

BTI 2010 | Zambia Country Report

Status Index	1-10	5.99	# 53 of 128	
Democracy	1-10	6.65	# 44 of 128	➔
Market Economy	1-10	5.32	# 73 of 128	➔
Management Index	1-10	5.69	# 41 of 128	

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

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	12.3	HDI	0.48	GDP p.c.	\$	1283
Pop. growth	% p.a.	2.4	HDI rank of 182	164	Gini Index		50.7
Life expectancy	years	45	UN Education Index	0.68	Poverty ²	%	81.5
Urban population	%	35.3	Gender equality ¹	0.43	Aid per capita	\$	87.6

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, the government advanced efforts to improve democracy but failed to advance substantially the goal of economic transformation. Whereas the presidential elections of 2001 were most likely rigged – according to domestic and international 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%. There was no constitutional crisis when President Mwanawasa died unexpectedly in August 2008. Within the stipulated timeframe, his vice president, Rupiah Banda, was elected as his successor. Although he won with a very narrow margin of 35,209 votes, there was no post-election violence compared to that of two years before. The defeated opposition candidate, Michael Sata, is challenging the results in the courts, although with sparse proper evidence of rigging and therefore minimal chances of success.

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 further progress in democratization, though this has not resulted in democratic 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. The economy continued to improve until the international financial and economic crisis started to impinge on Zambia by mid-2008 with falling copper prices. 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, perhaps, 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 did not prove very conducive to democratic consolidation. The legacy of an authoritarian political culture and an 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 the 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, the failed coup had a negative impact on the country's progress toward consolidation of democracy, as the government used the incident to temporarily limit 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, sustained civil society and parliamentary opposition thwarted Chiluba's attempt to amend the constitution to allow him 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 slim margin 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 elections in 2006 were a different matter. 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 United Party for National Development (UPND), who received 25.32%, with the remainder shared by two other candidates. In parliament, MMD missed an absolute majority by winning only 73 out of 150 seats, but by winning two constituencies later on and with eight additionally nominated members of parliament, Mwanawasa commanded a majority in parliament. As opposed to the 2001 elections, local and international observers rated the 2006 elections as having been generally free and fair. The same applies to the 2008 presidential by-elections, which were won by the ruling party's Rupiah Banda by a very close margin (only 35,000 separated Banda from his closest rival, Michael Sata of the Patriotic Front).

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 tied 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 unprofitable. The privatization of the mines turned out to be very difficult because of policy mistakes made by 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, and despite several years of more than five percent economic growth, 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 guerrilla 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 malpractice. The Electoral Commission proved ineffective in 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 also full of inaccuracies, resulting in more than 50 electoral petitions. Some of these problems turned up in the 2008 presidential by-elections again, but, in general, they were better administered than the elections before; for example, the Electoral Commission of Zambia allowed for the results to be posted outside each polling station and countersigned by the political parties’ agents. But its decision to allow voting to take place in two far-flung rural constituencies two days after election day, without the knowledge of all stakeholders, controversially undermined the integrity of the poll.

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 and has shown commitment to upholding the constitutional order. So far, the military has shown a commitment to the constitutional order and declared in the run-up to the 2008 elections that they would not condone any disruption of the rule of law and democratic order.

Effective power to govern

While the constitution provides for freedom of association and assembly, this has often been qualified and restricted. For example, opposition parties require police permission to hold public meetings, while 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 by government officials and by private persons were 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 a number of 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 middle class and 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, the executive's dominance clearly extends beyond the stipulations of the constitution. The legislature and the legislators are poorly equipped to act as an effective check on government actions. In rare cases has the legislature vetoed executive decisions, though in two incidents in 2001 and 2003 it tried or did exercise its power to impeach the president for violating the constitution. 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 that it did during the 1990s. The judiciary has been relatively independent in passing judgments against the legislature and the executive. However, there is a perception that its independence has tended to be compromised in cases involving the executive (the president). There is no evidence of judicial decisions that have demonstrated a check on the president.

