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Competition, Investment
& Economic Regulation
Discussion Paper

Investment Policy in Zambia – Performance and Perceptions

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#0338

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1984 to 2003

Investment Policy in Zambia – Performance and Perceptions

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– Performance and Perceptions

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Acronyms

ACP	African, Caribbean and Pacific
ADB	African Development Bank
AU	African Union
CDC	Commonwealth Development Corporation
CEC	Copperbelt Energy Corporation
CG	Consultative Group
COMESA	Common Market for Eastern and Southern Africa
CUTS-ARC	Consumer Unity & Trust Society-Africa Resource Centre
CUTS	Consumer Unity & Trust Society
DFID	Department for International Development
DRC	The Democratic Republic of Congo
ECZ	Environmental Council of Zambia
FDI	Foreign Direct Investment
FPI	Framework and Package of Incentives
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
HIPC	Highly Indebted Poor Country
ICSID	International Centre for the Settlement of Investment Disputes
ID	Identity
IFD	Investment for Development
ILO	International Labour Organisation
IMF	International Monetary Fund
JFA	Jobs for Africa Programme in Zambia
LCMS	Living Conditions Monitoring Survey
LDC	Least Developed Country
MCTI	Ministry of Commerce, Trade & Industry
MEWD	Ministry of Energy and Water Development
MIGA	Multilateral Investment Guarantee Agency
MMD	Movement for Multiparty Democracy
MoH	Ministry of Health
NCSR	National Council for Scientific Research
NPV	Net Present Value
NRG	National Reference Group
OAU	Organisation for African Unity
OPPI	Office for the Promotion of Private Investment
PCPIP	Paris Convention on the Protection of Industrial Property
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SAPP	Southern African Power Pool
SWOT	Strengths, Weaknesses, Opportunities and Threats
TDAU	Technology Development Advisory Unit
TNCs	Transnational Corporations
UDI	Unilateral Declaration of Independence
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
VAT	Value-added Tax
WB	World Bank
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation
ZCC	Zambia Competition Commission
ZCCM	Zambia Consolidated Copper Mines
ZEPZA	Zambia Export Processing Zones Authority
ZIC	Zambia Investment Centre
ZK	Zambian Kwacha

Foreword

Perceptions of the attractiveness of investment climate in Zambia, as is the case elsewhere, are predicated on the degree to which the environment is assumed to be robust with respect to the country's policy, legislative and institutional regime. At the policy level, the central focus of the policy of liberalisation in Zambia has been the switch from the system of central planning or control of the economy to the use of market forces as the means of resource allocation. Liberalisation policy is expected to provide enterprises with more freedom and stronger incentives that would stimulate entrepreneurial activity, business efficiency, productive investment and economic growth. Similarly, the free play of supply and demand would, in the long run, determine market prices, allowing productive resources to be allocated in an efficient manner. Liberalisation in Zambia has meant market-oriented reforms, particularly in the areas of price deregulation, administrative allocation of key product inputs; privatisation of public enterprises; and the liberalisation of trade and investment regimes. It has further been maintained that the benefits of market-oriented reforms are likely to be fully realised only if enterprises acted under the spur of competition while ensuring that the welfare and efficiency arising from such measures are not lost due to anti-competitive practices by firms.

An open competitive environment has also been recognised to foster innovation and efficiency, thereby contributing to overall competitiveness of producers. In Zambia, where the state dominated economic activity and the development of the private sector remained under check, an important prerequisite to effective competition has been the policy of privatisation. Notwithstanding this, it is often not appreciated that one of the most important factors that significantly influence enterprise performance, irrespective of who owns it (private or public), is *competition*. It can, thus, be deduced that the efficiency of an enterprise - public or private - tends to be highest when its profitability is enhanced in a competitive market; and under managers that are given sufficient autonomy, capacity and motivation to respond positively and promptly to competition-induced market signals. The reality cautions against the often popular view that the privatisation of ailing state enterprises would necessarily lead to a miracle transformation of an enterprise from loss-making to a high output record. The crucial point to appreciate here is that it is the presence of *competition* that makes the difference. Indeed, it can be argued that, all things equal, giving a private firm monopoly control over a particular product or service is less likely to improve efficiency than a public enterprise that is opened up to competition. The putting in place of legislative and regulatory regime that safeguards competition in a liberalising economy is, therefore, an important step in the enhancement of market efficiency, productivity, and, consequently, foreign direct investment.

The question of speed and sequencing of liberalisation, all having been said, matters. The Zambian case does vividly illustrate this reality. Excessive zeal in Zambia's liberalisation is evident at the level of tariff reduction relative to its regional trading partners. Despite the country's policy of liberalisation, most of the trade and investment problems still persist. Most manufacturing firms, particularly those in the small- and medium-scale categories continue to face liquidity problems and lack of funds for investment, while trading has become more attractive than before. What has caused these problems appears to be the speed and manner of policy implementation. Trade liberalisation is one prominent example where adequate attention was not paid to the policy trade-offs. It is clear that these big changes in Zambia's tariff structure, much as they are commendable, particularly in the context of the missions of such regional integration schemes as the Common Market of Eastern and Southern African States (COMESA) and the Southern African Development Community (SADC), as well as in the context of the ideals of WTO, they seem to have been implemented with too much swiftness especially in the light of what takes place in the county's major regional trading partners.

Specifically with respect to small- and medium-scale enterprises (SMEs), a number of considerations are noteworthy. Firstly, it is important to recognise that not all countries are at the same stage of private sector development and that they face different challenges in their quest for economic efficiency and productivity. This means that the pattern and speed of liberalisation and competition promotion ought to be aligned to the peculiar circumstances in the country prior to the needed reforms. The relative competitiveness of SMEs in a liberalising economy, for example, is conditioned, to an overbearing degree, by their peculiar constraints and market position relative to the more established firms, particularly foreign direct investors. A further challenge is brought about by the crippling effects of in-coming imports under conditions that are not always favourable to SMEs, a phenomenon that gives further credence to the importance of ensuring that the speed and sequencing of market liberalisation are in tune with what obtains in the country's major trading countries, particularly at the regional level. A phased approach to economic liberalisation is, therefore, recommended under these conditions.

Secondly, considering the fact that the dominant position of large-scale local and foreign firms checks the smooth entry of SMEs into the marketplace in a competitive manner, it is recommended that some form of discrimination in favour of the latter is made to enable them attain a certain degree of competence and efficiency under a liberalised market if their productive capacity is to be promoted, in the short-term, so that they become competitive, in the medium- to long-term. This should help in addressing positively the adverse distribution effects on SMEs of unregulated competition.

What then could be the way forward with respect to the facilitation of investment for development in Zambia? This report does touch upon a number of issues that range from main policy trends in the country to the country's institutional, regulatory and legislative regimes in so far as they impact on investment opportunities. The report also gauges civil society perceptions of the investment climate. Derived from this, a number of fundamentals ought to be noted. Firstly, economic liberalisation, generally, and privatisation, in particular, are important preconditions for FDI entry in Zambia given its history in this area. Notwithstanding this, privatisation represents far-reaching structural changes that have to be justified by long-term policy objectives, and speed at this level should be controlled. The initial reluctance in Zambia to include its largest and strategic assets in this process (e.g. the mining conglomerate, Zambia Consolidated Copper Mines Limited) underscores the significance of this caution.

