North Western and Eastern Provinces.

7.4 Outlook

152. Prospects for the mining sector in 2005 are bright. The securing of a Strategic Partner for KCM and the commencement of production at Kansanshi is expected to further boost the performance of the sector. At Kansanshi Mine, more than 100,000 mt of copper are expected to be produced. At the recently privatised Luanshya Copper Mines, production is expected to rise sharply in 2005 following rehabilitation and recapitalisation which started in 2004. However, metal prices are expected to decline due to the anticipated slow down in global economic activity.

TOURISM AND NATURAL RESOURCES

8.1 Overview

The performance of the tourism sector in 2004 remained satisfactory. Preliminary data indicated that the sector recorded a growth of 5.5 percent. The sector also continued to record increased investments and tourist arrivals to the major tourist areas. In order to attract more investment, Government during the year launched the investment promotion programme for the Kafue National Park and the surrounding areas. This was aimed at attracting more investors to the park, which has been under developed for a long time.

8.2 Sector Performance

Tourist Arrivals

154. The number of tourists visiting the major tourist areas is estimated to have continued rising in 2004. This was on the basis of, among others, the observed increased air passenger traffic. In 2004, the number of passenger movement at Livingstone airport shot up by 39 percent to 126,304. Similarly at Mfuwe airport in the South Luangwa National Park, the passenger movement went up by 35 percent to 19,708 from 14,538 in 2003 (also refer to Chapter 12). Most of the passengers passing through these two airports are tourists. The growth in the number of passengers at both airports was mainly on account of an increase in the frequency of flights following increased tourism activities in the areas, especially in Livingstone.

155. The number of tourists visiting the National Parks increased by 2.7 percent to 53,978 in 2004 from 52,540 in 2003 (see Table 8.1). Visits to the parks by local tourists increased by 24.7 while those by international tourists declined by 3.9 percent (see Table 8.1). The drop was solely accounted for by a decline in visits to the Mosi-oa-Tunya National Park (see Table 8.2). Most of the international tourists going to Livingstone to view the Victoria Falls were opting to visit other national parks, including those in the nearby neighbouring countries, where there is a large diversity of game compared to the Mosi-oa Tunya. The state of infrastructure in the Park also continued to deteriorate.

Table 8.1:Tourist Visits to the Major National Parks, 2003 &2004

	2003	2004	% Change
International	40,388	38,821	(3.9)
Local	12,152	15,157	24.7
Total	52,540	53,978	2.7

Source: Zambia Wildlife Authority

156. In terms of visits to the national park, the majority of the tourists in 2004 visited the South Luangwa National Park.These totalled 23,929 representing 44.3 percent of the total number of visits to the national parks (see Table 8.2).

Table 8.2 National Parks and Number of Tourist Visits 2003 & 2004

	2003	2004	% Change
Mosi-oa-Tunya	23,497	17,762	(24.4)
Lower Zambezi	4,413	6,059	37.3
South Luangwa	19,728	23,929	21.3
Kafue	3,812	3,789	(0.6)
Lochinvar	390	415	6.4
Other Parks	700	2,024	189.1
Total	52,540	53,978	2.7

Source: Zambia Wildlife Authority

8.3 Tourism Marketing and Promotion

157. In 2004, Government launched and designated 2005 as the 'Visit Zambia Campaign' year. The launch and subsequent activities are aimed at creating awareness and increasing tourist arrivals from 2005 onwards. The campaign will use Livingstone city as the gateway because of the major anniversaries taking place in 2005, namely the Livingstone city centenary and the 150th anniversary of Dr. David Livingstone's (Explorer/Missionary) first sighting one of the Victoria Falls, one of the seven natural wonders of the world.

158. During the year, Government hosted an Investors' Forum and a tour of the Kafue National Park for interested investor. As a result, several investors showed interest in investing in the Park. Two agreements were signed for the construction of new tourist facilities in the Park. Further, agreements were also signed for the construction of a new facility in the Mosi-O-Tunya National Park and two facilities in the South Luangwa National Park. In addition, eleven applications, with an initial investment estimated at US $6.7 million, were also approved for the Kafue National Park, South Luangwa National Park, North Luangwa National Park and the Sumbu National Park. Government also commenced the disbursements of funds to potential local investors from the Tourism Development Credit Facility (TDCF). A total of K4.8 billion was disbursed to 43 applicants.

159. The state of infrastructure in the national parks, however, remained in a poor state thereby affecting easy accessibility to the parks. Only two out of the nineteen national parks had their road infrastructure rehabilitated in 2004.

8.4 Wildlife Stock Situation

160**.** Aerial surveys of the animal population in the national parks and Game Management Areas (GMAs) continued to be undertaken. Preliminary results showed stability in the numbers of the following species: elephant; buffalo; impala; puku; warthog; zebra; Kafue lechwe; black lechwe and Tsessebe. However, other species showed a general decline due to poaching especially in the GMAs.

8.5 Hunting Activities

161. In 2004, a total of 728 safari hunting licences were issued by the Zambia Wildlife Authority (ZAWA) compared to 199 in 2003, representing an increase of 166 percent. This sharp rise was as a result of a lagged response from the ban in the preceding two years. In terms of revenue collections, a total of K11.1 billion was collected from hunting activities in 2004 compared to K5.3 billion in 2003 (see Table 8.3).

Table 8.3: Revenues Earned by ZAWA from Hunting Activities (In Kwacha millions), 2003 &2004

Type of Fee	2003	2004	% Change
Animal Fee	3.6	6.9	91.7
Concession Fee	1.7	4.2	147.1
Total	5.3	11.1	109.4

Source: Zambia Wildlife Authority

162. The revenues earned from animal fees is equally shared between ZAWA and the local communities in the various GMA's. Thus in 2004, the amounted shared with the local communities was K 6.9 billion compared to K3.6 billion in 2003. The revenues earned from concession fees is retained by ZAWA.

ENERGY

9.1 Overview

During the review period, the electricity, gas and water sector's output marginally dropped by 1.8 percent. This was mainly due to a reduction in electricity generation at the country's major hydro power stations because of the rehabilitation works that were being undertaken.

9.2 Sector Performance

Electricity sub-sector

164. Total electricity generation in 2004 stood at 8,061,000 MWh compared to 8,311,000 MWh generated in 2003. This represented a decline of 3.1 percent. The drop in generation was attributed to the major rehabilitation works being undertaken at the major power stations. However, generation at the mini hydro stations increased by 14.3 percent to 56,000 MWh from 49,000 MWh in 2003 (see Table 9.1).

165. During the year, the number of households using electricity rose by 8.6 percent to 303,995 from 252,757 in 2003. The rise was attributed to increased demand arising from the expansion of residential housing as well as the rural electrification programme.

Table 9.1: Electricity Generation (In'000 MWh) 2001-2004

Station	2001	2002	2003	2004	% Change 2004/2003
Main Hydro Stat ions	9,061	8,297	8,245	7,989	(3.0)
Mini Hydro Stations	41	36	49	56	14.3
Diesel Stations	18	17	17	16	(5.9)
Total	9,120	8,350	8,311	8,061	(3.1)

Source: ZESCO Limited

166. Electricity exports through September 2004 declined by more than 200 percent to 111,637 MWh from 392,124 MWh during the same period in 2003. In value terms, they fell by 39.4 percent to US $4.0 million from US $6.6 million in 2003. The decrease in exports was due to reduced generation and also a slump in demand from South Africa, which reduced its volume of imports from 350,955 MWh to 67,360 MWh in 2004. However, electricity exports to Congo DR, Tanzania and Botswana increased (see Table 9.2)

Table 9.2: Electricity Exports, Quantities and Values, 2002-2004

Country	2001		2002		2003		Jan-Sept 2003		Jan-Sept 2004	
	MWh	US$	MWh	US$	MWh	US$	MWh	US$	MWh	US$
Congo DR	4,185	349,848	3,073	299,017	4,222	383,856	3,236	285,160	3,458	332,708
Tanzania	6,725	741,683	4,874	514,534	16,682	1,209,804	12,138	897,506	15,551	974,916
Botswana	11,312	482,641	9,522	403,130	9,970	462,549	7,903	339,276	8,224	371,087
Namibia	16,236	362,482	15,756	416,255	22,026	965,160	16,188	714,036	15,366	707,105
Zimbabwe	2,662	286,879	10,290	207,619	2,348	101,163	1,705	73,385	1,678	66,807
South Africa	712,215	3,242,254	1,110,705	6,034,212	448,335	5,089,916	350,955	4,323,647	67,360	1,559,250
Total	753,335	5,465,787	1,154,220	7,874,767	503,582	8,212,447	392,124	6,633,010	111,637	4,011,872

Source: ZESCO Limited

Petroleum sub-sector

167. Provision of petroleum products on the market increased to 360,632 mt in the period January to August 2004 from 331,621mt during the same period in 2003. The increase was attributed to increased feedstock at INDENI. Overall, the supply of petroleum products was favourable (see Table 9.3)

Table 9.3: Petroleum Supply to the Market in (mt), 2002-2004

Product	2002	2003	Jan - Aug 03	Jan - Aug 04
Premium	144,442	154,964	101,610	101,779
Unleaded Petrol	592	171	171	0
Ind. Kerosene	188	1,675	1,601	453
Dom. Kerosene	12,823	15,646	10,094	10,387
LSGO	75	3,332	2,478	1,320
Diesel	236,523	263,468	165,346	187,988
LFO	174	396	181	624
HFO	2,749	33,689	24,284	24,375
Lubes	11,285	12,187	7,665	10,278
Bitumen	3	1	1	1
LPG	0	3	2	0
Solvents	128	0	0	67
Avgas	1,263	1,474	898	1,218
Jet-A1	32,828	26,547	17,291	22,142
Total	**443,073**	**513,553**	**331,621**	**360,632**

Source: Ministry of Energy

Table 9.4: Average Benchmark Lusaka Fuel Pump Prices (in Kwacha), in 2004

Period	Premium	% Change	Diesel	% Change	Kerosene	% Change
Jan	3,931.00		3,341.00		2,541.00	
May	4,091.00	4	3,461.00	3	2,596.00	2
June	4,310.00	5	3,643.00	5	2,692.00	4
July	4,447.00	3	3,619.00	(1)	2,792.00	4
August	4,542.00	2	3,959.00	9	3,112.00	10
September	4,878.37	7	4,206.37	6	3,256.15	4
October	4,770.45	(2)	4,361.04	4	3,392.08	4
November	5,119.52	7	4,598.44	5	3,639.35	7
December	4,905.00	(4)	4,415.00	(4)	3,431.00	(6)

Source: Energy Regulation Board

168. Generally, pump prices during the review period were unstable. This was largely as a result of continuous upward price adjustment of crude oil on the international market. The Lusaka pump price for premium petrol increased by 24.7 percent while that of diesel and kerosene rose by 32.1 percent and 35.0 percent respectively (see Table 9.4).

9.3 Other developments

169. Government successfully facilitated the signing of a Memorandum of Understanding (MoU) between ZESCO Limited and SINOHYDRO Corporation of China. Through the MOU, the two firms will co-operate in the development of the Kafue Gorge Lower Hydropower Project as well as two other hydropower projects in the North-Western Province.