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 politically 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 only in a few crucial cases. The functions of the judiciary are partially restricted by corruption, especially in 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 of time before being brought to trial. In general, cases are slow to go to trial. Local courts continue to employ customary law, 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. After the period under review, by the first quarter of 2009, at least seven former top officials have been convicted and sentenced to prison terms, including Chiluba's wife. While Chiluba's case is still pending, it should be noted that many former high-ranking officials of the same government, who were widely believed to be involved in the same corrupt practices, have not been prosecuted. Many believe that Mwanawasa's anticorruption policy was a political ploy to victimize his opponents and was largely lacking in substance. According to international perception, corruption has slightly improved during the period under review. But there are new cases of corruption involving senior members of the Rupiah Banda administration, which has prompted the Chief Justice to appoint a special tribunal to investigate corruption against a government minister.

Prosecution of
office abuse

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 as 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 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 does not apply 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 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

Performance of
democratic
institutions

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, or 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. Given the fact that the majority of councils (at least 62% of the 72 districts) are controlled by the opposition, the government has delayed the implementation of the Decentralization Implementation Plan, which was approved in 2005, for fear that the opposition could outshine it in service delivery.

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. But there is also evidence of tolerance of anti-democratic practices, with some sections of society calling for restrictions on the number of political parties and supporting undemocratic leadership and actions in their parties.

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 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. This 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. In 2008, the ruling MMD proved surprisingly stable when its leadership managed to solve the succession problem after the sudden death of President Mwanawasa, who was replaced by Rupiah Banda, within a short time and without any party splits. Most of the parties 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 east was previously the

Party system

UNIP's stronghold, but since 2006 it has been an MMD stronghold), the 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, apart from one, were recently established, 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. Election results in 2006 and 2008 (presidential elections) from urban areas such as Lusaka and the Copperbelt indicate a substantial and increasing number of non-ethnic issue voters.

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 relevance in comparison to their status in the 1980s. Furthermore, they have been weakened by their 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 a promised but delayed constitutional reform, election malpractice, human rights violations and other social issues. Civil society organizations have an integrating effect aimed at bridging social cleavages. By and large, most civil society organizations are not rooted in society, but instead 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 75% in 2002; the support for a multi-party system, however, increased from 52% (2002) to 63% (2005). 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. In rural areas, where the majority of the population is still living, the peasant society with its close informal networks of extended families still provides the social capital to balance challenges which emerge from economic, social and natural disasters.

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 decreased between 2000 and 2004, dropping from 0.409 to 0.407, but recovered in 2005 to 0.434. 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 from 0.375 in 2002 to 0.425 in 2005, and the country is ranked 144th out of 157 in total, while the HDI rank was at 165th out of 177. Only about half of the population has some kind form of employment, with formal sector employment accounting for only 9% of the labor force (2006). Income distribution is highly skewed, with a majority earning very little. The Gini index was 50.8. During the period between 1990 and 2005, 63.8% of the population had to live on less than \$1 a day. However, since the late 1990s, the situation has been improving; poverty incidence declined from 73% in 1998 to 64% in 2006 (according to the IMF). 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. During the period under review, 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. Economic development is also hampered by inadequate, poor or non-existent infrastructure and services that include credit, roads, extension and marketing services. As indicated above, absolute poverty has begun to decline after several years of robust economic growth (see also "output strength").

