

BTI 2008 | Zambia Country Report

Status Index	1-10	5.97	# 58 of 125	
Democracy	1-10	6.80	# 45 of 125	➔
Market Economy	1-10	5.14	# 73 of 125	⬇
Management Index	1-10	5.77	# 39 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at <http://www.bertelsmann-transformation-index.de/>

Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – Zambia Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

Key Indicators

Population	mn.	11.7	HDI	0.41	GDP p.c.	\$	910
Pop. growth ¹	% p.a.	1.6	HDI rank of 177	165	Gini Index		50.8
Life expectancy	years	38	UN Education Index	0.63	Poverty ³	%	87.2
Urban population	%	35.0	Gender equality ²	-	Aid per capita	\$	81.1

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Zambia is one of the least developed countries in Africa, with approximately 63.7% of the population living below the international poverty line. After 27 years of authoritarian leadership with a state-controlled economy, the country began a process of political and economic transformation, which started in 1991 when a democratically elected government took office. The erstwhile showcase of democratic transition in Africa soon experienced an authoritarian regression into a hybrid regime. However, during the period under review, there were significant developments towards democratic rule but no significant changes in economic transformation. Whereas the presidential elections of 2001 were most likely rigged – according to domestic observers – the government regained democratic legitimacy by clearly winning the elections held in 2006. President Mwanawasa won with a clear margin of 43%, while his closest rival received 29%. As in 2001, the MMD failed to gain a clear-cut majority in the 2006 parliamentary elections, but with 73 seats out of 150, two elections pending, the nomination of eight members of parliament and three independent members of parliament, it was not a problem to regain the majority of seats again.

The principles of a democratic system of government are observable. There are no violent conflicts, no veto actors and there is a high degree of acceptance of the democratic order. The judiciary is relatively independent, and there is a functional separation of powers, although the executive is dominant. In addition, there is a tradition of civil society, though weak, and a general agreement on the values and benefits of democracy and a market economy. There is also a tendency toward a relatively autocratic style of leadership in both government and opposition parties. The market economy is based on copper extraction and, to an increasing extent in recent years, on food and agricultural products. During the review period, Zambia made notable progress in democratization, though this did not so much as approach

consolidation. Economic reforms have gone further, but the economic environment is still far from what was initially targeted and the standard of living of the vast majority of the population has decreased over the years. This could theoretically be a threat to the young democracy, but since there is no alternative to the democratic order and there are no relevant veto players worth naming, Zambia seems likely to continue on its bumpy road toward the development and consolidation of democracy.

History and Characteristics of Transformation

Economic and political transformation processes took place simultaneously. The foundations for the free market system were first laid in 1991, when Frederick Chiluba, a former trade unionist and the leader of the Movement for Multiparty Democracy (MMD), was elected president. Before 1991, the one-party regime of Kenneth Kaunda was based on a state-controlled planned economy, though private ownership was tolerated. Democratic transformation began in March 1990, when the ruling single party, the United National Independence Party (UNIP), was forced to start a debate about the return to a multiparty system. In September, after mass demonstrations by organized trade unions, President Kenneth Kaunda, who had ruled the country since its independence from Great Britain in 1964, finally agreed to open, democratic, multiparty elections in October 1991. He and his party were overwhelmingly voted out of office. The MMD won a large majority in parliament, 125 of 150 seats, while Frederick Chiluba captured the presidency with 75.8% of the vote. The largely peaceful and relatively short transition was seen as an example for Africa.

For two legislative periods, a dominant party system emerged that proved not very conducive for democratic consolidation. The legacy of an authoritarian political culture and ingrained pattern of neopatrimonial governance persisted. The authoritarian-inclined behavior of the president and his ministers was exacerbated by a lasting sense of insecurity in the face of a state administration manned by supporters and clients of the former one-party state. The government was able to amend the constitution at will since it had the necessary two-thirds majority of votes in parliament, rendering the opposition too weak to effectively check the government's power. For example, during the run-up to general elections in 1996, Chiluba used his vast political power to amend the constitution in order to disqualify former president Kaunda from standing in the elections, causing the UNIP, then the major opposition party, to boycott elections. Chiluba was re-elected with 72.6% of the vote, and MMD won 131 of 150 seats in parliament. A failed coup attempt in October 1997 posed no real threat to the government.

However, it had a negative impact on the country's progress toward consolidation of democracy, as the government used the incident to temporarily limit democratic basic

rights. During the ensuing state of emergency, the government arrested prominent opposition leaders, such as UNIP leader Kenneth Kaunda and Zambia Democratic Congress president Dean Mung'omba. On the other hand, Chiluba failed in his effort to amend the constitution to allow himself to stand for a third term of office. Since he was not allowed to stand again in the December 2001 elections, he handpicked his successor, Levy Mwanawasa, who narrowly won the presidential election with a tiny plurality of votes (28.7%) over his main rival who had only 34,000 fewer votes than he did. Many observers believed the presidential vote was rigged (an EU observer team referred to the elections as “not safe”, while national observers called them “neither free nor fair”).

The opposition challenged the results, but in February 2005 the Supreme Court ruled that the election results would not be nullified. In parliament, the MMD had secured only 69 of 150 seats but was able to regain a small majority by co-opting members of parliament from opposition parties into the government camp. By September 2002, the president had regained an absolute majority in parliament after the MMD won a number of by-elections that took place due to death or defections. At the same time, the MMD split into two factions after Mwanawasa turned against his mentor and tried to deprive him of his power base within the party. A vocal anti-corruption policy was used to bring down Chiluba and his close allies in the former government. However, the opposition parties were not able to take advantage of the weakness of the government. Finally, after defections from MMD and from the major opposition party, United Party for National Development (UPND), Mwanawasa was able to consolidate his position in the 2006 elections.