170. Furthermore, the Intergovernmental Memorandum of Understanding between Zambia, Kenya and Tanzania was signed. The three countries agreed to co-operate in the development of the Zambia-Tanzania-Kenya 697 kilometre, 330KV power inter-connector at a cost of US $356 million. Feasibility studies for the project were completed and development work is expected to commence in 2005. Once completed, the project will link the East African Community to the Southern African Power pool and will enable Zambia export power to East Africa thereby taping into the East African Power market. The inter-connector will also carry an optic fibre cable, thereby providing a telecommunication supper highway between the East African Community and SADC countries. In addition, the inter-connector will also enhance electricity transmission system in the Luapula and Northern provinces.

171. In the rural electrification programme, Government appointed the Rural Electrification Authority (REA) board with a mandate to develop the rural electrification master plan and oversee the implementation of rural electrification in view the envisaged commercialisation of ZESCO.

172. In 2004, ZESCO Limited undertook the construction of one major transmission line to the North-Western province. This involved the construction of the 198 kilometre Luano-Kansanshi 330KV transmission line at a cost of US $21 million. The transmission line was completed and energised in November 2004. The transmission line is expected to enhance economic activities in North-Western province, especially on the new mines.

Chapter 10

MANUFACTURING

10.1 Overview

Preliminary data showed that the manufacturing sector registered a growth of 5.2 percent in 2004, mainly driven by activity in the food, beverage and tobacco sub-sector. The sector's performance was supported by the continued general improvements in the macroeconomic environment, which was characterised by stability of the Kwacha and falling interest rates. The improved performance of the key sectors of agriculture and mining also stimulated manufacturing activity together with improvements in external demand.

10.2 Sector Performance

174. Measured in value added terms, the manufacturing sector's output is estimated to have increased to K327.6 billion from K 311.4 billion in 2003, representing a growth of 5.2 percent. In terms of sources of growth, most of it continued t emanate from the food, beverages and tobacco sub-sector, although all the sub-sectors registered positive growth (see Table 10.1).

175. The food, beverages and tobacco sub-sector grew by 5.1 percent in 2004 largely supported by favourable performance of the agricultural sector, increased domestic demand and growth in exports to regional markets. The sub-sector also witnessed an expansion in investment outlays especially in tobacco processing and soft drinks. Externally, increased market access for products such as sugar to the European Union market and for processed foods and beverages regionally also supported growth of the sub-sector. Following negotiations between Government and the European Union (EU), Zambia in 2004 exported an additional 7,215 mt of sugar to the EU market.

176. The textiles and leather sub-sector registered a growth of 2.1 percent in 2004, mainly on account of increased production of cotton lint and yarn. The expansion in the number of ginneries recently following large investments by the private sector has resulted in a significant increase in the production of both cotton seed and lint. During the year, Zambia also began exporting directly to the United States market under the African Growth and Opportunity Act (AGOA). This was an improvement on the 2003 position, when textile products were indirectly exported to the United States through third countries.

177. The other manufacturing sub-sectors that recorded notable increases in output were the non-metallic minerals and fabricated metal products sub-sectors (see Table 10.1). The non-metallic minerals sub-sector (mostly cement and other building materials and lime) has been registering positive growth due to the sharp increase in construction activities recently and also the expansion in mining activities. As for the fabricated metals sub-sector, which are mostly cables, wires, and rods, production has risen mainly on account of improved market access to the regional markets following the reduction of tariffs under the Southern African Development Community (SADC) Trade Protocol and in the Common Market for Eastern and Southern Africa (COMESA) region.

Table 10.1: Manufacturing Value Added by Sub-sector (In K' billions) at Constant 1994 Prices, 2000 - 2004

Sub Sector	2001	2002	2003	2004	% Change 2004/2003
Food beverage and tobacco	164	172.8	187.7	197.3	5.1
Textiles leather and leather products	46.8	49.7	51.3	52.4	2.1
Wood and wood products	20.3	21.9	24.4	26.1	7.0
Paper and paper products	7.8	8	8.6	8.8	2.3
Chemical rubber and plastics	22.8	25.1	26.4	28.8	9.1
Non metallic mineral products	4.8	4.9	5.6	6.3	12.5
Basic metal products	1.2	1.2	1.4	1.5	7.1
Fabricated metal products	6	5.8	6.1	6.4	4.9
Total manufacturing	273.7	289.4	311.4	327.6	5.2
Total GDP	2,621.3	2,707.9	2,846.7	2,988.9	5.0
Share of manufacturing in total GDP	10.4	10.7	10.9	11.0	0.2

Source: Central Statistical Office

10.3 Outlook

178. The manufacturing sector is expected to continue registering positive growth in 2005 premised on the continued growth in agriculture output, which is a major input in manufacturing sector. The expected sharp increase in mining activity should also have spill over effects on some manufacturing sub-sectors.

179. In 2005, Government is expected to review the Investment Act and remove some outstanding contentious issues in the Export Processing Zones Act. These measures should spur increased investments in the sector. Furthermore, the implementation of the Private Sector Development Action Plan aimed at removing impediments to business is expected to be accelerated in 2005. This, in addition to further improvements in the macroeconomic environment, should stimulate manufacturing activity and accelerated economic growth.

PRIVATE SECTOR DEVELOPMENT

11.1 Overview

The private sector continued to show improved performance evidenced by growth recorded across most of the key sectors and a strong expansion in non-traditional exports. Nevertheless, a key challenge facing Government is to provide an improved climate to accelerate private sector development.

11.2 Policy Developments

181. The Government, in partnership with the private sector prepared a Private Sector Development (PSD) Reform Action Plan and launched it in June 2004. The PSD reform programme seeks to lay the foundation for faster, sustained and private-sector led economic growth by implementing a comprehensive action plan for enhancing the business and investment climate, and restoring investor confidence (see Box 11.1).

182. As part of the PSD, Government in 2004 started reviewing the Investment Act with the purpose of among others, making it consistent with the objectives outlined in the PSD initiative.

183. Government also approved the formation of the Zambia Development Agency (ZDA), which is a merger of five Statutory Boards. These are the Zambia Investment Centre, the Export Board of Zambia, the Zambia Export Processing Zones Authority, the Small Enterprises Development Board and the Zambia Privatisation Agency.

Box 11.1 The Private Sector Development Reform Programme

Reform Area	Reform Objective
Policy Environment and Institutional	Create the enabling macroeconomic environment, strengthen public agencies that support PSD and enhance public/private dialogue Regulations & laws
Regulation and Laws	Improve regulatory frameworks and investment code to foster PSD Local empowerment
Infrastructure	Enhance the infrastructural platform for PSD by encouraging private Investment in infrastructure (PPI)
Business facilitation & Economic diversification	Remove administrative barriers to business entry and operation, and facilitate development of high-growth sectors Infrastructure
Trade expansion	Create greater opportunities for access to regional and international Markets by Zambian businesses
Local Empowerment	Unlock the growth potential of the MSME sector through business Development support and empowerment initiatives

11.3 Performance of Non-Traditional Exports

184. Preliminary data on the value of Non-Traditional Exports (NTEs) indicates that these increased by 29.9 percent to US $471.2 million in 2004 from US $362.7 million in 2003. This rise in NTE' s emanated mainly from primary agriculture products (cotton lint, tobacco, coffee), engineering products (electrical cables and wires), processed and re-fined foods mostly (sugar) and floricultural products. The single biggest contributor to earnings in 2004 were copper wires, whose export values amounted to US $58.5 million followed by Burley tobacco at US $43.3 million (see Table 11.1). Several factors explained the growth in NTEs. These included the improved market access to the EU for commodities such as sugar and SADC region and increased domestic agriculture production of crops such as cotton and tobacco. Additionally, the price of agricultural raw materials on the world market increased by 4.3 percent in 2004.

185. In order to further improve the access of Zambian manufactured goods and services to foreign markets, Government in 2004 continued to participate in negotiations with the European Union (EU) and other global trade blocks for improved trade regimes. As a result of these negotiations, Zambia exported an additional 7,215 mt of sugar to the EU market. This contributed to increased sugar export earnings, which reached US $33.7 million in 2004 compared to US $30.6 million the previous year.

186. Furthermore, Government effectively used the WTO as a platform for negotiations at international level, by participation in negotiations for access of markets in the developed world by third world countries in line with the Doha Development Agenda. Zambia, in 2004 also submitted notifications to the WTO on domestic support measures aimed at protecting local manufacturing industries for unfair trade practices by other trading partners. The notifications were

Table 11.1: Major Non-Traditional Export Commodities (In US $ millions), 2003 & 2004

Commodity	2003	2004	% Change 2003/04
Burley tobacco	19.0	43.3	127.9
Cement	6.7	7.2	6.7
Coffee	7.8	8.8	11.7
Cotton Lint	28.6	53.4	86.5
Cotton Yarn	22.2	21.9	(1.2)
Copper wires	29.2	58.5	100.2
Electrical cables	16.2	33.1	103.9
Fresh flower	22.4	26.5	18.4
Fresh Vegetables	26.9	21.3	(20.8)
Gas oil/Petroleum	16.6	20.8	25.2
Gold Bars/Bullion	8.2	0.0	(100.0)
Gemstone	23.4	16.3	(30.3)
White spoon sugar	30.6	33.7	10.1
Others	104.8	126.4	20.7
Total	**362.7**	**471.2**	**29.9**

Source: Bank of Zambia

on countervailing measures, preferential rules of origin, and anti dumping measures. In addition, Government engaged in negotiations within the ACP-EU trade agreement under the Eastern and Southern African region, to conclude the Economic Partnership Agreements. All these measures were aimed at securing markets for Zambian manufactured goods.

11.4 Privatisation and Parastatal Sector Reform

187. A total of 261 companies and units had been privatised as at end-December 2004 out of a total working portfolio of 284. The remaining companies were at various stages of the privatisation process (see Table 11.2 and 11.3)

Table 11.2: Privatisation Programme Status, 2000-2003

	2000	2001	2002	2003	2004
Completed privatisation deals (cumulative)	245	251	256	259*	261
Negotiations completed	3	5	3	0	2
Heads of agreement signed	0	0	0	0	0
Companies/units privatised (cumulative)	248	256	256	259	261
Companies under negotiation	6	2	1	1	3
Companies under preparation	26	22	22	24	20
Commercialisation of govt. Departments	31	31	31	31	0
Total working portfolio	**280**	**311**	**313**	**314**	**284**

Source: Zambia Privatisation Agency

11.3: Status of Privatisation Transactions in 2004

Company Name	Status
ZESCO Limited	The commercialisation process is underway.
TAZARA	The privatisation agency is awaiting further guidelines.
ESCO	A total of 54 properties and units have so far been sold. Lusaka property is still under negotiation with winning bidders.
Kafue textiles Zambia (KTZ) Limited	Negotiations for its privatisation were concluded.
Mukuba Hotel Limited	A total of 51% shareholding was advertised. Three bids were received on bid closing on 29th October 2004. Bids were under evaluation.
Monarch	The negotiations for privatisation were concluded in 2004.
Maamba collieries	The company is to be re-advertised for privatization.
Kariba Minerals Limited	Transaction awaiting further guidelines.
Mulobezi Railway	Options study on privatisation was completed. ZPA was in the process of making recommendations to Cabinet.
National Airports Corporation Livingstone	Further guidelines on privatisation were being awaited.
Zambia National Commercial Bank	Negotiations for privatisation with two bidders were underway in 2004.
Zambia State Insurance Corporation	ZISC management is preparing for floatation.
Zambia Telecommunications Company Limited	Options for commercialisation are to be studied.
Zambia National Building Society	Options for private sector participation are to be studied.