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	5423.2	7156.8	10675.4	11410.1
Growth of GDP	%	5.4	5.2	6.2	6.2
Inflation (CPI)	%	18.0	18.3	9.0	10.7
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	6.7	5.0	5.8	8.6
Export growth	%	17.6	23.1	21.0	21.2
Import growth	%	14.1	16.7	14.3	16.2
Current account balance	\$ mn.	-419.1	-599.6	127.9	-505.4
Public debt	\$ mn.	5852.7	3954.7	972.7	1136.5
External debt	\$ mn.	7459.6	5386.3	2283.6	2788.5
Total debt service	% of GNI	9.3	4.2	1.7	1.2
Cash surplus or deficit	% of GDP	2.0	-4.7	2.2	-0.8
Tax Revenue	% of GDP	17.6	17.2	16.4	17.1
Government consumption	% of GDP	18.1	9.7	10.2	10.4
Public expnd. on edu.	% of GDP	2.8	2.0	-	1.5
Public expnd. on health	% of GDP	3.7	3.7	3.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.9	2.0	1.9	1.3

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | 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 report a 50% unemployment rate and 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. More than 65% of the labor force is outside the tax net in the sprawling informal sector of the economy.

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, for the fixed network; the booming mobile-phone sector, however, is very competitive. 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 14 registered commercial banks, including six international ones. There is functional banking supervision and minimum capital requirements.

Banking system

Capital markets are open to domestic and foreign capital, and the stock exchange lists 22 companies (up from 13 in 2006). 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.

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 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 increased again from 8.2% in 2006, the lowest rate in about 30 years, to 8.9% in 2007 and to 16.6% in 2008. This was mainly due to external causes, particularly increasing fuel prices. After three years of appreciation dampening inflationary pressure, the trend reversed in 2007, with a depreciation of the kwacha against the dollar that reached 27.7% in 2008. There is a culture of policy stability that is not institutionally safeguarded but enforced by donors and their financial institutions.

Anti-inflation /
forex policy

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 IMF). This massive debt reduction is expected to benefit the country through investments in the social sector and infrastructure, but there is no evidence that this is being done on a significant scale. Since 2006, the debt stock has slightly increased again. Debt relief indicates a vote of confidence in the government's reform policies by international finance institutions and by Western donors; it implies that the government had fulfilled most of the structural reform package prescribed by the IMF and the World Bank, which is also acknowledged in the most recent agreement of 2008 between the government and the IMF.

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.

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 its 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 also supported by the government. Any further privatization will proceed 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. While there is no real debate on social protection in the country, the government runs an inefficient national social welfare program known as the Public Welfare Assistance Scheme (PWAS). The government, with the help of donors, has in recent years been piloting a social protection scheme based on a system of cash transfers in two provinces. Social protection was also prioritized in the Fifth National Development Plan. 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 other 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

Public health care in Zambia is poor both in terms of quality and coverage as a result of under-funding. This has led to failure to contain many diseases, including malaria, TB and HIV/AIDS, although the infection rates for malaria and HIV declined during the last couple of years.

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 the number of females at secondary school and higher institutions of learning. Women have access to higher education and public office in many cases tends to come from privileged families and urban areas. However, as the government provides scholarships to all who are admitted to the universities, some women from rural areas and less affluent families can enjoy higher education as well.

Equal opportunity

11 | Economic Performance

The economy has experienced robust growth rates for several years (5% in 2005 and 6% in 2006) and continued to increase during the period under review. The growth rate is expected to decline slightly to from 6.3% in 2007 to 5.8% in 2008. The inflation rate, which showed a clear downward trend for a couple of years, increased from 8.9% in 2007 to 16.6% in 2008. Employment rates in the formal sector are relatively low. The expected growth of the formal sector labor force due to improvements in the performance of the mining industry, especially with the opening of a number of new mines, was not accomplished. The drastic downturn of copper prices during the second half of 2008 as part of the international financial crisis darkened the previously bright prospects of the mining sector and illustrated the volatility of an economy dependent on essentially one commodity. In the past, 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. The budget imbalance that was decreasing during the previous period under review started to increase in 2006 and reached 2.7% of GDP, remaining, however, below the projected deficit of 3%. The increase was due to high spending in infrastructure and the appreciation of the kwacha. The debt burden has 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 continued into 2008. The reversal of the trade balance is mainly due to a rise in copper prices and increasing agricultural exports; the decline of copper exports and copper prices at the same time will turn the previous surplus into a trade deficit in 2009.