Despite numerous efforts to unite the opposition parties in various alliances, they were unable to challenge the ruling party. President Mwanawasa (MMD) won with 42.98% and was trailed by Michael Sata of the Patriotic Front (PF), who received 29.37% of the vote, and Hakainde Hichilema of the UPND, who received 25.32%. In parliament, MMD missed an absolute majority by winning only 73 out of 150 seats, while PF won 43 and United Democratic Alliance (UDA, UPND and two other parties) 26 seats. In two districts, the elections – ultimately won by MMD – had to be postponed. But even without this late success, with eight additionally nominated members of parliament, Mwanawasa commanded a majority in parliament.

The economic transformation into a market system started at the end of 1991 with the change of government. In order to combat a serious economic crisis, the government was in dire need of loans from the World Bank and IMF, which were bound to the introduction of significant economic reforms. One of the biggest challenges was the privatization of the copper mines, Zambia's prime export earner. The sector was troubled with low and decreasing world market prices for copper, mismanagement and inefficiency, which rendered it not profitable. The privatization of the mines turned out to be very difficult because of policy mistakes of the Chiluba government.

In his 10 years in office between 1991 and 2001, Chiluba was unable to meet the high expectations of the Zambian population. He failed to overcome the economic crisis and to raise living standards. Meaningful reforms were thwarted by corruption, political patronage, an overburdened bureaucracy and inefficiency. Despite some positive changes that were put in place after Mwanawasa's government came into power in 2002, the economic and social conditions are still far from what they could be.

Transformation Status

I. Democracy

1 | Stateness

There is clarity about the Zambian nation's existence as a state, with adequately established and differentiated power structures. Zambia has virtually no competing power structures, such as guerilla movements or clans, which could challenge the state's monopoly on the use of force.

Monopoly on the use of force

All citizens have the same civil rights, including immigrants who have lived in Zambia legally for some time. The preponderant majority of the population fundamentally acknowledges the state's constitution and legitimacy.

State identity

The state is largely defined as a secular order. The fact that Zambia was declared a Christian nation in 1996 has had no negative impact on the secular order, as religious dogmas have had no significant influence on politics or law. Although the Pentecostal movement is strong in Zambia, it does not play a prominent role in the political realm, where the Catholic Church is more important. Churches as a whole are slowly assuming the position of a watchdog for socially disadvantaged people and of leaders in the fight against poverty and injustice, reminding the government of its social and cultural responsibilities. Religious minorities are not affected in their right of freedom of worship.

No interference of religious dogmas

The state's basic infrastructure – administrative institutions, officeholders, basic jurisdiction, making and implementing political decisions – extends throughout the territory. The situation on the ground differs to some degree, as the operation of these structures is somewhat deficient, though it is important to note that there were some improvements in areas such as tax administration during the past few years.

Basic administration

2 | Political Participation

General elections are held and accepted in principle as the means of filling leadership positions. However, there are some constraints on the extent to which such elections can be considered fair. This was demonstrated by the fact that, although international observers and the domestic opposition alike heavily criticized the administration of the presidential and parliamentary elections in December 2001, it was not until February 2005 that the Supreme Court turned down a petition to nullify the presidential election results. In contrast, the administration of the 2006 elections improved substantially. Both presidential and parliamentary elections were described as “generally peaceful and well managed” by an EU Election Observer team. However, as in previous elections, the government used state resources for its campaign. The losing opposition parties alleged electoral malpractices. The Electoral Commission proved inefficient in effectively supervising the poll. There were several cases of delays in opening polling stations, while the collation, counting and transmission of results was not only delayed but full of inaccuracies, resulting in more than 50 electoral petitions.

Free and fair elections

The democratically elected president and parliament have the effective power to govern. There are no veto powers or political enclaves where democratic rulers do not command the effective power to govern. The military is under the control of the civilian government.

Effective power to govern

There is unrestricted freedom of association and of assembly within the democratic order. Occasionally, however, demonstrations and rallies of the political opposition, labor unions, and civil society groups have been forcibly dispersed and obstructed by security forces. There is also a dominant government influence on state-owned media. Two daily papers are state-owned and pro-government, but there are a number of independent newspapers and periodicals. Newspapers critical of the government sometimes face indirect sanctions or are tried in court, but the government has been unable to intimidate or silence the most critical paper, *The Post*, in any meaningful way. Various cases of intimidation of journalists could be observed.

Association / assembly rights

Zambia has one state-owned television and radio station. There has been a boom in radio stations following the liberalization of the airwaves in 2002. Most of the new radio stations have a limited transmission range that cannot match that of the state-owned station, although even this station does not cover the entire country in a satisfactory manner. There are also three private television stations whose coverage extends mainly to Lusaka and the surrounding areas, while many rural areas are not covered. Cable and satellite television is also gaining ground but only among the wealthy.

Freedom of expression

3 | Rule of Law

The separation of powers is basically observed. There are no significant constraints on the basic functions involved in the separation of powers. However, there is clearly a dominance of the executive that extends beyond the stipulations of the constitution. The legislature and the legislators are so poorly equipped that they have little chance of acting as an effective check on government actions. Regarding the separation of powers, mutual checks and balances are partially restricted in practice, although the MMD government does not enjoy the two-thirds majority it did during the 1990s.