Source: Zambia Privatisation Agency

11.5 Outlook

188. The expected further improvements in the macroeconomic environment in 2005 and the acceleration of the implementation of the PSDI reform programme will provide stimulus for increased private sector participation. Some of the key PSDI reforms in 2005 will be in the area of improving the regulatory framework and revising the investment code to foster private sector development, removing administrative barriers to business entry and operations including the licensing and regulatory framework.

Chapter 12

TRANSPORT, STORAGE AND COMMUNICATIONS

12.1 Overview

During the period under review, value added in the transport, storage and communications sector increased by 6.5 percent largely driven by strong performance in the road, air and the communications sub-sectors. The rail and water transport sub-sectors, however, continued to register negative growth.

12.2 Policy Developments

190. During the year, Government concluded consultations on the draft Information and Communication Technology (ICT) Policy. In addition, Government commenced studies on the possibility of commercializing Zambia Telecommunications Limited (ZAMTEL). In addition, the second phase of the five-year Road Sector Investment programme (ROADSIP II) was launched at an estimated value of US$ 850 million.

191. Government in 2004 also continued to implement institutional reforms in the sector. In this regard, three agencies namely the National Roads Development Agency (NRDA), National Road Fund Agency (NRFA) and the Road Transport and Safety Agency (RTSF) were created. The NRDA will be responsible for planning, programming, procurement, supervision, and monitoring of all road works to be undertaken by contract account. With the establishment of the NRDA, all roads will now be brought under the Ministry of Supply and Works and managed through this Agency. There will thus be one integrated programme for roads unlike in the past when there was fragmentation.

192. The NRFA will replace the National Roads Board (NRB). It will coordinate all resources for funding of the road sector, whether form Government, international funding institutions or the private sector. It will also be responsible for collection, disbursement, management and accounting of the National Road Fund and will report through the Ministry of Finance and National Planning. The RTSA will be responsible for transport licensing and traffic safety.

12.3 Sector Performance

Road Sub-Sector

193. Real output in the road transport sub-sector rose to 4.2 percent in 2004 from 3.9 percent in 2003. This growth was mainly attributed to improved economic activities especially, in mining, agriculture, trade and commerce. However, the number of new vehicles registered during the year declined by 62.9 percent to 5,122 in 2004. The estimated number of buses used as public service vehicles also recorded a decline of 36 percent to 4,800 in 2004, mainly due to the high operating cost in the industry.

Rail Transport Sub-Sector

194. The quantity of cargo transported by the rail sub-sector in the period January to November 2004 declined by 10.9 percent to 1,803,100 mt from 2,024,580 mt in the same period in 2003 (see Table 12.1). The decline was accounted for by the Railway Systems of Zambia (RSZ), which recorded a drop in cargo transported by 17 percent to 1,235,241 mt. This unsatisfactory performance was as a result of long transit times due to the poor state of the main lines for RSZ. At the Tanzania-Zambia Railways (TAZARA), cargo transported, however, increased by 7.1 percent to 568,100 mt although performance was negatively affected by a shortage of wagons. In addition, both carriers recorded poor rolling stock of copper from the mining sector.

Table 12.1: Cargo and Passengers Transported by the Railway Industry, 2002 - 2004

	2002	2003*	2004*	% Change 2004/2003
Cargo (mt)	2,464,560	2,024,580	1,803,341	(11)
Passengers	1,262,192	1,197,366	1,169,913	(2)

Source: Ministry of Transport and Communications
* Figures are for the period Jan-November

195. As for passenger traffic, performance was also unsatisfactory. The total number of passengers transported by the two rail companies in the period January to November 2004 declined by 2.3 percent to 1, 169, 913 from 1,197, 366 in the same period the previous year (see Table 12.1). This outturn was on account of reduced traffic at TAZARA, where the number of passengers transported declined 10.5 percent to 829,913. At the RSZ, passenger traffic improved by 26 percent to 340,000.

Air Transport sub-sector

196. Aircraft movements increased by 7.4 percent to 17,466 in 2004 compared to 16,260 in 2003. Similarly, passenger movements at the four international airports increased by 18 percent to 615,606 compared to 522,904 in the previous year. All the four airports recorded increases in passenger movement with Livingstone and Mfuwe recording a 29.1 percent and 120 percent increase, respectively (see Table 12.2).

Table 12.2: Aircraft Movements (Takeoffs) for both Domestic and International, 2001 - 2004

Airport	2001	2002	2003	2004	% Change 2004/2003
Lusaka	7,825	9,272	1,0241	9, 507	(7.1)
Ndola	2,934	2,890	2, 706	2, 834	4.7
Livingstone	1,517	2,172	2, 382	3, 076	29.1
Mfuwe	1,429	1,310	931	2, 048	120
Total	**13,705**	**17,646**	**16, 260**	**17, 466**	**7.4**

Source: National Airports Corporation

197. In the year under review, a total of 14 scheduled airlines operated into the designated airports compared to 13 in 2003 following the commencement of operations by Air link, a domestic carrier. As in 2003, South African Airways, Zambian Airways and Nationwide Airlines were the dominant carriers.

198. During the year, the National Airports Corporation continued with the rehabilitation and upgrading of facilities at designated airports. In this regard, the airfield ground lighting system at the Lusaka International Airport was rehabilitated and the installation of a perimeter fence was completed at Ndola Airport. In addition, preliminary work was underway for the extension of the runway at the Livingstone International Airport.

Table 12.3: Air Passengers Movements (Domestic and International), 2000-2004

Airport	2000	2001	2002	2003	2004	% Change 2003/04
Lusaka	361,832	376,027	337,515	352, 875	390, 250	10.6
Ndola	57,958	72,948	59,456	64, 586	79, 344	23
Livingstone	8,962	35,246	63,956	90, 860	126, 304	39
Mfuwe	11,540	11,455	9,524	14, 583	19, 708	35
Total	**440,292**	**497,677**	**472,453**	**522, 904**	**615, 606**	**18**

Source: Ministry of Communications and Transport 2004

Water Transport sub-sector

199. The inland water sub-sector continued to perform poorly due to the poor state of infrastructure such as terminal buildings, harbours, and canals. The lack of new water worthy vessels, plant and equipment for rehabilitation work also contributed to poor performance.

200. During the period January-November 2004, cargo handled at Mpulungu Harbour declined by 15.2 percent to 60,000 mt as against 70,814 mt. The instability in the Great Lakes Region adversely affected traffic at the port. In addition, inadequate storage capacity negatively affected the operation s at the port.

201. At Mulamba Harbour, in Mongu, there was a 73 percent decline in passenger traffic to 2,172 persons from 8,336 passengers recorded in 2003. However the harbour recorded an increase of cargo to 36.9 mt from 1.9 mt in 2003.

Communications Sub-Sector

202. The communication sub-sector registered a growth of 6.5 percent in 2004. While the fixed line segment modestly expanded, the cellular sector witnessed a tremendous growth of over 100 percent to 413,120 subscribers from the 191,289 recorded in 2003 (see Table 12.4). Celtel, in particular, expanded its network of service provision from off the traditional line of rail to Solwezi, Chongwe, Mpongwe, Kasama, Mansa, Mongu and Kazungula. Telecel also expanded coverage to Mpika and Mpongwe. In the internet sub-sector, Africonnect came on board, bringing the cumulative total of internet providers to 6 firms. Similarly there was an increase in the number of licensed telecenters to 460 from 445 in 2004.

12.4 Outlook

203. It is expected that the communication and road transport sub-sectors will continue to lead growth in the sector in 2005 due to increased levels of investment targeted towards expanding installed capacity by the mobile operators as well as positive outlook in the key sectors of the economy. In addition, air transport is envisaged to grow, mainly driven by increased activity in the tourism sector.

Table 12.4: Operations and Subscribers by Type of Service Provided, 2000 - 2004

		2000	2001	2002	2003	2004
Zamtel	PSTN	73,189	76,165	83,688	84,688	90,663
Cell Z	Mobile	4,699	3,853	2,969	55,000	60,000
Telecel	Mobile	35,000	42,869	45,231	45,151	83,000
Celtel	Mobile	17,467	50,000	73,000	91,000	270,000
Zamnet	Internet		3,733	3,505	3,529	3,529
Zamtel	Internet	524		3,073	3,983	3,983
Coppernet	Internet		210	1,980	3,913	3,913
Microlink	Internet				346	590
Uunet	Internet				221	337
Telecenter	Mixed		271	394	445	460

Source: Communications Authority

BUILDING AND CONSTRUCTION

13.1 Overview

In 2004, the construction sector continued to register growth. Preliminary estimates indicated that value added in the sector increased by 9.8 percent compared to 21.6 percent in 2003. Growth in the sector continued to be driven by public infrastructure developments such as roads, bridges and also the expansion in private residential housing.

13.2 Policy Developments

205. In 2004, the Government operationalised the Road Development Agency (RDA) Act No. 12 of 2002 and the National Council for Construction (NCC) Act. Thus, the RDA assumed the responsibility of constructing, rehabilitating and maintaining the whole road network from 2004. The NCC Board has been mandated through the NCC Act to monitor, regulate and enforce compliance in the construction sector.

206. The other bodies formed in 2004 were the National Road Fund Agency, which will administer the road fund, and the National Road Safety and Transport Agency, which will take over the responsibilities of the Road Traffic Commission.

13.3 Sector Performance

Building sub-sector

207. In 2004, the Government continued with the Chirundu Infrastructure Development project with an injection of K22 billion compared to K13 billion in 2003. The important activities done by end-2004 included construction of 50 housing units, a police station, and road and civil works, which were estimated at 75 percent completion. In addition, the water treatment plant was estimated at 98 completion by the end of the year. However, construction of a freight terminal, which will house the new ZRA and Immigration Department offices and will thus enhance revenue collection stalled due to resource constraints. Furthermore, construction of a new passenger building did not commence for the same reason.

208. Government also continued work on the New Government Complex project. In this regard, construction of the control buildings at the complex was completed at an estimated cost of K91 million. In addition, installation of ducks and truncking, which will facilitate communication within the complex, was estimated at 50 percent completion.

209. The National Housing Authority (NHA) during the review period constructed 186 housing units compared to 122 units in 2003. Of the housing units built, nine were high cost, 84 low cost and 95 medium cost houses. In addition, Government through the Ministry of Local Government and Housing built a total of 21 low cost housing units in three districts.

210. In the review period, construction of the Katima Mulilo Bridge, which started in 2002, was completed. It is expected that this development will boost trade levels between Zambia and Namibia, especially once a new border facility is in place.

Roads sub-sector

211. As in previous years, road works were funded either by the Road fund, Government or cooperating partners. A total of K73 billion was disbursed for periodic maintenance works on urban and feeder roads by the National Roads Board for rehabilitation works on the Chingola-Solwezi and Petauke-Katete roads (see Table 13.1). The major Government funded projects included the Mutanda-Kasempa road and the Kasama-Luwingu road while cooperating partners funded rehabilitation works on the Livingstone-Sesheke and the Lusaka-Mongu road Phase I among others (see Table 13.1).