Secondly, macro-economic stability is fundamental to successful liberalisation, in general, and FDI entry, in particular: The effective advancement of privatisation and FDI entry in developing countries is influenced by the degree to which this process is perceived to foster productivity and growth. A government that attempts to privatise its state-owned assets, therefore, ought to recognise the importance of economic stabilisation that would free capital and provide the requisite environment for private sector growth. Given the serious financial difficulties that characterise the public sector in Zambia, transferring loss-making and sheltered public enterprises to the financially-unconstrained private sector would be the most logical way to raise aggregate investment. The main challenge is that in a country like Zambia that faces serious aggregate savings constraint, the anticipated privatisation benefits would not immediately be realised. A mere shift in investment responsibility from the public to the private operators would not necessarily lead to a higher and sustainable overall investment ratio in the absence of improved aggregate savings. This important prerequisite to economic growth is not possible in the absence of macro-economic stability. Similarly, an inhospitable investment climate is not good for investment: Zambia's high two-digit inflation to the extent that it produces violent price fluctuations, reduces the predictability of key variables and increases uncertainty for foreign investors.

Thirdly, the existence of a facilitative regulatory and legislative environment is pivotal for successful FDI attraction. Without an enabling environment that allows the private sector to take autonomous business decisions with minimum regulatory or legal checks, the attractiveness of Zambia to FDI would remain marginal. In this regard, undue government controls should be eliminated and the facilitation of non-disruptive labour laws ought to be put in place at the very early stage of liberalisation. The capacity of the government to enforce the competition policy and laws is quite fundamental in translating the legal reforms into positive economic change.

December 2003

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Preface

The rules governing Foreign Direct Investment (FDI) in Zambia have undergone a number of changes during the 1990s. Many of these changes were part of the liberalisation and Structural Adjustment Programmes (SAP) initiated by the new government, which assumed office after the introduction of multiparty democracy in Zambia in 1991. An important aspect of this economic rejuvenation policy framework has been the introduction of a rapid and far-reaching SAP.

The key element of the SAP has been privatisation of the state owned parastatal companies, which have been involved not only in the service sector but also in mining, manufacturing and trading activities in the economy since 1960s. The new economic policies were also targeted at attracting both FDI and domestic investment into various economic activities. These programmes implemented with the support of the International Monetary Fund (IMF) and the World Bank marked a major shift from the hitherto public sector driven economic development model to a private sector driven one.

At the heart of the new order of economic management has been, *inter alia,* trade liberalisation, removal of exchange controls, public service reform, introduction of cost-sharing with respect to the service sectors such as education, health, communications, etc. In order to attract foreign investors into Zambia, the government offered several fiscal incentives in the Investment Act of 1993, which replaced the Investment Act of 1991.

The 1993 Investment Act, as amended in 1996 and 1998, promotes FDI in productive activities. Articles 16(1) of the constitution of Zambia as well as the Investment Act provide for the protection of investments from compulsory acquisition, except for public purposes under an Act of Parliament and against prompt payment of compensation. The government continued to revise and offer other additional incentives through the annual national budget and also the Export Processing Zones Authority Act introduced in 2002.

Have these incentives made a difference in attracting FDI to Zambia? To be precise, it has been difficult to discern exactly what were the developmental impacts of FDI that Zambia managed to bring into the country. This is one area that needs further research.

There has been no serious efforts to analyse Zambia's investment policies and performance in the recent past. Investigations carried out in the course of this study revealed that there was inadequate sector specific data on both inflows and outflows of investment. Data held by the Zambia Investment Centre (ZIC) mainly refers to investment pledges and does not include actual investments. Many of the FDI flows to Zambia during the 1990s were not for greenfield investment but mainly for the takeover of privatised parastatal firms and also for retail business.

Our interaction with various official and civil society sources during the course of the study revealed that even in the absence of precise statistical evidence of the amount and nature of FDI inflows to Zambia, it can still be inferred that despite all the efforts in terms of structural adjustment and additional foreign investor incentives, Zambia has not been a favourable FDI destination. Stakeholders were of the opinion that Zambia was mainly successful in attracting FDI in the mining sector.

An analysis of the civil society perception survey on FDI in Zambia has revealed certain interesting points. Civil society perceives that most foreign investors that came to Zambia did not establish new firms altogether but often took over existing firms, especially those that were vibrant.

The study looked at the following factors too:

- Why has Zambia despite all the efforts at structural adjustment and additional foreign investor incentives not been much of an FDI destination?
- What should be the contours of a workable and development oriented FDI policy for Zambia?

This report reviews investment policies and their performance in Zambia as part of the Investment for Development (IFD) project being coordinated by Consumer Unity & Trust Society (CUTS). It aims at creating awareness about the investment policymaking process in Zambia by examining facts, figures and also perceptions of stakeholders. The question that the report tries to address therefore is whether the current investment framework and legislation is sufficient enough to attract FDI, and if not, what additional measures need to be put in place?

Several individuals and institutions helped us in different ways in the preparation of this report. We would like to acknowledge the contributions of each one of them. We are thankful to the researchers of this report, Mr. Eric Kalimukwa, Mr. Frywel S. Chirwa, Mr. James Chansa, Mr. Choolwe G. Mudenda and Mr. Stephen Muyakwa for their contribution on various sections.

Our acknowledgements are due to Prof. Oliver Saasa of the University of Zambia for reviewing the draft and providing valuable guidance for revising the report.

We have benefited from the assistance rendered by functionaries of institutions viz. Zambia Competition Commission, Zambia Investment Centre and Zambia Consumers' Association in carrying out the study. We had a very active National Reference Group (NRG) which provided invaluable inputs to this research work at various stages; we thank them for their valued guidance.

My acknowledgements are also due to colleagues at CUTS-ARC, Ms. Stellah Chapo and Mr. Mwamba Makasa, who devoted a lot of time for facilitating the various project activities.

December, 2003

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CHAPTER-1

Introduction

This Report reviews the investment policies and their performance in Zambia, as part of the Investment for Development (IFD) project being carried out by Consumer Unity & Trust Society–Africa Resource Centre (CUTS-ARC).

Every country is a potential investment destination and actual investment flows have been seen to be dependent, to a large extent, on the country's attractiveness to investors and investor institutions.

Foreign Direct Investment (FDI) has come to be widely considered as an engine of growth. Developing and transition economies have scored varying degrees of success in attracting FDI, largely depending on the extent to which they have set up the requisite 'enabling environment' for investment. Every country is a potential investment destination and actual investment flows have been seen to be dependent, to a large extent, on the country's attractiveness to investors and investor institutions. This attractiveness is based on certain determinants affecting the perceptions of investors as to whether or not they should invest in a country.