Separation of powers

Despite the fact that the president (upon recommendation by the Judicial Service Commission) appoints the judges of the Supreme and High Courts, the judiciary in Zambia is relatively independent and established as a distinct profession. However, the more political important a case is, the more the courts' rulings are prone to political interference by the government, though it should be noted that this happens in a few crucial cases only. The functions of the judiciary are partially restricted by corruption, especially the lower subordinate courts. Inefficiency is also caused by understaffing, a lack of educated and trained personnel, poor remuneration and lack of equipment. In general, the judiciary is overstrained and suffers from a huge backlog of cases, insufficient courtrooms and overcrowded detention centers in which many suspects spend long periods before being brought to trial. In general, cases are slow to go to trial. Local courts continue to employ customary law, and lawyers are not allowed to participate in these proceedings and local court judgments often do not comply with the country's penal code.

Independent judiciary

Corruption is still widespread. Corrupt officeholders are not prosecuted adequately. Especially in the case of high-ranking officials or politicians, those accused of corruption often slip through political, legal or procedural loopholes, if they are prosecuted at all. Mwanawasa's anti-corruption policy, which he announced at the beginning of his first term, has lost most of its credibility. Hardly any of the corruption charges against leading members of the former Chiluba government have been successfully concluded. While Chiluba's case is still pending, it should be noted that many former high-ranking officials of the same government, which were widely believed to be involved in the same corrupt practices, have not been prosecuted. Many believe that Mwanawasa's anti-corruption policy is a political ploy to victimize his opponents and is largely lacking in substance. There is concern about the role of the Task Force on Corruption established by President Mwanawasa in 2002, as it tends to duplicate the functions of other security agencies, such as the intelligence forces, the Anti-Corruption Commission, the Drug Enforcement Commission and Zambia's

Prosecution of office abuse

Police Force. The Task Force on Corruption lacks legal backing and its original mandate expired at the end of December 2006. But there are popular demands for it to be legalized.

In general, compared with the period of the Chiluba government, the protection of civil rights has improved in some areas. Nevertheless, some civil rights violations persist, including unlawful killings, torture, beatings, abuse of criminal suspects and detainees by security forces, arbitrary arrests, prolonged detention, and long delays in trials together with poor and life-threatening prison conditions. Civil rights groups have noted the government's infringement on citizens' right to privacy as well violence and discrimination against women.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions fundamentally perform their functions, although the institutional set-up is dominated by the executive branch with extended powers given to the presidency and legislators have only limited capacities to check the government effectively. Although the president failed to obtain a simple parliamentary majority immediately after the 2006 elections, this posed no major challenge to his ability to implement his policies, as his party regained its majority in parliament within several months of the election. The judiciary is largely free of extensive interference. This also applies to the civil service administration. Civil servants are bound to implement government policy or face sanctions. There are only isolated cases of counter-productive actions, while the local government system is most ineffective due to unclear constitutional arrangements. The overall performance is, however, compromised by limited material and human resources. There have been efforts to decentralize more functions to local authorities through the adoption of the Decentralization Policy of 2003, but these seem to represent little more than rhetoric, as the central government still maintains effective control of politics and the budget. Zambia's system of local government is still based on effective control from the center – deconcentration. The central government expected to provide funds in form of grants to local authorities, thereby undermining innovation among local authorities. Many councils have been unable to fulfill their obligations to the communities to the extent that they failed to pay staff wages for many months.

Performance of democratic institutions

All relevant political and social players accept democratic institutions as legitimate. However, there is no discourse on ways of strengthening the political system, especially the weak political parties. Policy discourse on alternative policies is absent and generally all major parties do not display distinctive policy differences. Political competition is influenced more by personal than policy differences. Civil society organizations are more active than political parties in holding the political system to account.

Commitment to democratic institutions

5 | Political and Social Integration

The party system is fundamentally established but has become increasingly volatile. The elections in 2006 illustrated this increasing volatility, especially regarding opposition parties. Nominally, there is a moderate fragmentation with three bigger and four small parties represented in parliament. In reality, however, the fragmentation is higher, since two of these “parties” are actually party alliances that are comprised of three and five registered parties, respectively. (The United Democratic Alliance (UDA) is not recognized as a party in Parliament, while the National Democratic Focus (NDF) is recognized). Altogether, there are seven parties in parliament, plus three independent members of parliament. The growing volatility is illustrated by the fact that the runner-up in the 2006 elections increased his share of votes nearly ten-fold between the elections in 2001 (when he received 2%) and the 2006 elections, in which he received almost 30%. Even the vote share of the ruling party shifted markedly, from 56% in 1996 to 27% in 2001 to more than 40% in 2006. The parties are mainly focused on personalities rather than on programs or ideologies. Most of them tend to have regional strongholds that are, in some cases more than in others, based on ethnicity. This explains the popularity of the UPND in the southern province, the UNIP in the east and MMD in the northern and central regions, and the PF in the Copperbelt and Luapula Province. None are ethnic parties in any traditional sense, but all are ethnic congress parties based on a different coalition of several groups of ethnic elites. The 2006 elections suggest that there was a mobilization of support on the basis of ethnicity, as two of the main opposition parties had attracted large numbers of votes on the basis of ethnicity. All opposition parties but one are very young, founded either in the late 1990s, in 2000 and 2001 or even later. At the same time, all parties are highly factionalized (only partly due to the ethnic composition) and prone to numerous defections.