Table 13.1: Major Road Projects undertaken in 2004

Project	Distance (Km)	Work description	Status	Financing
Livingstone -Sesheke road	202	Rehabilitation	Project completed	KFW
Lusaka -Mongu road phase 1	167	Rehabilitation	On-going. 60 Km rehabilitated	DANNIDA
Mongu Kalabo road	74	Rehabilitation	Project ongoing	Kuwait/BADEA/OPEC
Makeni -Kafue road	50	Maintenance	On-going. 44 Km paving, 30 Km crack sealing, 15 Km reconstruction	IDA
Lusaka -Kabwe road	57	Maintenance	On -going. 20 Km edge repair and 10 Km overlay repair done by third quarter 2004	IDA
Chingola Kasumbalesa road	45	Construction	Tender documents completed	IDA
Chipata -Lundazi road	179	Maintenance	On -going. 100 Km's of vegetation control, 80 Km's of edge repairs and pothole patching done	GRZ
Nyimba -Petauke -Sinda -Katate road	173	Maintenance	On -going. 90 km's vegetation control , 80 km's edge repairs and pothole patching and 29 kilometers of sealing was done.	Road Fund
Chingola -Solwezi road.	132	Emergency repair	On -going. 66.7 kilometer shoulder reconstruction, 26 side reshaping and 132 kilometers of pothole patching was underta ken.	Road Fund
Kasama -Luwingu	150	Rehabilitation	60 km's earth works, 30 km's pavement, 45 km's surface dressing	GRZ
Mutanda -Kasempa	147	Rehabilitation	Substantially complete	GRZ

Source: Ministry of Works and Supply

EDUCATION AND TRAINING

14.1 Overview

In 2004, the education sector generally recorded some positive developments, with enrolments at basic, high school and tertiary levels increasing. Funding to the sector improved from both Government and donors. Funding to the sector rose to K795 billion in 2004 from K686 billion in 2003 while as a percentage of the total discretionary budget it increased to 22.7 percent in 2004 from 21.7 percent in 2003.

213. The sector, however, faced challenges in terms of classroom space at both basic and high school levels, especially in the urban areas due to high population concentration. The situation was slightly better in many rural areas, though walking distances remained one of the biggest obstacles. To address this problem, Government continued with the expansion programme of construction and rehabilitation of more schools.

214. The teacher supply situation in 2004 was also not satisfactory due to budgetary constraints, which could not allow for the recruitment of more teachers to match the increase in pupil enrolments. Consequently, the pupil- teacher ratio at the basic school level continued to deteriorate.

14.2 Major Policy Developments

215. The Government continued implementing education reforms aimed at improving service delivery in the sector. Key policy developments included the revision of the 1965 Education Act, revision of policy guidelines for the administration of bursaries to the vulnerable groups, and the scaling up of the Free Primary Education Policy.

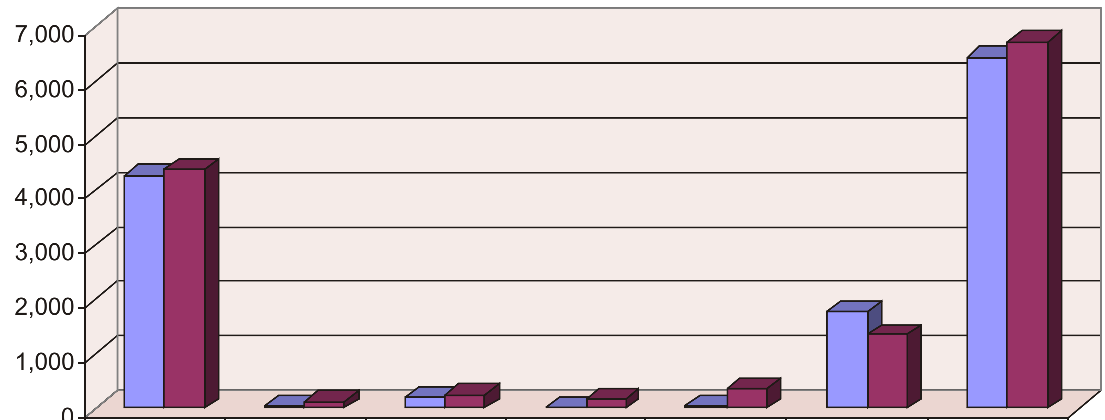
14.3 Sector Performance

14.3.1 Basic School Sub-Sector

School Infrastructure and Education Materials

216. The number of basic schools in 2004 increased by 4 percent to 6,728 from 6,455 in 2003. This followed the construction of more schools and Government taking over some community schools (see Figure 14.1). In addition, Government continued with the expansion of existing infrastructure at basic education level in order to alleviate the problem of classroom space and teacher's housing. In this regard 356 classrooms and 248 teachers' houses were constructed.

Figure 14.1 Distribution of Basic Schools by Running Agency, 2003



	GRZ	Church	Private	Grant-aided	Unknown	Community	Total
2003	4,290	64	220	29	59	1793	6,455
2004	4408	143	252	174	380	1371	6728

Source: Ministry of Education

Table 14.1 Basic Schools by Running Agency and Province

Province	GRZ	Grant Aid	Private	Church	Community	Not Stated	Total	% Total
Central	496	11	19	7	90	19	642	9.5
Copperbelt	381	40	91	43	132	146	833	12.4
Eastern	599	27	9	10	193	19	857	12.7
Luapula	387	10	2	4	110	16	529	7.9
Lusaka	199	14	95	34	97	65	504	7.5
N. Western	398	17	8	3	85	28	539	8.0
Northern	804	24	5	14	327	27	1201	17.9
Southern	635	24	20	19	242	35	975	14.5
Western	509	7	3	9	95	25	648	9.6
Total	**4,408**	**174**	**252**	**143**	**1,371**	**380**	**6,728**	**100.0**

Source: Ministry of Education

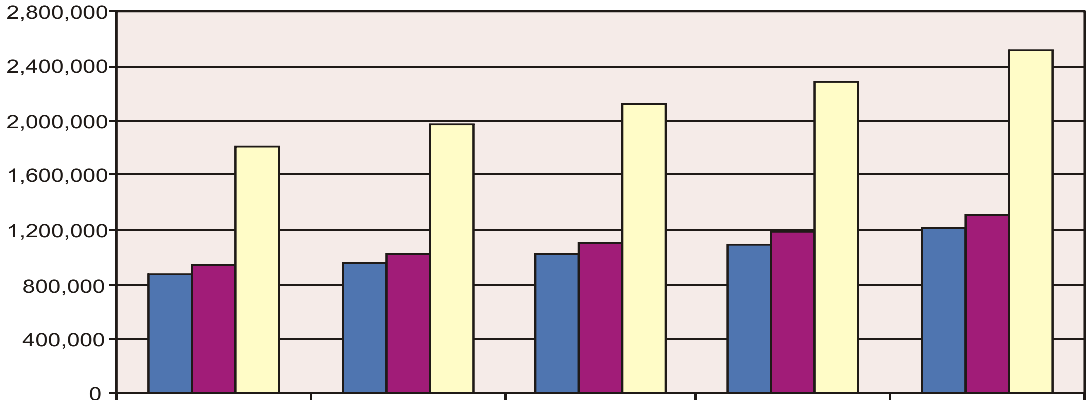
217. The number of Government run schools accounted for 65.5 percent of the total number of basic schools in 2004, followed by community schools at 20.4 percent while private schools accounted for 3.7 percent. Grant aided and church run schools together accounted for 4.7 percent. In terms of regional distribution, Northern Province had the largest single share of basic schools followed by Southern, Eastern and Copperbelt province (see Table 14.1).

218. As for the supply of textbooks to basic schools, the stock of pupil textbooks increased by 2.4 percent to 3,836,136 from 3,746,007 in 2003. This increase led to an improvement in the pupil textbook ratio to 1.68 in 2004 from 1.84 in 2004.

Basic School Enrolments and Teacher Supply Situation

219. Total pupil enrolment at basic school level increased by 10.3 percent to 2,522,378 in 2004 from 2,286,615 in 2003. Out of the total enrolment, 1,220,211 or 51.6 percent were boys and 48.4 percent or 1,302,615 were girls (see Figure 14.2). Enrolment of orphans at basic school level also increased in 2004. It rose by 15.3 percent to 403,898 from 350,292 in 2003. Similarly, enrolment of pupils with special education needs increased to 48,804 from 30,767 the previous year.

Figure 14.2 Enrolment in Basic Schools (Grades 1-9) by Gender, 2000-2004



	2000	2001	2002	2003	2004
Female	864,682	951,377	1,023,327	1,101,949	1,220,211
Male	942,072	1,025,055	1,104,711	1,184,666	1,302,167
Total	**1,806,754**	**1,976,432**	**2,128,038**	**2,286,615**	**2,522,378**

Source: Ministry of Education

220. The increase in pupil enrolment was mainly due to the Free Primary Education Policy, introduced in 2002, which among others, abolished all user fees at primary education level and made school uniforms non-compulsory. Further implementation of other programmes such as the Programme for the Advancement of Girls Education (PAGE) contributed to the increase in pupil enrolment. Furthermore, the increased number of Academic Production Unit (APU) classes supported by the construction of more schools and classrooms, contributed to the rise in enrolment.

221. Government also continued to provide bursary schemes to the need pupils. In this regard, a total of 63,063 pupils received bursaries in 2004 compared to 65,605 in 2003, a decline of 4 percent. This was among others attributed to the decision to raise the monetary value of the bursaries. The monetary value of the bursaries was increased to K500,037 from K100, 000 in 2003. The bursary scheme was also expanded to cater for the orphans and vulnerable children who could not be enrolled in schools due to inability to afford school requirements. The Bursary scheme intended to assist the vulnerable increased by nearly 50 percent in the period between 2003 and 2004.

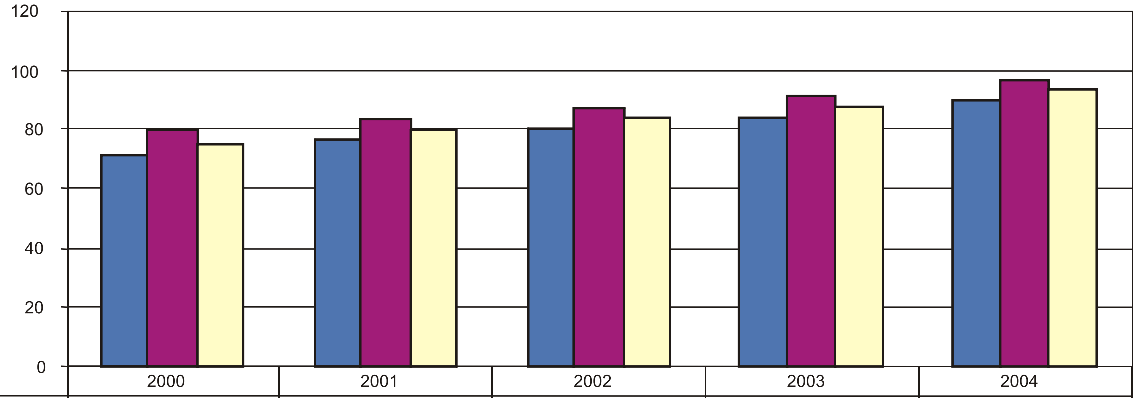
222. In terms of enrolments by province, the Copperbelt province accounted for 17.5 percent of the total enrolments followed by Northern and Southern provinces with 14.4 and 14.0 percent respectively. A dis-aggregation of enrolments by gender and region in 2004 showed that female enrolment in the Northern province at 46.1 percent was the lowest while Lusaka had the highest number of females enrolments at 50.7 percent. The Copperbelt province had balanced enrolments (see Table 14.2).