Output strength

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 came into being with the encouragement of 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. The government has signed all major international environmental treaties. However, environmental standards are unsatisfactory, with recorded accidents and continued threats to human health due to pollution of rivers, streams and the air in mine areas.

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 funded by donors). This led to a 13.1% increase in primary school enrollment in 2005, and the primary school enrollment 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 three public universities, the latest established only in 2007, 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 numbers of pupils, the number of teachers is falling because of the incidence of HIV and AIDS and better-paying jobs abroad. Many teachers are not motivated because of low salaries. Teaching and learning materials are insufficient. The government reacted to the shortfalls by employing more than 15,000 additional teachers in 2007 and 2008 (on top of about 7,000 in 2006), and continued with a rehabilitation and construction program for schools that also included a countrywide distribution of textbooks and other teaching requisites. As a first result, youth literacy rates seem to have improved for the period 1995 to 2005 to 69.5% compared to 66.4% for 1985 to 1995; a similar improvement was noted for the adult literacy rate at 68%. Public expenditure on education increased during recent years but remained at a rather low level of 2.0% of GDP; after a decline in 2007, the government increased the budget share of education in 2008 to 15.4%, and the budget proposal for 2009 increased the share even to 17.5%.

Education policy /
R&D

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, 63.8% of the population is living below the poverty line of \$1 a day, while 87.2% is living below \$2 a day (1990-2005). With an urban population of 35%, the figures indicate that poverty is not restricted to rural areas but exists in the urban areas, too. 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; according to the latest figures of 2008, it has slightly dropped to 14.3%. The physical infrastructure is poor and in many aspects dilapidated.

Structural
constraints

There is a moderate tradition of a lively civil society. A 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 to 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, they 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 incidents observed. All relevant actors respect the democratic constitution. However, there is a simmering low-level tension between some sections of civil society, mainly the Catholic Church, the main opposition, Patriotic Front and the government over the constitutional reform process. There are indications that these groups might try to block any constitutional proposals that will come out of the National Constitutional Conference and may actively campaign against the adoption of a new 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 onetime 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, 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 the Transitional National Development Plan. However, the IMF/World Bank-inspired Poverty Reduction Strategy Paper (PRSP) had to be incorporated into the Transitional Development Plan and watered down all of the so-called “home-grown” initiatives. Finally, the Fifth National Development Plan, published in 2006, was in line with the IMF/World Bank proscription; it focused 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. It is not expected that the new president will deviate from this policy.

Prioritization

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. In June 2007, the PRGF arrangement was successfully implemented and the last disbursement was approved by the IMF. This enabled the IMF to approve a further PRGF for the next three years one year later. In December 2008, the IMF mission noted overall “significant progress toward macroeconomic stability,” but pointed out that, due to the international financial crisis, the external environment will have a detrimental effect on Zambia, and thus will make it much more difficult to maintain the gains in macroeconomic stability.

Implementation

Some sections of the political leadership (including the president) respond to mistakes and failed policies with changes, as indicated by the late 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. President Banda’s profile, who was elected on 30 October 2008, is still somewhat diffuse, but he seems to have a preference to consult and moderate rather than make single-handed decisions. In general, there are some indications that Banda has followed the same contours of patronage politics, awarding public positions on the basis of loyalty as opposed to merit.

Policy learning

15 | Resource Efficiency

The government uses only some of its available resources efficiently. The civil service wage bill is still high, at 8% of the GDP. The tax administration system 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 tax reform of 2007 and 2008 (higher corporate taxes and VAT) resulted in revenue collection above the target. However, in 2008 the major tax reform for the mining sector failed; actual collection remained 65% below target. 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. Significantly, the Public Service Reform Program (PSRP), which is meant to reduce the civil service by about half, reduce civil service positions and improve pay and working conditions, has been a failure. There are a number of politically motivated dismissals and new appointments, but this is mostly restricted to top-level officeholders. Constitutional appointments must be confirmed by the

Efficient use of assets

Parliamentary Select Committee. As such, while there is some modicum of transparency, political influence is still observable. There is no balanced state budget, but during the last couple of years, the government has managed to keep the financial deficit below 3%, an exceptionally low rate in Zambian history. However, the deficit is projected to increase again to 3% in 2009. 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 (IFMIS) continues to be implemented. Both reforms are meant to improve the financial management of the government. The level of debt was very difficult for the government to manage until 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 for fear of losing political control.