The existence of uncertainty and risk, due to several factors act as disincentives to both foreign and domestic investment. These may include macroeconomic instabilities, such as large external debt burdens, variability of exchange and inflation rates, political uncertainty, etc. All or some of which may connote fragility of a country's investment climate, despite the existence of viable opportunities.

Most African countries have scored success in receiving FDI, based on whether or not their economies are liberalised to international trade, existence of quality regulatory institutions and physical infrastructure and economic growth and stability.

Further, FDI decisions may be motivated by market access and production cost considerations in general terms. However, most African countries have scored success in receiving FDI, based on whether or not their economies are liberalised to international trade, existence of quality regulatory institutions and physical infrastructure and economic growth and stability[1]. This report tries to look at the existence of these factors in Zambia.

Zambia achieved independence from Britain in 1964. In the first decade of independence Zambia experienced considerable economic growth. During that period, most major socio-economic sectors manifested substantial rates of growth, especially the manufacturing industry. The Government pursued a policy of diversification of the manufacturing industry. Prior to its independence, Zambia depended heavily on manufactured goods imported from South Africa. The diversification policy pursued achieved considerable success in this regard, despite acute shortages of skilled manpower and a serious transport bottleneck.

For instance, the index of industrial production for all manufacturing sectors increased from 124.4 in 1964 to 221.2 in 1967. The sector's contribution to the GDP increased from K28.2mn (US$40.3mn*) in 1964 to K95.5mn (US$136mn) in 1967. The price of copper was very high, resulting in the economy averaging a 13 percent annual growth rate in real terms until 1970. The total employment expanded from 268,700 in 1964 to 372,130 by June 1970. Employed workers also enjoyed a 97 percent rise in earnings between 1964 and 1969, while the consumer price index rose by only 37 percent.

Another major achievement during the first decade of the independence was the expansion of the country's economic infrastructure. When Rhodesia (now Zimbabwe) declared its Unilateral Declaration of Independence (UDI) in 1965, the Zambian Government responded with a policy of disengagement from the inherited southern neighbours by adopting actions, such as the completion of the oil pipeline to the Tanzanian port of Dar-es-Salaam in 1968; mining of its coal deposits; achievement of self-sufficiency in electric power by 1974; the completion of TAZARA, the rail link to Dar-es-Salaam, by 1974; air traffic control, etc. When the Rhodesian Government decided to close the border with Zambia in 1973, the said policy actions proved very effective. The border was closed as the Rhodesian Government believed that Zambia was supporting the 'terrorist' freedom fighters against the former. The first ten years of Zambian independence will also go down in history as the period during which considerable foreign investment came into the country under the many bilateral agreements.

The first ten years of Zambian independence will also go down in history as the period during which considerable foreign investment came into the country under the many bilateral agreements.

Further, apart from the localisation of manpower in the civil services and mines, it needs to be recognised that the considerable economic growth came about due to two main factors: the deliberate government policy of filling the 'indigenous business' gap through nationalisation and investments into the formerly foreign-owned corporations operating in Zambia, following the 1968 Economic Reforms. The government was able to perform this investment function from the copper sale proceeds, due to prevailing high prices at the time. Secondly, when the Government of Southern Rhodesia declared a UDI , Zambia disengaged itself from that country. As a result, firms that previously exported to Zambia sought to safeguard their markets by investing directly into Zambia.

Firms that previously exported to Zambia sought to safeguard their markets by investing directly into Zambia.

Things began to deteriorate from mid-1970s, due to a fall in the export price of copper and an increase in the prices of imported petroleum products. This external shock resulted in the depletion of the country's external reserves, a rise in external borrowings and foreign aid. The external borrowings and foreign aid were not only inadequate, but also not sustainable in the long run because it increased the country's indebtedness. Since then, Zambia has experienced economic downturns, largely due to little or no investment in many sectors of the economy, especially the state-dominated parastatal sector, which controlled over 80 percent of the economy, including the mainstay, the mining sector, until early 1990s. Further, the little investment that took place continued to be in the traditional raw material production, an area that is very sensitive to the adverse impacts of the lowering prices and competition from synthetic products. In short, limitations to value-added production have continued to haunt the economy.

Zambia has experienced economic downturns, largely due to little or no investment in many sectors of the economy, especially the state-dominated parastatal sector, including the mainstay, the mining sector, until early 1990s.

In 1991, the country moved from one-party participatory democracy to a plural parliamentary democracy. A new government committed to a free market capitalist system was elected. The new government embraced the structural adjustment programme (SAP), with the support of the International Monetary Fund (IMF) and the World Bank (WB).

The socio-economic challenges that abound the country in the face of the daunting economic scenario have largely had a negative impact on the people. The human development index has continued to deteriorate and nearly three quarter of the population has been categorised as poor. Zambia's average annual population growth rate ranges between 2.7 and 3.1 percent in rural and urban areas. The country's population below the age of 15 was estimated to be 49 percent in 1977, a figure that underlines a high dependency ratio to overall population. By 1993, about 42 percent of the population was living in urban areas, where the population density is as low as 13.6 persons per square kilometre.

Zambia has a dual economy, dominated by an industrial copper mining and processing enclave, while the rest of the country is dependent on rain-fed smallholder agriculture.

Life expectancy, according to the official estimates of 2002, is 50 years and almost a quarter (23 percent) of the population cannot read or write. Whereas the water and sanitation facilities have remained inadequate, food security has not been guaranteed over the years. Zambia has a dual economy, dominated by an industrial copper mining and processing enclave, while the rest of the country is dependent on rain-fed smallholder agriculture. Gross National Income is estimated to be around US$3bn and the per capita income is US$300. In terms of international comparison, Zambia is classified as a least developed country (LDC) and rated as an externally highly indebted and internally distressed poor country, under the HIPC categorisations.

According to the World Bank Group Report 2002, 73 percent of the population has been classified as poor. The Gini Coefficient gives the country a high degree of social inequality. The lowest 10 percent of the population accounts for a paltry 1.1 percent of the national income, whereas the top 10 percent take 41 percent of the national wealth.[2]

On the basis of the foregoing, this study on investment policy framework in Zambia comes at an opportune time, when the country and its people are seeking a way forward in tackling poverty and deprivation.

CHAPTER-2

The Macroeconomic Context

2.1 Overview

This chapter endeavours to describe the overall macroeconomic context of Zambia during the 1990s. In order to contextually explain the Zambian situation, a long-term perspective on development in Zambia is projected for better clarity in analysis.

2.1.1 Background

The country inherited a capitalist market-driven economy based on large-scale copper mining and a commercial farming sector dominated by European settlers.

Zambia gained its political independence in 1964 from the British Government. The country inherited a capitalist market-driven economy based on large-scale copper mining and a commercial farming sector dominated by European settlers. Structurally, the economy was dual in nature. There was a modern copper-dominated economy in the urban areas while the rural areas were basically agrarian. After the National Economic Reforms of 1968 and 1971, Zambia embarked on five-year national development plans and implemented three national development plans.

The state controlled nearly 80 percent of the economic activities through the parastatals, which numbered about 300 in 1991.