Party system

The network of interest groups is relatively close-knit but dominated by a few strong interests. The dominant societal interest groups are the trade unions and the Christian churches, although the trade unions have lost their salience compared to the 1980s. Furthermore, they are weakened by loss of members. The churches and the trade unions vocally challenge the government on economic, social and political issues and, in this way, strengthen the transparency and control of government policy. They challenge the government especially on the issues of delayed constitutional reform, elections malpractices, human rights violations and other social issues. Civil society organizations have an integrating effect that is aimed at bridging social cleavages. By and large, civil society organizations are not rooted in society, are led by urban-based educated elites and have been ineffective in holding government to account.

Interest groups

Consent to democracy is high, and political protests do not call the democratic framework into question. According to the Afrobarometer survey conducted in 2005, support for democracy is moderate to high at about 64%, down from 70% in 2003. Regarding this data, it should be noted that, according to the Afrobarometer surveys, support for democracy increases with a change of government.

Consent to democratic norms

There is a robust, but heterogeneous web of autonomous, self-organized groups, associations and organizations, and solid trust among the population. The self-organized groups have grown even stronger since the mid-1990s because the Zambian government failed to provide social security and fight poverty effectively. People organize themselves rather than relying on the state to improve their situation.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

The relevant indicators show that the level of socioeconomic development is low and does not permit adequate freedom of choice for all citizens. Zambia belongs to the least developed countries. The HDI further decreased between 2000 2004, dropping from 0.409 to 0.407. Social exclusion is quantitatively and qualitatively extensive and structurally ingrained. Significant social exclusions are caused by poverty, gender discrimination (especially in rural areas) and – to a lesser extent – education. The GDI has increased slightly, from 0.375 in 2002 to 0.396 in 2004, and the country is ranked 126 of 136 in total. Only about half of the population has some sort of employment. Income distribution is highly skewed, with a majority earning very little. During the period between 1990 and 2004, 75.8% of the population had to live with less than 1\$ a day. Subsistence agriculture is the biggest single occupation, as about 2 million people are subsistence farmers. Informal trading is believed to employ over 1 million, but there are no reliable statistics. Between 2004 and 2006, there was no significant improvement in the government's effort to reduce these huge social disparities. In addition, development imbalances in the provinces have not been reduced. According to the IMF, poverty has begun to trend downwards after several years of robust economic growth, though local sources challenge this positive evaluation.

Socioeconomic barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	3,697	4,327	5,423	7,270
Growth of GDP	%	3.3	5.1	5.4	5.2
Inflation (CPI)	%	22.2	21.4	18	18.3
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	2.2	4.0	4.4	3.6
Export growth	%	6.8	10.1	12.6	12.3
Import growth	%	-5.9	3.7	10.9	20.6
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	5,264.5	5,582.3	5,871.7	4,084.9
External debt	\$ mn.	6,460.6	6,926.6	7,279.2	5,668.3
External debt service	% of GNI	6.4	13.5	8.5	3.5
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.0	13.5	12.7	13.4
Public expnd. on edu.	% of GDP	-	-	2.8	2.0
Public expnd. on health	% of GDP	4.0	3.7	3.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Market competition operates under a weak institutional framework. There are a substantial number of people engaged in the informal sector. Although reliable statistics are not available, Economic Intelligence Unit (EIU) estimates show that there are more than 1 million people working in the informal sector, which is more than double the number of people in formal employment. A fairly strong institutional framework is provided only for the strategic sectors linked to the mining industries and also for large-scale commercial farming.

Market-based
competition

There is freedom of pricing, currency convertibility, freedom of trade and free use of profits. The formation of monopolies and oligopolies is regulated inconsistently. The Competition Commission was established to regulate competition but is ineffectual and lacks legislative clout. The ongoing privatization of parastatals has decreased the numbers of monopolies. Some of the last state-owned companies, such as the Zambia National Commercial Bank (ZNCB) and the Zambia Electricity Supply Company (ZESCO), have not been privatized but rather commercialized, meaning that they were put under private sector management while the state maintained a majority share of ownership. (An example of this is the Dutch Rabobank's management of ZNCB and acquisition of 49% ownership.). This reversal of privatization policy has been accepted by the IMF and was partly due to public pressure, as many felt that privatization was a failure. As a result, some monopolies still exist, such as the electricity provider ZESCO and the Zambia Telecommunications Company, or ZAMTEL. The electricity provider is by law required to seek government approval for prices. In the past, approval has always been granted. There is legislation on cartels, but this needs to be consolidated.

Anti-monopoly
policy

Foreign trade is liberalized in principle, but there are still significant exceptions. The tariffs are, in regional comparison, very high. There is a significant share (an estimated 45% of the recorded trade volume) of unrecorded cross-border trade between Zambia and its neighbors. Unrecorded imports, particularly of manufactured goods from Zimbabwe, have reached significant levels because of currency distortions in Zimbabwe.

Liberalization of
foreign trade

The banking system and capital market are differentiated, internationally competitive and oriented in principle to international standards. Zambia has some of the most liberal banking regulations in southern Africa and the banks function efficiently. There are 15 operational commercial banks, including four international ones. There is functional banking supervision and minimum capital requirements. Capital markets are open to domestic and foreign capital, and the stock exchange lists 13 companies. Domestic investors mostly borrow money from outside Zambia to avoid high interest rates. The domestic banks usually borrow money from the state through treasury bonds. The government is running a Private Sector Development Initiative in support of the private sector. One major aim is to reduce the cost of doing business in the country, but progress has been limited, as illustrated by the fact that the cost for terminating employees in Zambia is amongst the highest in the world.