Table 14.2: Enrolment in Basic Schools (Grades 1 - 9) by Gender and Province 2004

	Male	Female	% (Female)	Total	Provincial total % of National Total
Central	142,058	133,897	48.5	275,955	10.9
Copperbelt	221,156	221,485	50	442,641	17.5
Eastern	142,374	132,280	48.2	274,654	10.9
Luapula	105,057	91,521	46.6	196,578	7.8
Lusaka	142,414	146,472	50.7	288,886	11.5
N. Western	81,435	72,569	47.1	154,004	6.1
Northern	196,426	167,972	46.1	364,398	14.4
Southern	182,402	171,543	48.5	353,945	14
Western	88,845	82,472	48.1	171,317	6.8
Total	**1,302,167**	**1,220,211**	**48.4**	**2,522,378**	**100**

Source: Ministry of Education

Figure 14.3: Gross Enrolments Ratios, in Grades 1-9 by Gender, 2000-2004



	2000	2001	2002	2003	2004
Female	71.3	76.5	80.1	84.1	89.8
Male	79.9	83.4	87.4	91.2	96.5
Average	75.1	79.9	83.7	87.7	93.1

Source: Ministry of Education

223. As a result of the increased pupil enrolments, the Gross Enrolment Ratio (GER) at basic school level rose by 5.4 percentage points to 93.1 percent from 87.7 percent in 2003 (see Figure 14.3). There were, however, disparities at provincial level. The GER ranged from a low of 73.4 in the Eastern province to 106.2 in the Northern province (see Table 14.3).

224. As for the teacher situation at basic school education level, these increased by 5.2 percent to 40,915 from 38,891 in 2003. This increase was due to the replacement of some retired and deceased teachers. Nonetheless, the number of teachers in 2004 fell below the required levels, as more teachers could not be recruited due to budgetary constraints.

Table 14.3. Gross Enrolment Ratios at Basic School Level (Grades 1 - 9) by Gender and Province, 2004

	Male	Female	Total
Central	101.0	95.4	98.2
Copperbelt	106.5	103.6	104.8
Eastern	75.8	70.9	73.4
Luapula	89.8	79.5	84.7
Lusaka	80.1	80.4	80.3
N. Western	101.9	91.2	96.5
Northern	114.3	98.1	106.2
Southern	107.3	98.9	103.1
Western	92.1	84.7	88.4
National	**96.5**	**89.8**	**93.1**

Source: Ministry of Education

Table 14.4: Number of Teachers in Basic Schools (Grades 1 - 9) by Gender and Province

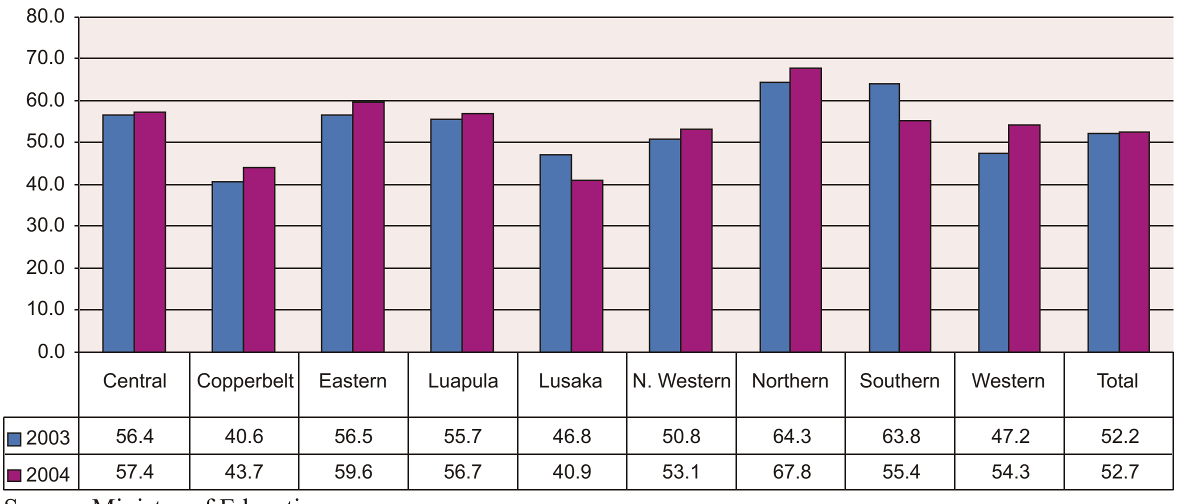
Province	2003	2004	% of Total
Central	4,005	4,243	10.4
Copperbelt	8,510	8,623	21.1
Eastern	3,841	3,728	9.1
Luapula	2,883	2,946	7.2
Lusaka	5,235	6,170	15.1
N. Western	2,534	2,589	6.3
Northern	4,287	4,396	10.7
Southern	4,442	5,347	13.1
Western	3,154	2,873	7.0
National	**38,891**	**40,915**	**100**

Source: Ministry of Education
* Does not include teachers from community schools

Pupil Teacher Ratio

225. The national Pupil Teacher Ratio at basic education level deteriorated significantly to 60.7 in 2004 from 52.2 in 2003 as a result of the larger increase in pupil enrolments without a corresponding increase in teacher recruitment. Across the provinces, the pupil teacher ratio varied from 40.9 in Lusaka to 67.8 in Northern Province (see Figure 14.4). Western province, however, recorded the highest deterioration in the pupil teacher ratio from 47.2 in 2003 to 54.3 in 2004.

Figure 14.4: Pupil Teacher Ratios (Grades 1-9) by Province, 2003 and 2004



Source: Ministry of Education

Table 14.5: High Schools by Running Agency and Province, 2004

	GRZ	Grant Aid.	Private	Church	Not stated	Total
Central	18	4	4	1	1	28
Copperbelt	46	3	14	5	3	71
Easte rn	26	11	1	3	0	41
Luapula	16	2	0	2	0	20
Lusaka	16	7	15	0	1	39
N. Western	20	2	0	0	1	23
Northern	20	5	1	0	0	26
Southern	17	12	6	9	1	45
Western	18	1	3	4	0	26
Total	**197**	**47**	**44**	**24**	**7**	**319**

Source: Ministry of Education

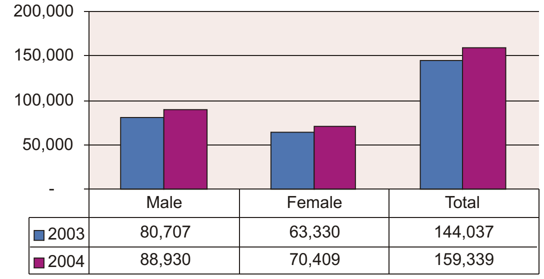
14.3.2 High School Sub-Sector

226. In 2004, the number of high schools was 319 compared to 318 in 2003. Of the total number of schools, 197 were government owned, 47 grants aided, while the remainder were owned by the church and private institutions (see Table 14.5).

High School Enrolments and Teacher Supply Situation

227. In 2004, high school enrolment (Grades 10-12) increased by 10.6 percent to 159,339 (88,930 male and 70,409 female) from 144,037 in 2003 (80,707 male and 63,330 female)(see Figure 14.5).

Figure 14.5: High School Enrolment, 2003 & 2004



Source: Ministry of Education

Table 14.6: High School (Grades 10-12) Enrolments by Gender and Province in 2004

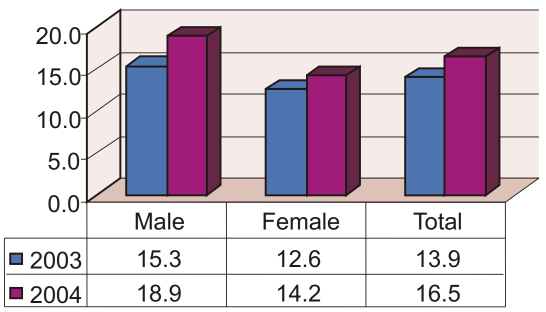
	Male	Female	% (F)	Total	% of Total
Central	8,123	6,411	44.1	14,534	9.1
Copperbelt	24,061	22,259	48.1	46,320	29.1
Eastern	8,147	5,290	39.4	13,437	8.4
Luapula	5,309	3,561	40.1	8,870	5.6
Lusaka	12,897	11,957	48.1	24,854	15.6
N. Western	5,646	3,779	40.1	9,425	5.9
Northern	9,488	5,832	38.1	15,320	9.6
Southern	9,790	7,403	43.1	17,193	10.8
Western	5,469	3,917	41.7	9,386	5.9
National	**88,930**	**70,409**	**44.2**	**159,339**	**100.0**

Source: Ministry of Education

228. At provincial level, enrolment varied from 8,870 in Luapula province to 46,320 in Copperbelt province (see Table 14.6).

229. The gross enrolment ratio at high school level increased to 16.5 in 2004 from 13.9 in 2003, showing a an increase of 2.6. Gross enrolment ratio for males increased by 3.6 age point compared to 1.6 for females between the two years. The increase in GER was due to increased pupil enrolment.

Figure 14.6: Gross Enrolment Ratio, 2003 & 2004



Source: Ministry of Education

Table 14.7: Teachers in High Schools by Gender and Province 2003 - 2004

	2003	2004	2004		
Province	**Total**	**Total**	**Male**	**Female**	**Not Stated**
Central	717	656	452	201	3
Copperbelt	2368	2221	1,343	860	18
Eastern	797	792	581	209	2
Luapula	356	474	416	58	0
Lusaka	1162	534	349	182	3
N. Western	301	353	281	72	0
Northern	703	405	279	124	2
Southern	977	860	597	260	3
Western	499	387	295	91	1
National	**7,880**	**6,682**	**4,593**	**2,057**	**32**

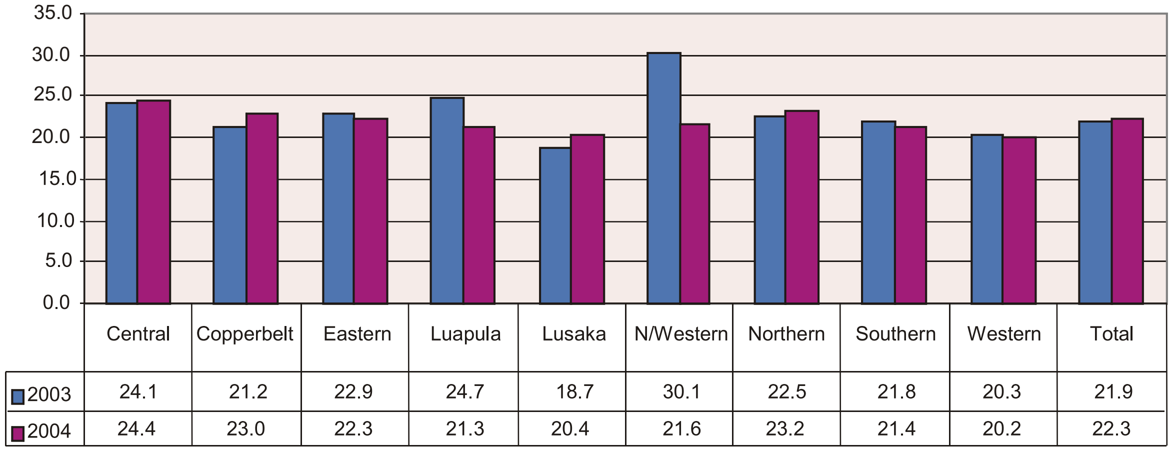
Source: Ministry of Education

230. As at basic school level, the teacher situation at high-school level also deteriorated in 2004. The number of teachers reduced by 15.2 percent to 6,682 from 7,880 in 2003, owing to natural attrition which was compounded by the failure by Government to recruit teachers during the year. The distribution of teachers varied by province with a high concentration being on the Copperbelt, Southern, Central and Lusaka and Eastern provinces. The concentration of teachers in these provinces was attributed to high pupil enrolment and also due to relatively better social facilities, which attracted more teachers. The preference of teachers to urban centres, especially the female teachers, result in shortages in most rural areas such as Western province.