These plans had the following focal points: building a broad socio-economic infrastructure and increasing rural incomes; continuation of rural development; increased agricultural production for domestic and export markets; and the creation of additional rural employment to counter rural-urban migration. Zambia also adopted an industrial development policy, which was focused on import-substitution. However, on both fronts, state enterprise was the policy tool to economic activities, given the paucity of indigenous businessmen at the time of independence. The state controlled nearly 80 percent of the economic activities through the parastatals, which numbered about 300 in 1991. In 1991, a major change occurred, as the previous one-party rule came to an end and a new government came to power.

The Zambian economy has experienced a decline since the late 1970's. This decline has been especially distinct in the 1980s especially, as evident from the deteriorating macroeconomic indicators.

The reform measures involved liberalisation of the previously controlled markets and the introduction of regulation to enable the market to determine the prices and other macroeconomic variables.

From the late 1980s, the Government pursued a number of stabilisation and reform measures, aimed at reversing the deteriorating economic trend. The stabilisation measures were aimed at curtailing inflation and ensuring sustainable external payments position. This would be through the control of money supply and reducing fiscal and balance of payments deficits to manageable levels. The reform measures involved liberalisation of the previously controlled markets and the introduction of regulation to enable the market to determine the prices and other macroeconomic variables, thereby minimising the risk of market failure.

2.1.2 The Structural Adjustment Programme (SAP)

Following the conclusion of an agreement under Article IV of the International Monetary Fund (IMF), the Government of Zambia embarked on a structural adjustment programme in late 1991, with a view to transforming a state-led, stagnating economy into a market-driven economy. The economic reform programme consisted of three policy objectives:

- Restoration of macroeconomic stability through monetary and fiscal reforms;
- Facilitation of private sector growth by removal of price, exchange rate, import and export controls; and
- Shift agriculture and industry from public monopolies to private and decentralised institutions[3].

The key goals were achieving growth in foreign investment, export promotion, rehabilitation of infrastructure and, attaining fiscal and monetary policy targets.

Comprehensive reforms were implemented, including the far-reaching trade and exchange liberalisation, liberalisation of agricultural policies, an ambitious privatisation programme, civil service reform, and the strengthening of the legal framework. .

The thrust of the national macroeconomic framework was the pursuit of economic growth and poverty reduction through free markets. The key goals were achieving growth in foreign investment, export promotion, rehabilitation of infrastructure and, attaining fiscal and monetary policy targets.

2.2 Macroeconomic Indicators

2.2.1 Market Size and Growth

Since the introduction of the liberalisation and structural reform measures in 1991, there has been some improvement in macroeconomic performance. The growth in the gross domestic product (GDP) has averaged 2.0 percent per annum, while inflation has fallen from the triple digit levels of the early 1990s to below 30 percent. Since the late 1990s, average inflation has been 27 percent, on a year-to-year basis. The fiscal deficit has also been brought down during the same period. However,

Table 2.1: Select Economic Indicators: 1995-2000

Indicators	1995	1996	1997	1998	1999	2000	2001	2002
GDP growth (%)	2.5	6.7	3.3	1.9	2.2	3.6	4.0	3.0
Inflation (%)	34.5	35.2	18.6	30.6	20.6	26.1	21.7	20
Deficit as % of GDP	-	-	-	-	11.4	13.6	2.4	3.3
Exchange Rate	938.0	1,298.3	1,421.9	1,911.3	2,630.9	3,891	4,209.8	4,842
Treasury bill rate (%)	39.8	52.8	29.5	24.9	36.2	34.0	48.2	31.7
Lending rate (%)	45.53	53.8	46.7	31.8	40.4	49.6	55	50
Formal employment. As % of labour force	-	12.0	10.8	10.2	10.3	-	-	-
Unemployment rate	-	12.9	15.2	11.9	10.3	-	-	-
Foreign direct investment (US$)	-	-	207	198	163	122	72	82
Gross domestic investment (% GDP)	13.9	14.9	14.5	25.6	24.2	-	20	18
Per capita GNP (US$)	330	350	380	388	279	232	318	316
Total Debt Stock (US$mn)	6,089.9	6,206.1	6,752.6	6,928.7	6,507.4	6,310.5	7,123	6,487
Debt stock per capita (US$)	641	640	682	686	632	590	642	579

Sources: Central Statistical Office, Bank of Zambia, Economic Reports, 2001 and 2002 and Zambia DSA Report 1998, African Development Indicators 2000.

pressure continued to mount on the expenditure side and the domestic debt, arising from short-term financing (treasury bills and government bonds) from open market operations.

During the period 1995 to 2002, the exchange rate has depreciated by more than 300 percent. Generally, this has been due to shortage of foreign exchange, resulting from low export earnings from copper.

The exchange rate, on the other hand, has depreciated rapidly over the years. During the period 1995 to 2002, the exchange rate has depreciated by more than 300 percent. Generally, this has been due to shortage of foreign exchange, resulting from low export earnings from copper. Copper production and exports experienced a declining trend, due to the poor performance of the state-owned mining company Zambia Consolidated Copper Mines (ZCCM), along with delays in the privatisation of its major mining units under the government's privatisation programme. Foreign exchange shortages were exacerbated by unsatisfactory disbursement of pledged external financial assistance, coupled with the high import dependent nature of the economy and high levels of debt service obligations.

The gross domestic investment has remained relatively stagnant, at around 14 percent of the GDP, while FDI has been declining. The formal sector employment has remained low, at about 11 percent of the total labour force. While there has been increased activity in the informal sector, this has mainly been dominated by petty trading and, hence, lacks significant contribution to the national economy. However, with the completion of the privatisation of the major mining assets of ZCCM by 2000, a growth in employment and investment was envisaged, as other economic activities were expected to re-emerge to service the mining industry.

Zambia has been re-classified from a medium to a low-income country by internationl agencies.

The real GNP per capita has declined and it has more than halved from the level at independence. Consequently, Zambia has been re-classified from a medium to a low-income country by internationl agencies.

The debt stock showed an upward trend between 1995 and 1998 and, thereafter, a declining trend. The debt stock per capita, which is almost twice the real Gross National Product (GNP) per capita, also follows the same trend. However, with Zambia's accession to the Enhanced HIPC initiative on 1st January 2001, the country was expected to enjoy debt relief, thereby reducing the debt stock and debt service obligations.

2.2.2 Demographic and Social Indicators

Population

The population of Zambia was estimated at 10.7 million in 2000. Table 2.2 shows a projection of the distribution of population, categorised into provinces, households, gender and residences in rural and urban areas for the year 2000. The proportion of the female population in the provinces and rural and urban areas is also indicated. Of the total population, 45 percent are below the age of 15 years.

At the national level, 62 percent of the population resides in rural areas, while 38 percent resides in urban areas.

Copperbelt and Lusaka provinces recorded the highest percentage distribution of the total population at 16.2 and 16 percent, respectively. The lowest percentage distribution of the total population was recorded in North-Western, Luapula and Western provinces at 5.6, 6.7 and 7.4 percent, respectively. At the national level, 62 percent of the population resides in rural areas, while 38 percent resides in urban areas.