Banking system

8 | Currency and Price Stability

Controlling inflation and an appropriate foreign exchange policy are recognized goals of the economic policy, but they have not been implemented consistently

Anti-inflation /
forex policy

over time and do not have an adequate institutional framework. The principle framework of the Bank of Zambia is to formulate and implement monetary and supervisory policies that will ensure stability in price and financial systems in order to promote balanced macroeconomic development. In general, it has failed to implement these ambitious goals because inflation rates have consistently remained high, as has the growth of the money supply. This is because the Central Bank is not fully independent and is thus prone to political spending whims. However, during the period under consideration, inflation fell to 15.9% in 2005 and to 8.6% in 2006, marking the lowest rate in about 30 years. Adverse effects will be caused by the appreciation of the kwacha against the dollar, which reached 26.5% in 2005 and continued in 2006, although to a much lesser degree. A small depreciation is expected towards the end of the year due to the uncertainty of the electoral outcome and especially due to some “anti-foreigner” election campaign rhetoric of opposition politicians. There is a culture of policy stability that is not institutionally safeguarded but enforced by the donors and their financial institutions.

External debts were reduced massively from \$7.2 billion to \$3.9 billion under the Heavily Indebted Poor Countries (HIPC) initiative in early 2006, which reduced the external official debt service from 18.3% of GDP in 2004 to 2.5% of GDP in 2006 (according to an IMF projection). This massive debt reduction is expected to benefit the country in investing in the social sector and infrastructure, but there is no evidence that this is being done. The debt-relief indicates a vote of confidence in the government’s reform policies by the international finance institutions and by the western donors. It implied that the government had fulfilled most of the structural reform package prescribed by the IMF and the World Bank.

Macrostability

9 | Private Property

Property rights and the regulation of property are well-defined in principle, but there are problems with practical implementation. Contractual and property rights are weak, courts are often inexperienced with commercial litigation, and court decisions are frequently slow in convening.

Property rights

Since the privatization of state companies is almost complete, private companies represent the backbone of the economy. Having occupied only 20% of the economy in 1990, the private sector is estimated to have increased this share to around 80% in 2005. Nevertheless, there are still some state-owned companies in crucial sectors of the economy. This state-controlled concentration of market power is not only tolerated but supported by the government. Any further privatization proceeds in accordance with the needs of medium-term profitability for the national economy and is consistent with other market principles.

Private
enterprise

10 | Welfare Regime

There are only rudimentary measures in place to guard against social risks, and these are extremely segmented in terms of area, social stratum and sector. Only the few who are employed in the formal sector have some access to retirement packages and health care. This applies mostly to the urban population (mainly civil servants and mine workers; apart from parastatal companies, the government does not provide health care to its employees). Public pensions have not been paid for the past several years, while private pensions and social security schemes cover a very small section of the population. There is no unemployment insurance system and no reliable statistics on unemployment. The country cannot combat poverty on its own in any systematic way and, given the huge volume of funds pumped into Zambia by international donors in the past four decades, donor effectiveness and the lack of effective political leadership to combat the debilitating effects of poverty have become an issue. However, there is no real debate on social protection in the country. However insufficient, a number of institutions exist to compensate for gross social differences. Family, clan or village structures are of relevance only in the rural areas, where half of the population lives. But these structures are put under stress by droughts or another calamities that negatively affect food production. However, in many areas, the traditional extended family system that acted as a form of social security has all but collapsed under the weight of structural economic reforms.

Social safety nets

More men than women have access to higher education, which is a function of the persistent notion that male children are more of an economic asset than women. But this is changing, and there is now an increase in females at secondary school and higher institutions of learning. Women have access to higher education and public office only if they come from privileged families and live in urban areas. Zambia is not able to deliver adequate medical care, and public health care is poor both in terms of quality and coverage as a result of underfunding. As such, it is very difficult to accommodate people living with HIV and AIDS.

Equal opportunity

11 | Economic Performance

The economy has experienced robust growth rates for several years (5% in 2005 and 6% in 2006). The growth rate is expected to increase further in 2007. Economic growth per capita remained moderate, having grown by 3.3% and 2.9% in 2003 and 2004, respectively. The inflation rate showed a clear downward trend. According to the IMF it fell to 15.9% in 2005 and to 8.6% in 2006, though upward trends were visible in early 2007, when inflation was estimated at 12.5%. Employment rates in the formal sector are relatively low. Employment in the

Output strength

formal sector has averaged 10% of the labor force in the last two years, a figure much too low to contribute to substantial increases in economic growth. The improvement in the performance of the mining industry, especially with the increase in copper prices and the opening of a number of new mines in the Northwestern Province has implications for an increase in formal-sector employment. Government reports indicate that 60,000 new jobs were created during 2006 alone due to new investments. The government laid off a significant number of public servants in order to comply with the austerity budget. On the whole, however, the number of public service workers remains high, as political considerations have prevented the government from strict adherence to the Public Service Reform Program. There is still a budget imbalance that was decreasing at the start of the period under review but is expected to increase in 2006 due to high spending in infrastructure and the appreciation of the kwacha. The debt burden has dramatically declined due to the massive debt relief within the framework of the HIPC initiative (see Currency and Price stability). After a chronic trade imbalance caused by higher levels of imports than of exports, this trend has changed since 2004 and is expected to continue at least into 2007 with an increasing margin in favor of exports. The reversal of the trade balance is mainly due to a rise in copper prices and increasing agricultural exports.