Pupil Teacher Ratio

231. The pupil teacher ratio at high school level increased by less than 1 percent by less than 1 percent to 22.3 in 2004 from 21.9 in 2003 and ranged from 20.2 in Lusaka to 24.4 for Central province (see Figure 14.7).

Figure 14.7: Pupil Teacher Ratios by Province, 2003-2004



Source: Ministry of Education

Teacher Development and Retention

232. In order to retain teachers and to improve conditions of teachers, especially in rural areas, Government continued to pay rural hardship and housing allowances to deserving teachers serving in the rural areas. The education sector continued to have many retired teachers on the payroll because of non-payment of repatriation allowances. In an effort to clear the repatriation allowances to the deserving retired teachers, the Netherlands Government offered US $10 Million to Government to settle the retirement and repatriation allowances. As a result of this payment, more teachers are expected to be recruited in 2005.

14.3.3 Tertiary Education Sub-sector

University Education

233. Total enrolments at the country's two universities increased by 15 percent in 2004 to 11,561,561 from 10,092 in 2003. At the University of Zambia (UNZA), students enrolment increased to 8,471 compared to 7,558 in 2003 while at the Copperbelt University (CBU), enrolments increased to 3,090 students from 2,534 in the previous year (See Table 14.7). The increase in student enrolments at the two universities was attributed to the rise in self-sponsored students following Government's policy of allowing increased access to university education by self sponsored students.

Table 14.7: University Enrolment by Gender, 2003 & 2004

	CBU			UNZA		
Year	Male	Female	Total	Male	Female	Total
2003	2,039	495	2,534	4,993	2,565	7,558
2004	**2,465**	**625**	**3,090**	**5,488**	**2,983**	**8,471**

Source: Ministry of Education

234. Government in 2004, through the Bursaries Committee, supported 4,825 students at UNZA out of which 3,189 were male and 1,636 were female. At the CBU, 1,982 students were supported out of which 1,713 were males and 269 females. Funding to the universities increased to K85.5 billion in 2004 from K 73.6 billion in the previous year representing an increase of 16 percent. Of the funds received, K7,13 billion was for rehabilitation activities under the poverty reduction programmes.

Academic Staff Levels

235. Staffing levels at the two universities increased to 815 from 598 in the previous year. At UNZA, the number of lecturers increased to 552 from 438 in 2003 while at CBU, the number increased to 263 from 160 in 2003 (see Table 14.8).

Table 14.8: University Lecturers at the two Universities, 2003 & 2004

Year	CBU	UNZA
2003	160	438
2004	263	552

Source: Ministry of Education

Teacher Training

236. Enrolment for government sponsored students in the 14 government and Grant aided colleges of education increased by 53 percent to 8,763 in 2004 from 5,745 in 2003 (see Table 14.10). The increase was due to the policy of allowing non-boarding students. The number of academic staff at the colleges of education marginally increased to 462 in 2004 from 455 the previous year.

Table 14.10: Student Enrolment by Gender 2003 & 2004

Year	Male	Females	Total
2003	2,815	2,930	5,745
2004	4,260	4,503	8,763

Source: Ministry of Education

237. The number of academic staff at the colleges of education marginally increased to 462 in 2004 from 455 the previous year (see Table 14.11).

Table 14.11: Staffing Levels in Teacher Training Institutions by Gender, 2003 & 2004

Year	Male	Females	Total
2003	339	116	455
2004	357	105	462

Source: Ministry of Education

Vocational and Entrepreneurship Training

238. In 2004, the number of vocational training institutions registered under TEVETA increased to 294 institutions from 254 in 2003. Generally the trend shows an increase in the number of institutions registered under TEVETA in all the provinces. However, Lusaka Province had the highest number of registered institutions 113 (38 percent) followed by the copperbelt 79 (29 percent). Luapula and North-Western Provinces had the least number of registered institutions at 8 (3 percent) and 7 (2 percent) respectively (see Table 14.12)

Table 14.12: Registered TEVET institutions by Province, 2001 - 2004

Province	2001	2002	2003	2004	% share of Total
Lusaka	82	84	113	113	38.4
Copperbelt	52	68	63	79	26.9
Central	5	15	9	15	5.1
Southern	10	17	30	32	10.9
N/Western	6	7	4	7	2.4
Northern	1	11	8	11	3.7
Western	8	10	7	12	4.1
Eastern	11	12	13	17	5.8
Luapula	3	7	7	8	2.7
Total	**178**	**231**	**254**	**294**	**100.0**

Source: Ministry of Science, Technology and Vocational Training.

239. Student enrolments in TEVET institutions increased by 19.5 percent to 26,559 in 2004 from 22,221 in 2003 (see Table 14.13). This increase was consistent with the increase in the number of the institutions registered under TEVETA in 2004.

Table 14.13: Student Enrolments by Gender in TEVET Institutions, 2001 - 2004.

	2001	2002	2003	2004
Male	9,698	11,282	12,439	16,455
Female	6,852	8,565	9,782	10,104
Total	16,550	19,847	22,221	26,559
% Change		19.9	12.0	19.5

Source: TEVETA

2401. During the year, both government and the private sector participated in the provision of TEVET. Out of the 294 TEVET registered institutions in 2004, a total of 125 were public or government owned, 50 were owned by the church while the remainder were run by other institutions (see Table 14.14).

241. Despite the increase in enrolments and institutions, service delivery was constrained by inadequate human resources, dilapidated infrastructure, obsolete and inadequate equipment and lack of communication facilities including transport.

Table 14.14: Registered TEVET Institutions Type by Ownership, 2000 - 2004

Ownership	2000	2001	2002	2003	2004**
Church	20	27	39	43	50
Community/NGO	29	29	36	38	42
In-Company	6	8	10	11	13
Public/Government	21	28	39	43	51
Private-for-Profit	69	78	98	106	125
Trust	6	8	9	12	13
TOTAL	151	178	231	254	294

Source: Ministry of Science, Technology and Vocational Training

14.4 Outlook

242. In 2005, Government will continue to increase access to education at all levels of education in the country. It will continue with the programme of infrastructure development by rehabilitating dilapidated and construction of new infrastructure. It will also ensure equal opportunity for children with special education needs and is committed to the provision of quality education to all.

243. In this regard it will improve and strengthen the supervision and management of education institutions across the country. The Government will continue to work out measures to recruit more teachers to redress the high pupil teacher ratios existing especially at basic school level.

Chapter 15

HEALTH

15.1 Overview

During the review period, there were notable improvements in the health sector. This was reflected in improvements in key basic health care delivery indicators such as health centre outpatient per capital attendance and by the general decrease in the incidence of the major diseases such as malaria, non-pneumonia respiratory infections and diarrhoea. The drug situation generally improved with 0.79 kits per 1,000 patients opened in 2004 compared to 0.73 kits opened per 1,000 patients in 2003. Further, the percentage coverage of fully immunized children under one year improved from 74 percent in 2003 to 77 percent in 2004. Despite these improvements, health care delivery continued to be constrained by lack of sufficient human, material and financial resources.

15.2 Policy Developments

245. The major development during the year was the decision to restructure the ministry of health and the Central Board of Health (CBoH which included among others, dissolution of the board of the CBoH and the reversion of all board employees to the civil service. This was necessitated by the need to streamline operations and to reduce the huge cost from the two systems. In addition, government finalized work on the draft Health Care Financing Policy.

15.3 Sector Performance

15.3.1 Disease Burden

246. There was a slight decrease in the disease burden in 2004 with all the major diseases recording a decline in both incidence and mortality rates. Malaria continued to dominate both in terms of morbidity and mortality rates (see Table 15.1).

Table 15.1: Top Ten Diseases (Second quarter) 2003 and 2004

Diagnosis	Year	Incidence Per/1000 cases	Total Diagnosis	Inpatient Deaths
1. Malaria	**2004**	214.4	2,420,815	4,765
	2003	337.5	3,679,273	7,547
2. Respiratory Infection: Non Pneumonia	**2004**	79	891,827	633
	2003	139.8	1,524,644	884
3. Diarrhoea: Non Bloody	**2004**	36.6	413,527	1,335
	2003	58.9	642,230	2,162
4. Trauma: Accidents, Injuries, wounds burns	**2004**	24	271,437	390
	2003	32.1	350,430	546
5. Respiratory Infection Pneumonia	**2004**	23.3	263,418	1942
	2003	39.6	432,223	3,614
6. Skin Infections	**2004**	21.4	242,181	61
	2003	28.5	310,524	67
7. Eye infections	**2004**	19.3	217,517	1
	2003	34.2	372,615	4
8. Ear/Nose/Throat infections	**2004**	12	134,967	6
	2003	19.4	211,573	24
9. Digestive system(not infectious)	**2004**	9.3	105,517	352
	2003	14.5	158,378	454
10. Anemia	**2004**	9.2	103,791	1,361
	2003	10.3	109,717	1,801

Source: Ministry of Health

Malaria

247. Malaria remained the leading cause of morbidity and mortality in Zambia, though the incidence rate decreased to 214.4 per 1,000 population during the first half of 2004 from 337.5 per 1,000 population during the same period in 2003 (see Table 15.1). Similarly, deaths attributable to malaria declined to 4,765 from 7,547 in 2003.

248. The decline in malaria incidence rates was mainly due to the use of more effective anti-malarial therapy including improved laboratory services. In addition, an integrated vector management system, using Insecticides Treated Nets (ITNs) and indoor-residual spraying were undertaken. Furthermore, in order to mitigate the susceptibility of malaria among pregnant women, delivery of the malaria in pregnancy package (intermittent presumptive therapy for pregnancy, ITNs, Training) and malaria school health strategy were carried out.

Respiratory Infections (NonPneumonia)

249. The non-pneumonia respiratory infections was the second leading cause of morbidity and mortality after malaria, with an incidence rate of 79 cases per 1,000 population which was an improvement compared to an incidence rate of 139.8 in 2003.

250. Tuberculosis (TB), one of the major health non- pneumonia respiratory infections remained a major threat in 2004. Cure rates in recent years have improved from 58 percent in 2001 to 64 percent in 2004. Similarly, the treatment success rate improved to 77 percent compared to 74 percent in 2003. The national target for cure rate and treatment success rate is to reach 85 percent in 2005.

251. The improvement in cure rates was as a result of successful implementation of the Directly Observed Treatment (DOTS) and drug compliance. Furthermore, the supply of the drugs improved through the Okinawa Infectious Disease Project in which Japan provided a one-year supply of T.B drugs to last up to the end of 2004.