The Western and North-Western provinces recorded a higher female sex ratio compared to the Central, Eastern and Lusaka provinces. At the national level, there were more females than males in rural areas, and vice versa in urban areas. Population density for most areas off the railway line is very sparse. The distribution of households by province closely follows the pattern of the distribution of the population. The provinces with the highest populations also recorded the highest number of households.

Table 2.2: Percentage Distribution of Projected Population and Households by Province – 2000					
	Nominal Population	**Population (%)**	**Males (%)**	**Females (%)**	**Households (%)**
Central	1,042,546	9.7	50.4	49.6	9.2
Copperbelt	1,735,812	16.2	49.3	50.7	14.1
Eastern	1,480,907	13.7	50.2	49.8	15.6
Luapula	721,472	6.7	50.0	50.0	8.5
Lusaka	1,717,176	16.0	50.1	49.9	14.3
Northern	1,282,324	11.9	49.6	50.4	13.8
North-Western	606,882	5.6	48.5	51.5	5.9
Southern	1,372,405	12.8	49.5	50.5	10.9
Western	792,296	7.4	48.6	51.4	7.7
All Zambia	10,722,872	100.0	-	-	100.0
Zambia Rural	6,611,324	62	49.3	50.7	-
Zambia Urban	4,111,548	38	50.3	49.7	-

Source: CSO, Demographic Projections 1990-2001

The parastatal sector records the highest average wage earnings. However, these earnings were not adequate to meet the cost of housing, energy requirements and food for the average household.

Employment and Earnings

The parastatal sector records the highest average wage earnings, which by the year 2000 were K500,000 (US$128) per month. In the same year the government and the local authority employees obtained the lowest average earnings, at K205, 265 (US$53) and K197, 681 (US$51) per month, respectively. However, these earnings were not adequate to meet the cost of housing, energy requirements and food for the average household. This also explains, in part, the increase in urban poverty, as most people largely depend on the formal sector wage earnings.

Table 2.3: Trends in Average Nominal Earnings (Kwacha) – 1997-2000*					
	1998	**1999**	**2000**	**2001**	**1997**
Average earnings by sector**	150,230(US$106)	184,281(US$96)	233,687(US$88)	245,265(US$63)	390,690(US$92)
Central Government (civilian)	134,154 (US$94)	154,850(US$81)	194,377(US$73)	205,265(US$ 53)	588,374(US$140)
Local authorities	152,328(US$107)	124,536(US$61)	189,792(US$72)	197,681(US$51)	205,759(US$49)
Parastatal companies	291,176(US$204)	341,564(US$179)	467,001(US$178)	501,612(US$128)	538,785(US$128)
Private sector companies	103,264(US$73)	141,780(US$74)	187,661(US$71)	206,771(US$53)	227,841(US$54)

*Estimates as at June 30.
** Totals do not add up as a result of weighted averaging.
Source: Quarterly Employment and Earnings Inquiry, CSO and Economic Reports 2001 and 2002.

The electricity, gas, water, transport and communications sectors are the only sectors where real average earnings have been relatively high and stable over the years.

According to Table 2.3, in nominal terms, the average earnings show an upward trend. In real terms, however, there has been a steady decline during 1997-2000. According to the Economic Report (1999), the electricity, gas, water, transport and communications sectors are the only sectors where real average earnings have been relatively high and stable over the years. The increase in the price level (inflation) over the years has been responsible for much of the erosion in real earnings.

Poverty Levels

The classification of poverty was based on the total expenditure accruing to the members of a household, using the food basket approach.

The estimates of the Living Conditions Monitoring Survey (LCMS) 1998 indicate that 73 percent of Zambians live below the poverty line. The classification of poverty was based on the total expenditure accruing to the members of a household, using the food basket approach. The food basket approach calculates the cost of acquiring basic food items that provide basic calorific requirements for an individual or household.

Whereas rural poverty has been declining, urban poverty has increased since 1991. This partly reflects the redundancies from formal employment in urban areas. Despite the consistent implementation of macroeconomic and structural policies, the levels of poverty in Zambia were still high.

Table 2.4: Selected Poverty and Income Inequality Indicators 1991-1998

	1991			1993			1996			1998		
	Zambia	Urban	Rural	Zambia	Urban	Rural	Zambia	Urban	Rural	Zambia	Urban	Rural
Incidence of poverty	69.7	48.6	88.0	73.8	44.9	92.2	69.2	46.0	82.8	73.0	56.0	83.1
Incidence of extreme poverty	58.2	32.3	80.6	60.6	24.4	83.3	53.2	27.3	68.4	57.9	36.2	70.9
Depth of poverty	62.2	46.4	69.7	58.3	35.4	65.3	51.3	37.9	55.6	-	-	-
Severity of poverty	46.6	29.9	54.6	40.5	17.4	47.6	32.3	19.4	36.5	-	-	-

Source: Central Statistical Office, 1991, 1993, 1996, 1997 and 1998.

The incidence of extreme poverty was more in rural than urban areas, although this trend has been declining. For instance, the incidence of extreme poverty in rural areas in 1991 was 80.6 percent, compared to 32.3 percent in urban areas. In 1998, extreme rural poverty dropped to 70.9 percent, while extreme urban poverty rose to 36.2 percent. According to the LCMS (1998), at the provincial level, poverty increased in the Central, Copperbelt, Luapula, Lusaka and Western Provinces, but reduced in the Eastern, Northern, North-Western and Southern Provinces. The Province of Lusaka had the highest increase in poverty between 1996 and 1998 (by 14 percent), while the North-Western province had the highest reduction in poverty, 4.5 percent. Poverty has also increased in the Copperbelt Province between 1996 and 1998, by 9.4 percent.

Electricity Consumption

In Zambia, only 19 percent of the households have access to electricity for lighting and 15 percent for cooking.

In Zambia, only 19 percent of the households have access to electricity for lighting and 15 percent for cooking. Since access to electricity for cooking can also be affected by factors such as access to electric cookers, access to lighting would be a better measure for capturing electricity accessibility. The data in Table 2.5 shows that at the national level, there has been an upward trend in the use of electricity for both cooking and lighting over the period 1991 to 1998. Only 2 percent of the households in rural areas have access to electricity. This has remained constant over the same period . Whereas, nearly half (48 percent) of the households in urban areas use electricity for lighting and 39 percent use it for cooking. Figures for urban areas also exhibit an upward trend in electricity usage.

Table 2.5: Electricity Access Indicators (%) 1991 - 1998

		1991	1996	1998
All Zambia	Lighting	18	17	19
	Cooking	11	13	15
Rural	Lighting	2	2	2
	Cooking	0	1	1
Urban	Lighting	39	45	48
	Cooking	26	36	39

Source: CSO Priority and Living Conditions Surveys 1991-1998.

HIV/AIDS Prevalence

HIV/AIDS has had a significant adverse impact on the Zambian economy. It is projected that the number of HIV-infected people will increase to 1.1 million by the year 2010.