The government tries to coordinate conflicting objectives and interests, but it has had 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. Increasingly, some traditional rulers have been playing visible roles in politics, supporting particular party candidates and calling for a change in the law that would allow them to contest parliamentary elections.

Policy
coordination

In the fight against corruption, the government has implemented some integrity mechanisms. These figured prominently in the late 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 and is directed specifically 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 and 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 resulted in 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 conviction, and a third trial has commenced. In March 2009, Regina Chiluba, the wife of the former president, was sentenced to three and a half years in prison because of corruption.

Anti-corruption
policy

In 2008, 60 to 70% of more than 2000 corruption complaints from the public were against government officials. Transparency International Index indicates only a small improvement in corruption perception for the last two years

16 | Consensus-Building

All major political actors agree on the goals of democracy and economic development, 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 prospects of implementing the ideal systems envisioned by donors.

Consensus on goals

There are no veto powers and no significant resistance to the goals of democracy and economic development.

Anti-democratic veto actors

There are no religious conflicts in the country, but ethno-regional 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 multiethnic 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 these different ethnic identities, but at the same time they try to prevent cleavage-based conflicts from escalating. No political party that has openly mobilized around specific interests has succeeded. The National Lima Party and Agenda for Zambia, which sought to represent farmers and rural people and further the narrow regional interests of the Lozi people, found little purchase in Zambian politics and have since disappeared.

Cleavage / conflict management

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 has shown willingness to compromise in response to civil society activities. But maneuvers to control the press and civil society have been made, and draft legislation on regulation of non-governmental organizations was withdrawn from parliament last year. There has also been talk of regulating the media since President Banda came into office.

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. Finally, the government skipped the Constituent Assembly completely and replaced it with its own National Constitutional Conference in 2007, in which civil society organizations, despite their fundamental criticism, participated in the end. 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. The former president of one-party rule has even been reinstated as an honored public figure, a founder and father of the nation.

Reconciliation

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. The government is highly dependent on foreign development assistance; official development assistance was at 13% of GDP in 2005. But foreign assistance to the budget has declined in recent years from around 60% in the early 1990s to less than 30% in 2009. However, the government's capital budget is mainly financed by foreign sources; in 2008, at least 65% of the capital budget was financed donors. 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 with prioritizing development initiatives. Spending on poverty alleviation sectors (e.g., education, health) has been increased in recent years, but it remains unclear whether this would be effective without donor influence. User fees for health clinics in rural areas were eliminated, and government disbursement of funds to public health facilities increased during the last two years. As a result there seems to be some improvement, but whether the implementation of the reforms will be done well and will have a sustainable effect remains to be seen. However, as indicated above there are some indications that incidences of poverty started to decline in the most recent years.

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 are still low, but there is a trend toward improvement. Foreign investment increased substantially as a result of debt relief and growing confidence in macroeconomic 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 (see also 14.2 Implementation).

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. The government is yet to make a decision on whether to continue its membership in both COMESA and SADC. After some desultory policies in 2007, the Zambian government turned in the following year into one of the most outspoken critics of President Mugabe's repressive policies in Zimbabwe and of the SADC's 'quiet diplomacy' towards him.

Regional
cooperation

Strategic Outlook

With a new president in power who relies on the same political party as his predecessor, predictions have become more difficult to develop. Experience thus far with the new incumbent suggests no significant policy change and an even more consultative approach than his predecessor to the political challenges ahead. Collaboration with international financial agencies and donors will continue in the same way. This applies also to foreign policy within the southern African region.