12 | Sustainability

Ecologically compatible growth receives only sporadic consideration and has a small but in some cases vocal and active institutional framework in the Environmental Council of Zambia (ECZ). Among government officials, there is no deeply ingrained awareness of the environment or nature. The ECZ was enforced by donors and, as a result, it largely lacks local ownership. While the ECZ has legal powers to enforce its mandate, it is hampered by political interference.

Environmental
policy

Institutions for education, training, and research and development are present in significant segments but remain inadequate on the whole. Since the 1990s, there is a trend showing that access to education and its perceived value have deteriorated. In 2005, the government continued the implementation of the free basic education program (mainly donor funded). This led to a 13.1% increase in primary school enrollment in 2005, and the primary school enrolment of 100% is almost achieved. Secondary school enrollment remained much lower (at 21.7%), but it increased by 5.9% in 2005 as well. However, the fail rate at grade seven and grade nine is very high, at around 60%. This is partly because of insufficient school places at the next level, and it poses enormous challenges for out-of-school children to be absorbed in the job market. Funding for higher education has also failed to keep pace with enrollment. There are only two public

Education policy
/ R&D

universities, and not all those who qualify to enter university are able to proceed due to limited places, inadequate facilities and insufficient staff. Six private universities have sprung up in recent years, but little is known about their capacity and quality. Despite rising pupil numbers, the number of teachers is falling, owing to the incidence of HIV and AIDS and better-paying jobs abroad. In 2005, a shortfall of 5,595 teachers was noted, but the employment of an additional 7,000 planned for 2005 to remedy the situation was postponed to 2006. Many teachers are not motivated because of low salaries. Teaching and learning materials are insufficient. As a result, youth literacy rates have fallen since 1990 from 81.2 to 69.5% (2004), and adult literacy rate basically stagnated on the same level of about 68%. Public expenditure on education increased during recent years but remained at a rather low level of 2.8% of GDP between 2002 and 2004.

Transformation Management

I. Level of Difficulty

Structural constraints on governance are very high in Zambia. This is mainly caused by widespread and extreme poverty. Indeed, 75.8% of the population is living below the poverty line of \$1 a day, while 94.1% is living below \$2 a day. With an urban population of 35%, the figures indicate that poverty is not restricted to rural areas but exists in the urban areas, too. The HIV/AIDS infections are another structural constraint on governance. As of 2005, the prevalence of HIV infection was estimated at 16% of the population between the ages of 15 and 49.

Structural
constraints

There is a moderate tradition of a lively civil society. The substantial part of the labor movement (especially mineworkers) was never completely under the control of the one-party regime. It initiated the democratic transition, provided the backbone of the democratization movement, and carried it its logical conclusion, while the leader of the trade union congress became the first president of the Third Republic. Since then, however, the influence of the movement has declined, partly due to its close relationship with the government and partly because of falling levels of membership and employment in the unionized industries, especially in mining, manufacturing and public services. The Christian churches also play an active political role in public life and are strongly rooted in society. Organizations close to the Catholic Church play an important role in organizing political activities of various civil society organizations (such as the anti-third term campaign and demands for constitutional reform). In addition, there are a number of active NGOs and a civic culture of moderate participation in public life, especially in the urban areas. While social cleavages exist, there are not irreconcilable.

Civil society
traditions

Unlike many other countries in Africa, there is no evidence of irreconcilable ethnic, religious or social cleavages. Nor are violent incidences observed. All relevant actors respect the democratic constitution.

Conflict intensity

II. Management Performance

14 | Steering Capability

The political leadership pursues long-term aims, but it sometimes postpones them in favor of short-term political benefits. The results of policies aimed at political reform are mixed, although some improvements are noticeable, while the implementation of economic reform policies has improved. Despite his one-time professed commitment to democratic and constitutional reforms, President Mwanawasa was successful in fending off all demands by civil society and opposition parties for a new constitution before the 2006 elections. The issues at stake had clear implications for power and control, involving questions of which institution should adopt a new constitution (the parliament or a constituent assembly) and the quorum for the election of the president, i.e., if this should be a single-majority or 50%-plus-one system. Mwanawasa desperately tried to avoid any circumstance where the latter system was applied to the 2006 elections for fear that it would put him at a disadvantage. Having started from a very weak position in 2001, with neither a majority in parliament nor a solid power base within his party, the president was able to increase his power base and maintain it. He not only overcame a severe split within his own party (in part caused by his anti-corruption campaign) and several challengers to his leadership of the party, but also a severe illness in early 2006 that handicapped him for several months. Despite all these problems, Mwanawasa managed to win re-election quite comfortably. This success was partly due to patient tactics of compromise, occasional confrontational politics and, above all, to patronage politics aimed at increasing and securing his power base. At the same time, the necessity for this kind of patronage politics distorted his anti-corruption campaign, which cost him political credibility and efficacy. As a result of his actions, neopatrimonialism has remained in place. Despite various attempts at changing this situation, corruption and administrative inefficiency tend to go along with the effort to win political support. When Mwanawasa came to power in 2002, he presented a socially responsible development policy entitled Transitional National Development Plan. However, he was unable to implement this plan due to financial constraints and dependency, as the plan neither conformed to the adjustment policies of the International Finance Institutions (IFIs) nor had their approval. In the end, the IMF/World Bank-inspired PRSP was incorporated into the Transitional Development Plan, which watered down all the so-called “home-grown” initiatives. At the same time, he tried to be consistent in

Prioritization

following the policy lines laid out by the Poverty Reduction and Growth facility (PRGF), the HIPC funding goals, PRSP and structural adjustment programs determined by the IFIs and the donor countries. In 2006, the government made public its Fifth National Development Plan. This plan will focus on pro-poor economic growth, financial and exchange-rate stability, and a viable debt position. Additionally, the plan will prioritize the development of agriculture and infrastructure.