HIV/AIDS has had a significant adverse impact on the Zambian economy. Since AIDS affects the working age population, the quality and quantity of the labour force is affected. High rates of mortality and morbidity affect productivity, recruitment and, in particular, lead to the loss of skilled personnel. According to the Ministry of Health (MoH), in 1997, 20 percent of all adult Zambians aged between 15 and 49 years, or about 946,000 adults, were reported to be HIV positive. It is projected that the number of HIV-infected people will increase to 1.1 million by the year 2010.

Economic Development in Southern Africa

Despite the prevalence of poverty in Zambia and other southern African countries, the regional economy offers potential for economic growth and investment.

Despite the prevalence of poverty in Zambia and other southern African countries, the regional economy offers potential for economic growth and investment.

Two regional economic groupings exist in the southern African region, namely, the Southern African Development Community (SADC) and the Common Market for East and Southern Africa (COMESA). Zambia is a member of both of these regional economic organisations. Within the auspices of the SADC, national electricity utilities of member countries have formed the Southern African Power Pool (SAPP), which governs and co-ordinates power trade in the regional power market.

The sub-region has enormous economic potential, with a population of about 200 million and combined GNP of US$190bn. In spite of this potential, 40 percent of the population still live in abject poverty.

The sub-region has enormous economic potential, with a population of about 200 million and combined GNP of US$190bn. In spite of this potential, 40 percent of the population still live in abject poverty. The challenge, therefore, has been to increase the pace of economic growth, to reduce poverty. Most governments of the southern African countries have embarked on economic restructuring. The rewards have been reflected in moderate growth rates for most of the economies of the region.

During the 1995-1999 period, on average, all the economies in the region recorded satisfactory economic performance. Most SADC countries recorded positive economic growth, with GDP growth rates averaging 4.1 percent since 1995, with the exception of the Democratic Republic of Congo (DRC), where GDP statistics were not available. During this period, seven of the 14 member states recorded average inflation rates below 10 percent. Angola recorded the highest GDP growth, at 8 percent; while Zambia, Malawi and South Africa recorded average GDP growth rates less than 3 percent (See Table 2.6). In spite of the better economic performance, population growth remained higher than the GDP growth in some countries, including Zambia. The consequence of this is a reduction in per capita GDP.

The South African economy continued to dominate the economic activity in the sub-region. In terms of economic growth the average in the sub-region was below the African average. With the launching of the COMESA Free Trade Area on 31st October 2000 and the eventual harmonisation of outstanding tariffs issues under the SADC Trade Protocol, increased economic activity in the sub-region is envisaged.

Table 2.6: Growth Rates in Selected Macroeconomic Indicators for SADC (%)

		1995	1996	1997	1998	1999	2000	2001	2002
ANGOLA	GDP	11.5	11.9	7.7	5.5	4.0	3.0	3.2	17.1
	Population	2.9	3.0	2.9					
BOTSWANA	GDP	2.5	6.6	7.0	8.0	4.2	8.6	4.9	2.6
	Population	2.3	2.5	2.4	2.4	2.4			
DRC	GDP						-6.2	-4.4	3.0
	Population	3.3	3.3	3.4	3.4				
LESOTHO	GDP	4.4	10.0	8.1	-4.6	2.0	3.5	4.0	4.0
	Population	2.1	2.1	2.0	2.5	2.9			
MALAWI	GDP	1.9	1.9	1.9	1.9	1.9	1.7	-1.5	1.8
	Population	14.3	10.9	5.0	3.3	6.7			
MAURITIUS	GDP	5.6	6.2	5.6	5.7	2.7	-	-	-
	Population	0.9	1.0	1.2	1.0	1.3			
MOZAMBIQUE	GDP	3.3	6.8	11.3	12.1	9.0	1.6	13.9	9.0
	Population	1.7	1.7	1.7	2.3	2.4			
NAMIBIA	GDP	5.1	3.0	2.6	2.4	2.9	3.4	2.5	2.5
	Population	3.1	3.1	3.1	3.1	3.1			
SEYCHELLES	GDP	-0.83	4.92	4.59	5.5	2.9	-	-	-
	Population	1.51	0.75	1.7	2.21	2.49			
SOUTH AFRICA	GDP	3.1	4.2	2.5	0.6	1.2	3.4	2.2	2.5
	Population	2.1	2.1	2.1	2.1	2.1			
SWAZILAND	GDP	3.0	3.6	4.0	2.7	3.1	2.2	1.6	1.8
	Population	3.3	3.3	2.9	2.7	2.7			
TANZANIA	GDP	3.6	4.5	3.5	3.7	3.5	5.1	5.6	5.8
	Population	3.0	2.9	2.8	3.1	3.1			
ZIMBABWE	GDP	-0.2	10.6	2.8	4.1	-	-5.1	-8.5	-10.6
	Population	3.4	3.3	3.3	3.4				
ZAMBIA	GDP	-2.5	6.6	3.3	-1.9	2.4	3.6	4.9	3.7
	Population	3.4	3.3	3.4	3.3	3.3			

2.3 Macroeconomic Stability in Zambia

Macroeconomic stability has eluded Zambia since the 1970s, as can be seen from the tables above and below. The short-term measures employed by the government, such as resorting to foreign reserves, external and internal borrowing to support current account and budgetary deficits, have made the situation worse. This was done at a time when the country needed measures to boost the national productive capacities. The result has been the attainment of the HIPC status instead of an upward movement from a middle-income country. The external and internal debt is still a problem today, in 2003.

Table 2.7: Global Economic Indicators (in US$mn)

Item	1970	1980	1990	1993	1995	1999	2000	2001	2002
Gross National Product	1,742	3,594	3,008	3,019	3,228	2,994	3102	3600	3700
Exports	-	1,625	1,362	1,440	1,445	940	746	887	920
Imports	-	1,987	2,336	1,661	1,762	1,491	978	1253	1157
Reserves	515	201	206	192	223	45	114	114	259

Reports 2001/2, Ministry of Finance.
Source: Global Development Finance, World Bank Country Tables, 2001, p.600.

The indicators given in Table 2.7 show a declining economy over the past thirty years, since 1970. The decline accelerated from 1990, but the government did not prepare in a long-term strategy to external shocks. Rather, it thought the crisis would pass and, therefore, resorted to short-term external borrowing, which resulted, in the long run, in accumulation of an external debt. This is one of the reasons for the increase in external borrowing, from less than US$1bn in 1970 to three times more ten years later and a doubling in the following ten years.

The debt-service-to-exports ratio increased from 21 percent between the period 1975-84 to 64 percent between the period 1985-90 and remained around 57 percent after 1996.

Accumulated external debt has an onerous service burden for the economy. The debt-service-to-exports ratio increased from 21 percent between the period 1975-84 to 64 percent between the period 1985-90 and remained around 57 percent after 1996[4]. The rise in debt service burden coincided with the reduction of the share of exports in the GDP, by 50 percent in 1965-74 and 31 percent 1990-1995. But, the share of imports to the GDP only reduced by 39 and 34 percent, respectively.