There is no doubt that the international financial crisis will have a substantial negative effect on the Zambian economy. Falling copper sales – copper is the major income earner – might turn previous economic growth into a downturn spiral. The economic decline might even offset the relative macroeconomic stability that was gained during the last decade. Moreover, the long promised trickle-down effect of the economic growth, which seems to have started only during the last few years and only to a small degree, will be stopped again and cause increased frustration and new spending pressure on the government. However, the initial reactions to the emerging crisis indicate a very sober response not only by the government, but also by most of the opposition parties which, until January 2009, seem disinclined to exploit the difficulties against the government. However, this can change very suddenly. The closure of two mines on the Copperbelt in late 2008 and the sacking of over 5,000 employees pose serious challenges to the political stability of this region and may be exploited by the opposition. The Zambia Chamber of Mines estimates that over 10,500 workers are expected to be laid off as a result of the closure, although industry experts think the number could be higher when auxiliary operations are taken into account.

While a surprisingly smooth succession in the presidency indicated a considerable degree of stability of the political institutions and organizations involved, namely the ruling party, MMD, the outcome of the presidential elections, based on a very small margin, suggests that the major challenger on the opposition side, Michael Sata, might provide a fierce challenge to the incumbent and the ruling party in the next regular elections in 2011. Sata was able to increase his share of the vote in 2008 since the elections in 2006, closing the gap with the ruling MMD to only 35,209 votes. Since he was basically campaigning on social issues – although in 2006 with a xenophobic twist, which played no major role in the 2008 campaign – these concerns could become even more important in 2011 if the economic crisis persists. This will become even more crucial because Sata's success is largely based on an urban electorate that will be more severely hit by the economic decline than most of the rural voters.

However, there also two points of uncertainty related to Sata. First, his party, the Patriotic Front, is deeply split over basic political issues and approaches; and second, Sata's poor health might become a problem, as it already has in the past. The PF is a personality-driven party based on the popularity of Sata, and it is difficult to imagine that the party will survive without him at the

helm. In the event that he feels his political success threatened, he and his followers might turn to xenophobic politics in the campaign or, after losing an election the third time, to post-election violence as in 2006. In either case, the country could be destabilized before or after the election.

Another challenge ahead that might have an effect on the outcome of the next elections and the stability of the country will be the constitutional reform. The non-participation of some major civic actors and by parts of the main opposition party, the Patriotic Front, in the National Constitutional Conference might pose serious threats to the outcome of the constitutional reform process in the short to medium term. Civil society organizations as well as opposition parties are on track to increase the pressure for constitutional reform towards more democracy.

Other crucial events in the future will be the quorum by which the president will be elected, reduction of presidential powers and the adoption of a bill of rights, which incorporates economic and social rights. There is significant pressure for the quorum to be set at “50% plus one,” a policy that was in place during the democratic transition. This reform is not in the interest of the government; however, it will be more inclined to retain its powers, particularly since the next election outcome is also expected to be very close. All this can have serious repercussions on the fight against corruption and patronage in government spending, because the incumbent will use, or will be forced by the party leaders and supporters to use, all available resources to keep the party in power.

The constitutional reform process is itself threatened with being derailed as important players, such as church organizations and other critical civil society players, along with the Patriotic Front, are opposed to it. There is a possibility that the outcome of the National Constitutional Conference will be contested and that the referendum that would follow is unlikely to be won by the government, given its level of popularity at this time. But the most decisive factor for the constitutional process is the political will of the government.

A great deal will depend on how the government will be able to handle the external economic challenge, and also on the fate of Sata and his party. As a result, the government will be challenged by two contradictory goals. The first is to continue with macroeconomic 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 social welfare spending on education, health and housing, and, in a nod to various elite factions within its own party, a watered-down anti-corruption policy. The use of subsidies to woo rural voters, and the recently introduced citizens economic empowerment program meant to provide cheap government credit to urban people, may be important patronage schemes to keep the ruling party in power.