Despite many previous problems in implementing reform policies agreed upon with the IMF and other donors (who, in the past, often caused the suspension of disbursement), economic reform policy has remained largely on track. Up to mid-2006, the government stuck to the main goals and implementation of the PRGF charted for the period between 2004 and 2007 agreed upon with the IMF. In June 2006, the IMF's review of the implementation process was, in general, positive. However, not all targets were met, and the IMF made a number of recommendations for further improvements, especially concerning the supervision of the financial sector.

Implementation

Some sections of the political leadership (including the president) respond to mistakes and failed policies with changes, as indicated by Mwanawasa's handling of the opposition and demands voiced by civil society organizations. However, its policy frequently remains stuck in the same routines of patronage politics and occasional threats directed at the political opposition. Learning processes occur, as might be illustrated by Mwanawasa's at times more conciliatory attitude in favorable comparison to his predecessor.

Policy learning

15 | Resource Efficiency

The government uses only some of the available resources efficiently. The civil service wage bill is still high, at 8% of the GDP as of 2004. The tax administration system was improved during the 1990s, but tax revenue relative to GDP began to decline in recent years, partly due to the withdrawal of donor control and an increase in private and politically-motivated "interventions." The number of public employees, apart from short-term contract workers, has not been significantly reduced, and the cost of terminating employees ranks among the highest in the world. As in the past, there remains a substantial over-staffing problem, and the services offered by the state are unsatisfactory. Significant in this regard is the Public Service Reform Program (PSRP), which is aimed at reducing the civil service by about half as well as at restructuring civil service positions and improving pay and working conditions. There are a number of politically-motivated dismissals and new appointments, but this is mostly restricted to top-level office-holders. Constitutional appointments must be confirmed by the Parliamentary Public Appointments Committee. As such, while

Efficient use of assets

there is some modicum of transparency, political influence is still observable. There is no balanced state budget and, in past years, the deficit has remained consistent at around 4% of GNP. Only recently (in 2004 and 2005) has the government managed to keep the financial deficit below 3%, marking an exceptional low rate in Zambian history. A further reduction of the deficit to 1.6% was targeted for 2006 but, due to increased expenditure on infrastructure related to elections, it was not believed that the target could be met. Tax income also declined due to both the appreciation of the kwacha and as a result of the narrow tax base, consisting only of formal sector employees. There are still shortcomings with the implementation of the Public Expenditure Management and Financial Accountability (PEFMA) reform, while the integrated financial management and information system has yet to be applied. Both reforms aim at enhancing the financial management of the government. The level of debt used to be very difficult for the government to manage up to 2005, when the debt burden was eased by debt relief from major donors. Decentralization of government structures is a mess; there are unclear and overlapping authority structures that are prone to political as well as central government interference, which has become frequent. Local governments have no financial autonomy, as all funds are allocated by the central government. Hence the whole local government system is in need of a complete overhaul, but the government shows very little interest in carrying this out.

The government tries to coordinate conflicting objectives and interests, but it has only limited success. Intra-governmental frictions, redundancies and gaps are significant. The coordination style is partly based on informal networks, but it is also hierarchical and centralized. Traditional rulers are recognized and do wield some political influence, though they only play a consultative and advisory role through the House of Chiefs.

Policy coordination

In the fight against corruption, the government has implemented some integrity mechanisms. These figured prominently in Mwanawasa's political agenda when he came to power, as his campaign primarily targeted high-ranking civil servants and politicians. It must be noted, however, that the fight against corruption is selective, aiming especially at certain politicians from the Chiluba era. As a rule, corrupt officeholders are prosecuted under established laws, but many slip through political, legal or procedural loopholes. At the same time, the judicial system seems to have administrative and managerial problems that prevent it from properly handling the substantial, politically-sensitive caseload. The public welcomes the fight against corruption, but it has become very skeptical about the true intentions of the anti-corruption campaign. The anti-corruption drive has lost more credibility because the efforts of over four years have borne only three major convictions. The trials of former president Chiluba offer just one example of the infrequency of conviction: two trials against him ended with no

Anti-corruption
policy

conviction, and while the third has commenced, he no longer attends court because of his illness. There are indications that he will not be convicted, as no evidence has yet to be brought forward. Hence, the government's motivation and capacity to implement reforms has been mixed.

16 | Consensus-Building

All major political actors agree on building a market-based democracy, although there is increasing resistance to a market economy that is "too liberal." Certain elements in the government would prefer a social market economy with more state regulations. Due to financial dependency on external actors, however, these groups have hardly any chance to implement donors' ideal.

Consensus on goals

There are no veto powers and no significant resistance to a market-based democracy. Although the political leadership is trying to prevent cleavage-based conflict from escalating, it cannot reduce existing divisions caused by persistent poverty. As the government has only a slim majority in parliament, it is conciliatory and shows a willingness to compromise in response to civil society activities.

Anti-democratic veto actors

There are no religious conflicts in the country, but ethnic cleavages frame politics, as all major parties have ethnic and regional strongholds and are usually associated with one particular ethnic group, despite efforts to maintain a multi-ethnic character. No single ethnic group is in a dominant position, though, and the group which is considered the strongest in terms of population is heterogeneous and subdivided into smaller ethnic subgroups belonging to different political parties. While ethnicity forms an undercurrent of politics, none of the parties has an agenda explicitly based on concerns related to ethnicity. The political elites make use of the different ethnic identities, but at the same time they try to prevent cleavage-based conflicts from escalating.