Similarly, fiscal revenue fell from 30 percent of GDP for the period 1970-74 to 19 percent for the period 1980-90. The greatest slump in revenues came from mining, which declined from 10.8 percent of the GDP, or 36 percent of the fiscal revenue, to a low level of 1.6 percent of the GDP, or

Table 2.8: Central Government Finance, as a Percentage of the GDP

	1995	1996	1997	1998	1999	2000	2001	2002
Total revenue	29.1	26.8	24.5	27.8	17.6	19.3	20.5	18.0
Total expenditure	32.9	29.4	26.8	28.8	17.0	22.0	23.0	22.0
Government deficit, excluding grants	-13.0	-8.7	-7.0	-10.0	1.0	-2.1	-2.4	-3.2
Government deficit, including grants	-3.8	-2.6	-1.9	-4.3	1.0	-2.1	-2.4	-4.1
Total domestic public debt outstanding	NA	11.7	10.0	14.3	NA	3.29	31.5	26.2
Current account, including official transfers, as percentage of GDP	-4.2	-3.7	-6.1	8.1	-17.0	-18.9	-20.0	-16.3
Total foreign public debt, as percentage of GDP	197	210	179	197	232.4	394	197	173.3

Source: World Bank 1995, Public Expenditure Review Report No. 13857-ZA.

Zambia today depends on external grants. Most of these grants are in the form of balance of payments support and food aid.

8.4 percent of revenues[5]. In short, Zambia today depends on external grants. Most of these grants are in the form of balance of payments support and food aid[6]. Even this has declined over the years, from US$110 per capita in 1991 to US$67 in 1996. As a percentage of the GNP, aid reduced from 27.7 percent in 1991 to 18.6 percent in 1996[7]. As per the 2002 budget figures US$600mn or 43.3 percent of the budget required external aid out of which US$532mn is for project financing and US$68mn for other budget support.

2.4 Foreign Investment Flows

Prior to 1968, when the government embarked on nationalisation of most foreign-owned enterprises, the Zambian economy was driven by FDI in its various forms.

Prior to 1968, when the government embarked on nationalisation of most foreign-owned enterprises, the Zambian economy was driven by FDI in its various forms. Due to the nationalisation process that ensued, considerable capital flight took place. The result was that in 1970 alone, the capital flight was a colossal US$297mn. As the government was taking major strides to attract FDI, the petroleum crisis of the mid-70s set in. Things did not improve when the new government came to power in 1991, with a deep public sector crisis. The reforms initiated through the SAP did manage to reverse the trend, but little FDI has come in during the last decade, as seen in Table 2.9.

Table 2.9: Selected Indicators of External Resource Flows 1970-2002 (in US$mn)

Total debt	814	3,244	6,916	6,485	6,952	5,853	6,310	7,123	6,487
Foreign direct investment	-297	62	203	52	97	163	122	72	82
Grants[a]	2	72	663	478	362	347	186	227	225
Profit remittance	60	84	115	54	50	58	92	209	293
Net private transfers	-65	29	50	-48	-10	85	-18	-20	7

[a] Excludes technical co-operation.

Source: Global Development Finance, World Bank 2001and Economic Report, 2002, Ministry of Finance and National Planning.

2.5 Infrastructure

The existence and quality of economic infrastructure in any country is a key determinant of whether or not FDI and, indeed, any investment at all will be made. This factor greatly determines the cost of doing business, including its viability. A country may not be an investment destination on this account alone.

During the early years of independence, Zambia was well disposed and managed to set up considerable networks of social and economic infrastructure.

During the early years of independence, Zambia was well disposed and managed to set up considerable networks of social and economic infrastructure, ranging from hospitals, schools, all-weather roads connecting all provincial and district centres in the country, construction of airports for civil and military use and the railway link to Tanzania, following the UDI in the present day Zimbabwe. However, the dual role assumed by the government, both as an enterprise owner and manager of the nationalised parastatals, became too demanding in the face of the declining government revenues since the 1970s. Subsequent to the construction of the infrastructure in the initial period, it was not found possible to maintain the same.

A road maintenance fund has been created, funded by a petroleum tax, to deal with Zambia's deteriorated roads.

Efficient transport and communications help investment and economic growth. Zambia's transport and communication infrastructure is poor by international standards. Recently, a road maintenance fund has been created, funded by a petroleum tax, to deal with Zambia's deteriorated roads. The current programme aims to increase the proportion of main roads and feeder roads in good condition to 45 and 15 percent, respectively[8]. However, by all standards, paved road density is low, at 753 kilometres for one million people. In terms of utilisation of roads at the end of 2002, passenger transport sector had 5117 bus operators and 10,346 registered vehicles.

The shift from trains to road traffic is estimated to cost the Zambian economy US$100-150mn per year in increased road deterioration and fuel costs.

The railway network in Zambia is at the centre of the international routes linking Zambia and the Democratic Republic of Congo (DRC) to other neighbouring countries, as well as to the seaports of Mozambique, Tanzania, Angola and South Africa. However, because of the poor state of the rail track, operating inefficiencies and the increasing frequency of accidents, Zambia Railways' freight traffic declined from 4½ million tons to about 1½ million tons between 1990 and 1996. The shift from trains to road traffic is estimated to cost the Zambian economy US$100-150mn per year in increased road deterioration and fuel costs.

Table 2.10: The Haulage of Goods by Rail (in metric tonnes) (inclusive of local, exports, imports and transit cargo)

1998	1,412,730
1999	1,611,868
2000	1,457,245
2001	1,666,008
2002	1,887,000

Source: Economic Report, 2002

The government has developed a national water strategy that encompasses rural and urban water supplies, river basin management, irrigation, and the control of pollution.

Increasing access to safe water is vital to the health of the population. Currently, about 70 percent of the urban population has access to tap water, but there are serious deficiencies in peri-urban areas and informal settlements. Between 10-30 percent of the rural population (varying across provinces) has access to safe water. The government has developed a national water strategy that encompasses rural and urban water supplies, river basin management, irrigation, and the control of pollution. In October 1997, Parliament passed the Water Supply and Sanitation Act, which authorised the establishment of commercial utilities and created a regulatory body for the sector.

In addition, efforts are under way to deal urgently with the deteriorating urban water systems by, *inter alia*, strengthening water management, rehabilitating water supply and sewage treatment facilities and increasing tariffs and improving tariff collection, so as to generate the funds necessary to operate the water systems on a more commercial basis. The government's objective is to ensure that 50 percent of the rural population and 100 percent of the urban population have access to clean water and sanitation by the year 2004[9]. This, though, is a tough objective in the face of the current slow progress in this sector.

The power sector is largely state-owned. Though the power generation facility is unmatched by African standards, the power system losses are considered to be high at 11 percent of the output[10] and contribute greatly to the 65 percent financial losses. The government has approved the power sector restructuring proposals drawn up by the Energy Regulation Board, with the involvement of stakeholders. The sector will be unbundled for generation and distribution. The monopoly components will be under the state as common carriers. By the end of 2003, a Bill on the rural electrification fund was before the Parliament for enactment. Zambia currently produces more electricity than domestic consumption and exports to six neighbouring countries with a total export value of US$ 5.5 million in 2002.

Zambia currently produces more electricity than domestic consumption and exports to six neighbouring countries with a total export value of US$ 5.5 million in 2002.