Polio

252. Zambia remains polio free as evidenced by the quality of AFP surveillance, which continued to improve during the review year. This was in both Non Polio AFP case detection rate and stool adequacy. As at November 2004, the annualised Non-polio AFP rates for Zambia stood at 2.2 cases per 100,000 compared to 2.1 per 100,000 for the population aged 15 years and below in 2003. The stool adequacy rate stood at 95 percent well above the target of 80 percent indicating that Zambia had maintained certification level surveillance for polio eradication initiative.

15.4 HIV/AIDS

253. According to the 2001/2002 Zambia Demographic and Health Survey (ZDHS) report, the HIV/AIDS prevalence rate was estimated at 16 percent among the adult population. In view of this high HIV/AIDS prevalence rate, Government and other stakeholders have scaled up Anti-Retroviral Therapy (ART) activities. In this regard, a total of 269 medical personnel, such as doctors, medical licentiates, clinical officers and nurses, were trained in management of opportunistic infections and administration of ART. This led to an increase in the provision of ART to 15,000 patients by October 2004 from 4,000 persons in 2003. In addition, the levels of awareness of ART also improved with about 500 women receiving counselling each month countrywide. Similarly the number of centres providing ART in 2004 rose from 53 in 2003 to 84.

254. During the year, Government started receiving financing from the global fund for the fight against HIV/AIDS. A total of US $1.6 million was received and the funds were among others used to procure 18 vehicles to support ART activities.

Box 15.1 Zambia: Health Service Delivery Indicators

Indicator	1999	2000	2001	2002	2003	2004*
Health Center Outpatient Per Capita Attendance	0.41	0.42	0.77	0.73	0.86	0.63
First Antenatal Coverage (%)	77	81	88	89	95	84
Average Antenatal Visits	3.6	3.6	3.6	3.4	3.3	3.6
Supervised Deliveries (%)	32	39	44	49	55	60
Fully Immunised Children Under 1 Year (%)	69	76	86	76	74	77
Underweight Prevalence (% Weight)	26	23	23	22	21	21
New Family Planning Acceptors Rate per 1000	88	85	101	111	123	61
Health Center Staff Load	15.6	17	14	16	17	15.3
Drug Kits Opened per 1000 patients	0.43	0.73	0.75	0.69	0.73	0.79

Source: Central Board of Health
NB * as at quarter 2

15.5 Maternal and Child health

255. The child health situation continued to be of major concern. The infant mortality rate was estimated at 95/1,000 while 53 percent of the children aged 3-5 years are stunted. In order to improve the child health situation, Government continued to undertake Child Health Programmes.

256. In 2004, Government spent K4.7 billion for the purchase of vaccines for the routine EPI Programme including EPI training in health training institutions. Furthermore, new vaccines were procured and training of medical personnel in the use of the vaccines were conducted in all districts. Other activities conducted included observance of child health weeks countrywide and routine immunization campaigns against measles, polio and other communicable diseases. Consequently, the number of immunised children under the age of one year increased to 77 percent from 74 percent in 2003. This, however, was still below the Government's target of 90 percent coverage. Inadequate resources, including manpower, were some of the reasons for the failure to reach the target. Similarly out-patient per capita attendance for both under and over fives increased marginally from 0.73 in 2002, to 0.86 in 2003 respectively.

257. The Maternal Mortality Rates (MMR) continued to be high in the country. This high level of MMR was attributed to distance to health centres compounded by lack of good and efficient transport especially in rural areas and the inadequacy of human resources, particularly midwives.

258. To address the situation, Government scaled up interventions by improving access to supervised deliveries and other maternal health activities. As a result, the number of supervised deliveries improved steadily from 55 percent in the fourth quarter of 2003 to 58 percent and 60 percent in the first and second quarters of 2004 respectively. Similarly antenatal visits also showed signs of improvement. In the first half of 2004, there was an average of 3.6 antenatal visits compared to 3.3 in the whole of 2003. The improvements could be attributed to scaling up of outreach activities.

15.6 Human Resource Situation

259. The human resource situation in government health institutions continued to deteriorate. In 2004, there were 11,532 medical personnel compared to 12,141 in 2003 with all categories of staff declining (see Table 15.2)

Table 15.2:Human Resource Situation in Government Run Health Institutions, 2003 & 2004

	2003	2004	% Change
Doctors	756.0	693.0	(8.3)
Clinical Officers	1,338.0	1,165.0	(12.9)
Nurses	8,665.0	8,356.0	(3.6)
Laboratory	471.0	454.0	(3.6)
Pharmacists	61.0	24.0	(60.7)
Other paramedics	850.0	840.0	(1.2)
Total	**12,141.0**	**11,532.0**	**(5.0)**

Source: Ministry of Health

260. The decline in the human resource situation was mainly attributed to poor conditions of service. Further, budgetary constraints could not allow recruitment of new staff, thus further worsening the situation. However, the number of doctors in rural areas improved due to the Netherlands staff retention scheme. The scheme, which was initially piloted in Western province, was extended to all the provinces in 2004.

15.7 Drug Supply Situation

261. A total of K65 billion (US$13m) was spent on the procurement of drugs in 2004 compared to K47 billion in 2003. The supply of drugs in 2004 improved. Drug utilisation in rural health centres improved during the review period, the number of rural health centre drug kits opened per 1,000 patients showed an increase from 0.73 in 2003 to 0.79 in 2004. At urban health centre level, there was a decline of 2 percent in the supply of drugs when compared to the supply of 2003, largely influenced by stock outs in vaccines (BCG, DPT and OVP) and also stock outs were experienced for the following drugs and medical supplies; Fansidar, Amoxycillin, Benzyl penicillin, Rifampicin, Ketamine, lancets, RPR and HIV kits.

15.8 Health Care Financing

262. During 2004, Government financing to the whole health sector in nominal terms increased to K426 billion from K419 billion in 2003. Funding in 2004 was above the budget allocation by 16.8 percent. However, as a percent of the total national budget, funding to the health sector declined to 8.1 percent in 2004 from 8.7 percent in 2003. Similarly, as a percentage of the discretionary budget, funding to the health sector dropped to 11.5 percent from 12 percent in 2003. In terms of GDP, funding fell to 1.7 percent from 2.7 percent in 2003.

15.9 Outlook

263. In 2005, Government is expected to recruit more health personnel to address the shortage of essential staff, which has been negatively affecting service delivery recently. With the approval of funding from the Global Fund in 2004, Malaria and HIV/AIDS programmes are expected to be further enhanced.

GENDER AND DEVELOPMENT

16.1 Overview

In 2004, Government undertook various legal reforms aimed at achieving full participation of both males and females in the economy. In particular, the Strategic Plan of Action for the National Gender Policy was adopted in 2004 as a tool for implementing the National Gender Policy. In addition, the Gender consultative forum, whose major role is to advise Government on gender and development issues, was also operationalised during the year.

16.2 Major Developments

Institutional reforms

265. In line with the strategic plan of action, Government in 2004 established gender sub-committees at Provincial and the District levels. This is aimed at ensuring that gender is mainstreamed at all levels of development.

266. A total of 540 members these sub-committees were trained in gender skills and mainstreaming. In 2004 Government also commissioned a study on women's access to titled land in three provinces namely Eastern, Central and Southern. The findings from the study will be used to improve women's access to titled land through among others, conducting advocacy programmes.

267. During the period under review, the Gender Consultative Forum was operationalised, which will be an advisory board to Government to policy issues. The forum will ensure the policy being implemented by Government are gender sensitive. The terms of reference of the Forum include the advising Gender in Development on emerging gender issues, ensuring that policies being implemented are gender sensitive and on any other issues connected or incidental to gender and development.

268. In 2004, Government made recommendations to the Constitutional Review Commission (CRC) on possible constitutional legislative amendments aimed at guaranteeing gender equality, protection of women and children's rights and socio-economic rights and eliminating violence against women and children.

16.3 Gender and Decision Making

269. In 2004, women's representation in all decision-making positions in the public service improved. The number of people in women stood at 18 percent (see Table 16.1). Nevertheless, this fell short of the 1997 Southern African Development Community (SADC) Gender Declaration target of 30 percent minimum representation of women in all decision making positions.

Table 16.1: The Number of Men and Women in Selected Decision Making Positions

Decision Making Position	Total	Total Women	Men	Percentage Women	Men
	21	5	16	24	76
Deputy Ministers	41	3	38	7	93
Members of Parliament	158	19	139	12	88
Secretary to the Cabinet	1	0	1	0	100
Deputy Secretary to the Cabinet	1	0	1	0	100
Secretary to the Treasury	1	0	1	0	100
Permanent Secretaries	40	8	32	20	80
Special Assistant to the President	4	1	3	25	75
Anti- Corruption Commission	5	3	2	60	40
Electoral Commission of Zambia	5	2	3	40	60
Director of Public Prosecutions	1	1	0	100	0
Attorney General	1	0	1	0	100
Solicitor General	1	0	1	0	100
Speaker of the National Assembly	1	0	1	0	100
Deputy Speaker of the National Assembly	1	0	1	0	100
Auditor General	1	1	0	100	0
Clerk of the National Assembly	1	1	0	100	0
Deputy Permanent Secretaries	24	0	24	0	100
Directors	100	23	77	23	77
Deputy Directors	71	13	58	18	82
Assistant Directors	177	37	140	21	79
Assistant Secretaries	35	11	24	31	69
District Commissioners	68	11	57	16	84
Permanent Human Rights Commissioners	1	1		100	0
Public Service Commission	6	1	5	17	83
Teaching Service Commission	4	0	4	0	100
Police and Prisons Commission	7	1	6	14	86
Commission for Investigation	2	0	2	0	100
TOTAL	**779**	**142**	**637**	**18**	**82**

Source: Cabinet Office

16.4 Constraints

270. During the year under review, the implementation of gender and development activities continued to be hampered by a number of factors. Among these were limited understanding of gender and development issues, among implementers, insufficient institutional capacities on gender and development, negative traditional and cultural practices and limited human and financial resources.

SOCIAL WELFARE AND SAFETY NETS

17.1 Overview

Government during the year continued to support social safety nets and welfare programmes. This was through implementation of the Public Welfare Assistance Schemes (PWAS), Street Children Activities, Child Care Upgrading Programme (CCUP) and the Micro- Bankers Trust.

17.2 Social Welfare Programmes

Public Welfare Assistance Schemes (PWAS)

272. The Public Welfare Assistance Scheme (PWAs) is one of Government's major social safety net and targets about two percent of the core poor (see 17.1). Government in 2004 disbursed K5.3 billion to the PWAS, which enabled 134,092 beneficiaries to be reached. Out of the total beneficiaries, 44.1 percent were males while 55.9 percent were females (see Table 17.2).

Table 17.1: Funding to the PWAS, 2002-2004

	Budgetary Allocation	Actual Release
2002	14.3	1.7
2003	5.7	2.9
2004	7.8	5.3

Source: Ministry of Community Development and Social Services

273. The beneficiaries reached in 2004 was higher than in 2003 by 27.6 percent due to improved funding.

Table 17.2: PWAS Beneficiaries, 2002 - 2004

Year	Total	Male	Female
2002	108,983	44,915	64,068
2003	105,043	43,361	61,682
2004	134,092	59,112	74,980

Source: Ministry of Community Development and Social Services

Box 17.1: The Public Welfare Assistance Scheme

The Public Welfare Assistance Scheme (PWAS) is one of Government's major Social Safety Nets, aimed at mitigating the adverse effects of the socio-economic situation on the most vulnerable groups such as older persons, the disabled or the chronically ill persons who have no support from anyone. It targets 2 percent of the core poor, which translates into about 300,000 persons of the Zambian population.