Cleavage / conflict management

Although the political leadership occasionally takes into account and accommodates the interests of civil society actors, there have also been occasions in which the government tried to ignore civil society actors. One example is the concession made by the government to civil society demands related to constitutional reform. The government agreed that the constituent assembly was the appropriate institution to author the new constitution, while at the same time delaying the whole process to an unspecified date in the future. Another example is that the government conceded to demands for increases in housing allowances for the civil service, but it had to revoke the concession due to a budget overrun and pressure from the IMF.

Civil society participation

The question of reconciliation between the victims and perpetrators of past injustices does not play a role in Zambia. The authoritarian regime did not commit gross human rights violations. The question of reconciliation has to do mostly with past political torture or molestation suffered by a few individuals.

Reconciliation

The former president of one-party rule has even been reinstated as an honored public figure, founder and father of the nation.

17 | International Cooperation

The political leadership works with bilateral or multilateral international donors and tries to make use of international aid, but this facilitates only partly significant policy learning and improvement. With more than 20% of its GDP funded by international donors as of 2004, the government is highly dependent on foreign development assistance. The political leadership complies with the goals of poverty-reduction and development strategies laid out by donors, though it is too early to judge whether the PRSP is working towards the goals it envisaged. The first independent assessment of the PRSP indicates that it failed to achieve the goal of reducing overall poverty mainly due to budget constraints and problems of prioritizing development initiatives. Spending on poverty-alleviation sectors (e.g., education, health) has been increased in recent years, but it remains unclear whether this will be effective without donor influence. In April 2006, user fees for health clinics in rural areas were eliminated. But the indications are that the scrapping of user fees for health services in rural areas is not matched by government disbursement of increased funds to public health facilities. As a result, there has been much change as clinics lack essential drugs, equipment and personnel. The domestic input on development programs is de facto limited. There has been some economic improvement, but whether the implementation of the reforms will be done well and will have a sustainable effect remains to be seen.

Effective use of support

Despite the delay of some reforms, especially those related to governance, the international donor community considers the government more and more credible and reliable. The commercial risk ratings assessed are still low, but there is a trend toward improvement. Foreign investment increased substantially as a result of debt relief and growing confidence in macro-economic management. Finally, having been granted massive debt relief of more than \$3.9 billion in 2005, it became obvious that the government had won the confidence of the major donors, including the IMF, because it had implemented almost all 15 key reforms and objectives listed as a condition for debt relief by the IMF.

Credibility

The political leadership successfully builds and expands as many cooperative international relationships as possible. Zambia is a member of various regional and international organizations, such as the South African Development Community (SADC), physical host to the Common Market for Eastern and Southern Africa (COMESA), and the African Union (AU). It has cordial relations with its neighbors and was involved in the peace talks for the Great Lakes region and the DRC.

Regional cooperation

Strategic Outlook

After the fairly clear-cut outcome of the electoral competition in 2006, the political situation seems to have stabilized. However, despite the fact that the president has gained proper legitimacy through the elections and enjoys a majority in parliament, there are numerous challenges ahead. One is the constitutional reform long-delayed by the president. Civil society organizations as well as opposition parties are on track to increase the pressure for constitutional reform towards more democracy.

Crucial for the future will be the quorum by which the president will be elected. There is significant pressure for the quorum to be set at “50% plus one,” which was in place during democratic transition. This is not in the interest of the government, however, particularly since the ruling MMD will compete in the next election with a new candidate, provided the incumbent steps down after two terms as required by the current constitution. In this issue, we see the second challenge: the selection of a successor for president Mwanawasa, who is expected not to make the mistake of his predecessor in trying to secure a third term. The struggle for the presidential nomination will put the ruling party under serious stress for quite some time, and the outcome of this process might even split the party again. All this can have serious repercussions on the fight against corruption and patronage in government spending.

At the same time, the government and the ruling party will be challenged by a stronger opposition under the leadership of quarrelsome Michael Sata, who has all the qualities of a populist politician without the principles and scruples. During the election campaign, he was able to divert socioeconomic grievances of the urban electorate to Asian foreigners. An increase in confrontational politicking cannot be excluded for the near future, as some of his supporters were already involved in incidents of post-election violence.

Another crucial challenge for the government will be the persistence of poverty, despite economic growth for a number of years. Liberalization and privatization did not reduce the level of poverty for the vast majority of people, but rather increased it. Current economic growth rates are insufficient to have a major impact on poverty, and it is difficult to see how the government can manage to achieve higher rates and a more even distribution of the gains. The economic success in recent years was still very much dependent on the increase of international copper prices due to the demand on the world market. Any slump will have severe effects in the country.

The political consequences are difficult to assess. During the 1990s, the donor-sanctioned austerity policy of the government did not arouse any major political resistance, and no political party offered an alternative or was able to exploit this issue. This, however, might have been changed since the last elections, when opposition politicians successfully mobilized impoverished and unsatisfied elements of the urban electorate on social and economic issues with a misguided, xenophobic twist. As a result, the government will be challenged by two contradicting aims. The first is to continue with macro-economic stabilization policy and carry out the requisite reduction in government spending required to comply with donor-sponsored reform policies. The other is to please at least some sections of the urban electorate with increase in wages and more social welfare spending on education, health and housing.