PWAS has three major components namely education, health and social support. The social support component looks at assistance in the area of clothing, food, shelter, beddings and repatriation.

Under the education component, the assistance is targeted at the vulnerable children who may be orphans or not. The assistance is for the destitute pupils who are in grade one up to twelve and attending schools in government schools or community schools. Pupils in private schools are not catered for. This assistance does not extend to tertiary level.

Under health, the clients may be assisted with payment of user and laboratory fees. They may also have drugs bought for them. Orthopedic appliances such as artificial limbs and clutches are provided to those who may be in dire need. In some cases, wheel chairs are also bought for clients.

Social support is there to enable clients cope with the downside of risks such as hunger and shelterlessness. Food is thus provided to the clientele who need food. Cheap houses (usually grass thatched) are constructed for the chronically sick or old aged people.

Source: Ministry of Community Development and Social Welfare

Street Children Activities

274. With regard to street children activities, Government's support was provided through Non-Governmental Organizations (NGOs) and District Street Children Committees that implement street children activities. Plans were underway during the review year to establish a multi-purpose centre that would accommodate street children offloaded from the streets.

Child Care Upgrading Programme (CCUP)

275. Government also continued to implement the Child Care Upgrading Programme (CCUP), which benefits an estimated 326,410 children. In addition, inspection, monitoring and evaluation of child care homes was carried out in 59 homes during the period under review. Furthermore a guide on child care was developed and translated into seven major local languages and subsequently distributed to all the provinces.

Micro-Bankers Trust

276. In 2004, the Micro-Bankers Trust (MBT) continued to provide financial services to vulnerable individuals through community based organizations and District Business Associations (DBAs) through out the country. A total of K1.7 billion was disbursed in 2004 to the various organisations and business associations. This brought the cumulative total of groups and organisations working with the MBT to 397 as at end-2004 with a loan portfolio amounting to K3.5 billion.

Table 17.3: No of Beneficiaries and Loans Disbursed by the MBT as at end-2004

Province	No. of Groups	Clients				Loan Amount Disbursed by	
		Male	Female	Total	Loan amount Disbursed K'million	Male	Female
Eastern	54.0	151.0	495.0	646.0	82.6	24.8	57.7
Northern	18.0	31.0	108.0	139.0	148.0	32.2	115.8
Lusaka	37.0	56.0	365.0	421.0	253.0	50.1	202.8
Lusaka/naluyanda	19.0	77.0	71.0	148.0	69.5	37.4	32.1
Lusaka individuals	1.0	4.0	12.0	16.0	116.0	25.0	91.0
Central	52.0	179.0	654.0	833.0	364.7	71.5	293.2
N/western	14.0	36.0	93.0	129.0	94.2	10.9	83.3
Southern	28.0	127.0	168.0	295.0	259.6	101.7	157.8
Central-ddap	5.0	48.0	16.0	64.0	20.3	12.3	8.0
Western-senanga	74.0	101.0	210.0	311.0	54.9	6.8	48.1
Copperbelt	25.0	155.0	179.0	334.0	95.6	47.7	47.90
Dba	8.0	94.0	45.0	139.0	100.2	64.5	35.7
Masaiti	12.0	29.0	31.0	60.0	8.9	3.0	5.9
Kaoma	50.0	47.0	37.0	84.0	35.6	15.7	20.0
TOTAL	**397.0**	**1,135.0**	**2,484.0**	**3,619.0**	**1,702.8**	**503.6**	**1,199.2**

Source: Ministry of Community Development and Social Services

17.3 Social Safety Nets

277. The main Social Safety Net programmes supported by Government in 2004 continued to be Food Security Pack Programme (FSPP), National Trust for the Disabled (NTD) and the Programmes Urban Self Help (PUSH).

Food Security Pack Programme

278. A total of 150,000 households were supported under the FSPP in 2003/2004 farming season at a cost of K91 billion compared to K82 billion spent in 2002/2003 farming season with 125,195 beneficiaries. However, the major challenge of the FSPP remained that of unwillingness of the beneficiaries to be weaned off, thereby affecting the reaching out of other eligible vulnerable households.

National Trust for the Disabled

280. During the year under review, the Government continued to provide micro-credit to disabled persons through the National Trust for the Disabled (NTD). In 2004, the National Trust for the Disabled (NTD) worked with new groups in Lusaka, Kafue and Nakonde. A total of K18.5 million was disbursed to 20 beneficiaries, out of which 11 were males and nine females (see Table 17.4)

Programmes Urban Self Help

279. Regarding the Programme Urban Self Help (PUSH) K40 million was disbursed by Government to the programme, which catered for 28 communities and reached out to 110,000 direct beneficiaries. Further, the implementation of the various programmes resulted into the construction and rehabilitation of infrastructure in 14 districts, construction four Community Development Centres in Kafue, Kapiri Mposhi, Kitwe and Chingola. Through PUSH, the Chifulube Road in Luanshya was graveled connecting 30 food production holdings and storage sheds and markets in Luanshya town. Further, 1.5km of the Mutenda road leading to fishponds off the Chingola-Solwezi was graveled to support local peasants. Two bridges were completed under the programme and these are the in Luanshya and Ndola. In addition, rehabilitation works were completed at the Zambia National Services (ZNS) camps for life skills training of identified street children and youths.

17.4 Other Programmes

281. During the period under review, Government worked on a programme to improve storage, management and transportation of food and non-food resources of the country programme to various drought/disaster prone areas in the country. Targeted under the programme are under-fives, Pregnant and lactating mothers, People Living with HIVAIDS and Home Based Care organizations, Basic Education supplementary feeding and Food for Assets. The programme is operating in 25 districts where the food distribution of food takes place.

17.5 Cultural Services

282. During the year under review, Government supported the construction of Cultural Centers in Districts, International Cultural Co-operation, Public performances to raise Government Revenue and provision of grants to support Cultural Tourism (Traditional Ceremonies). The commencement of the construction of the

Table 17.4: Number of Beneficiaries and Amounts disbursed under the NTD

District	No. of Beneficiaries	Sex		Loan Amount
		Male	Female	
Lusaka(kwasyamukwenu)	12	10	2	9.5
Lusaka	2	2	-	3.0
Kafue	1	1	-	2.5
Nakonde	7	-	7	3.5
TOTAL	**20**	**11**	**9**	**18.5**

Source: Ministry of Community Development and Social Services

Cultural Centres is expected to create self-employment for 1,000 craftsmen and 500 crafts women and 400 performing Artists.

17.6 Youth and Child Development

283. Government, in 2004 concluded the review of the national policy and the juvenile's penal code, so as to incorporate emerging issues of HIV/AIDS, poverty, gender and the environment. Government also took measures to domesticate the Convention on the Rights of the Child (CRC). The children's rights bill has been approved by Cabinet and will be presented in Parliament.

284. Government in 2004 disbursed K1 billion to youth centers for the procurement of hammer mills, carpentry and tailoring materials, agriculture, bricklaying and carpentry equipment and furniture through the provision of K1 billion. A total of sixteen (16) youth centers benefited from the funds. In addition Government disbursed K105 million for the demarcation of 20 plots to settle youths in Ndola rural.

PROSPECTS FOR 2005

18.1 Global Economy

The global economy is expected to further improve in 2005. However, growth will be at a slower rate due to the anticipated easing of economic activity in the United States and China. This will result in reduced demand for non-fuel commodity prices, which could adversely affect the current account positions for countries dependent on non-energy commodity exports.

286. Crude oil prices are also projected to fall in 2005 owing mainly to the anticipated slowdown of growth in China. However, the decline in oil prices may not be very significant due to persistent tensions in Iraq, Venezuela and Nigeria. In addition, the reducing excess capacity in oil exporting countries and the desire by some OPEC countries for a higher price target in view of the depreciation of the dollar is likely to push prices up. World trade is also expected to decelerate as growth in the global economy slows down.

18.2 Domestic Economy

287. Zambia's economic outlook in the recent past has tremendously improved. Given the recent developments, the economy is expected to further improve in 2005. Two factors will, however, be key in explaining the growth prospects in 2005. These are: (i) continued improvements in the macroeconomic conditions; and (ii) a much higher expansion in mineral production.

288. The macroeconomic environment is expected to further strengthen as fiscal consolidation, largely through expenditure restraint, is expected to continue in 2004, which should result into a further reduction in domestic financing by government. This should further exert downward pressure on interest rates and inflation, thereby spurring growth across most sectors of the economy. Inflation is expected to decline on account of abundant food supply, a moderation in fuel prices relative to 2004, which should also have downward effects on interest rates. The Kwacha is also expected to be stable in line with the appropriate fiscal and monetary policies that will be pursued in 2005.

289. In the mining sector, copper production is expected to reach a record high in 2005, despite an anticipated decline in metal prices. The rise in production will be due to the coming on stream of the Kansanshi copper mine in the Northwestern Province, which will produce in excess of 100,000 mt of copper in 2005. In addition, the Luanshya Copper Mines, which resumed production in mid-2004, is expected to scale up production while the securing of a strategic partner at KCM should also stabilize and even increase output.

290. The expected further improvements in the macroeconomic environment coupled with growth in agriculture and mining, should spur activity in the secondary sectors of manufacturing and transport, among others. A fall in interest rates, inflation and continued stability of the Kwacha against the dollar will aid growth in the private sector especially manufacturing. Nevertheless, dependency on rain-fed agriculture is a great risk. Therefore medium and long-term policies will have to be focused at mitigating the effects of less rainfall.

291. Against this background, the economy is projected to expand at a rate of at least 5 percent in 2005.

18.3 Economic and Social Policy in 2005

292. Macroeconomic policies will emphasise on fiscal consolidation and prudent monetary stance. Domestic borrowing by Government is thus, expected to further reduce to less than 2 percent of GDP. As in 2004, Government will continue to place emphasis on orienting expenditures to priority and growth enhancing areas. Expected increases in programme aid in 2005 by the cooperating partners compared to 2004 will complement government expenditures in these areas.

293. Macroeconomic policies will be supported by structural reforms, especially with regard to strengthening public expenditure and financial management systems and also the soundness of financial sector. In line with the recently launched PSD Action Plan, structural reforms will also place emphasis on private sector development.

294. Some of the expected measures to be undertaken in 2005 include the Amendments of the Investment Act of 1996, improving the regulatory framework in the telecommunications and tourism sectors. The Amendments of the Investment Act among others, are aimed at ensuring consistency between the Act and Government's policy on PSD as outlined in the PSDI Action Plan. In the telecommunications sector, a new telecommunication law is expected to be put in place, which among others, aims at ensuring the autonomy of regulator and separation of policy and regulatory functions. Government is also expected to embark on the commercialization of the state owned Zambia Telecommunications Limited (ZAMTEL).

295. In the tourism sector, the focus will be on removing administrative barriers to business entry and operations including the licensing and regulatory framework. In this regard, work on simplifying and rationalizing the licensing framework in the sector is expected to be enhanced and a new Tourism and Hospitality Act enacted.

296. During 2005, the focus in the social sectors will be on addressing the imbalances caused by the acute shortages of staff in both the education and health sectors. In this regard, Government is expected to recruit more teachers to redress the high pupil teacher ratios currently existing especially at basic school level. Similarly, more essential personnel are expected to be recruited in the health sector.

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