The government has established regulatory arrangements for public utilities in water, energy, telecommunication and road transport. Public utility prices need to be set at levels that provide adequate returns on capital and facilitate efficiency and investment, while ensuring that enterprises do not exploit their monopoly positions. The Energy Regulation Board (ERB), which was established in 1997, has the mandate to regulate the service providers as well as fuel and electricity prices independently, with regard to the findings of the public hearings.

Technology and Level of Skills

The government has established regulatory arrangements for public utilities in water, energy, telecommunication and road transport.

Zambia's first policy on Technical Education and Vocational Training was formulated in 1969 and had an operational thrust which conceived technical education and vocational training as an extension of formal education. As a result, the policy focused on the training needs of the formal sector until 1994, when the government sought to review the status quo. The new policy focus is to bring in sensitivity to the changed labour market circumstances. The formal sector in Zambia has declined and will continue to do for sometime. As a result, over 70 percent of the active labour force in Zambia is engaged in informal sector activities. The focus of the new policy is:

- Skills training to balance supply and demand;
- Training to be a vehicle to improved productivity; and
- Training to be a tool in minimising inequalities among people.

Accordingly, the government has put in place the Technical, Vocational and Entrepreneurship Training Policy and an Authority to administer the same, under an Act of Parliament. Apart from having overview of the existing training institutions, the Authority (TEVETA) has the mandate to promote new training including those that may be based in the communities on accreditation with the Authority in accordance with some approval procedures.

Zambia's production technologies are consistent with the country's levels of economic development and the nature of the economy.

Zambia's production technologies are, by and large, consistent with the country's levels of economic development and the nature of the economy. On the one hand, there is the large labour-intensive subsistence economy and, on the other, capital-intensive modern economic enclave. Zambia exports copper to import production technology. What is crucial here is the country's ability to absorb technical know-how. But, this is dependent on the country's human capital[11].

In Zambia, the shortage of scientists and other technical personnel means that technology acquisition also involves importation of relevant personnel to operate that technology. It is for this reason that the government established the National Council for Scientific Research (NCSR) and the Technology Development Advisory Unit (TDAU) at the University of Zambia to develop and diffuse the application of science and technology. Financial and human constraints facing such institutions have tended to limit their work to experimentation and testing, although TDAU has been able to develop several prototype, albeit rudimentary, technologies. It has also produced for sale a number of innovative technological items.

The dominance of mining activities and post-colonial import-substitution industrialisation, which favoured investments in electricity generation, chemicals, transport and other manufacturing investments, created a capital-intensive economy. This underlies the capital-intensive nature of underground mining requirements and copper processing operations.

Issues for Comments

- What were the positive and negative impacts of the SAP/economic liberalisation policies implemented in Zambia during the 1990s?
- What was the impact of economic liberalisation on poverty levels in Zambia since the 1990's?
- What was the link between economic liberalisation and FDI in Zambia from 1991 to date?
- What are the lessons of decade long economic liberalisation (1991-2000) for the future policy decisions of Zambia?

CHAPTER-3

Round Up of Main Policy Trends

This chapter provides an overview of the main policy trends, as a background to investment policies. It will present the national development strategy followed in the 1990s and describe the trade policies of the government and the fiscal regime for foreign direct investors. The chapter concludes with a discussion on legislative framework for foreign investments, such as the competition policy and law and privatisation policy.

From 1964 to 1985, Zambian economic policies were characterised by import substitution-based industrialisation. Development strategies during this period tended to sideline agriculture in favour of the industrial sector.

From 1964 to 1985, Zambian economic policies were characterised by import substitution-based industrialisation, along with pervasive controls and expansion of the public sector. Development strategies during this period tended to sideline agriculture in favour of the industrial sector. As a result, people moved to urban areas in search of opportunities. This migration was one of the reasons for making Zambia urbanised, by African standards. When the copper price collapsed, Zambia had to borrow from multilateral financial institutions (MFIs) in the hope that its fortunes would reverse. This did not happen and, as a result , only helped create an onerous debt burden.

The liberal fiscal policies introduced during the 1980s led to high deficits, a huge debt of US$7bn and a three-digit inflation level by 1991. The government itself played conflicting roles of designing policy, enforcing regulations and operating companies. For instance, between 1985 and 1989, parastatals received some US$455mn from the state, while they only paid back US$22mn in dividends.

3.1 National Development Strategy

The new government that came to power in 1991 dispensed with national development planning in preference for sectoral policies and programming as tools of economic reforms, through the SAPs. It also agreed to adopt a set of structural adjustment programmes (SAPs) employed by the International Monetary Fund and the World Bank. . The SAP focused on achieving three macroeconomic objectives:

i. Restoration of macroeconomic stability through monetary and fiscal reforms;
ii. Facilitation of private sector growth by freeing price and exchange rate regulations, import and export regulations; and
iii. Transformation of agriculture and industry from public monopolies to private and decentralised institutions.

The thrust of the macroeconomic stabilisation strategy was to control inflation by reducing fiscal deficits and the money supply.

The thrust of the macroeconomic stabilisation strategy was to control inflation by reducing fiscal deficits and the money supply. This was to be achieved through the elimination of subsidies and the adoption of a cash budget, so that increase in expenditure would only be met from revenue increases or savings.

Initially, the implementation of these proposals resulted in further difficulties to the economy. Inflation increased to over 180 percent in the first-two years, before declining to 54 percent and, subsequently, to 33.5 percent. Anticipated investment and savings growth failed to materialise and welfare indicators showed widespread misery and increased poverty among the population. It was soon realised that the implementation of SAPs should be accompanied by social safety nets, to mitigate the consequences of the implementation of these policies.

The government's overall development objective was 'to ensure that poverty reduction issues were on the top of the agenda for sustainable national development. This is proposed to be achieved through the privatisation of state-owned enterprises, trade and foreign exchange liberalisation and restructuring of the public service.

The government's overall development objective was 'to ensure that poverty reduction issues were on the top of the agenda for sustainable national development'[12]. This is proposed to be achieved through the privatisation of state-owned enterprises, trade and foreign exchange liberalisation and restructuring of the public service. Also on the agenda was reforms in the education and health sectors, private sector promotion and infrastructure rehabilitation. However, the problems of debt and external financial dependence remain unresolved and the development strategy intends to address these constraints. The various strategic thrusts have been spelt out in the following policy measures.

3.2 Investment Policy and Law: The Need for New Institutions

The government in 1991 made it clear that, for growth and development, investment was the key factor. However, investment decisions are based on expected income streams and, therefore, investor perceptions of the present and future conditions of commercial activity matter. Accordingly, the government sought to deal with the factors that constitute the 'investment climate': firstly, it adopted a clear policy for a private sector-driven economy. Secondly, it adopted legislations that were supportive of the private sector.

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These laws became the necessary confidence-building pillars that investors always want to look at. Towards this end, a specific Investment Act and an Investment Centre was put in place. A number of other Acts and Institutions which enhance investment were also operationalised, e.g. the Privatisation Act and Agency, the Communications Act and Authority, Pensions and Insurance Act and Authority, ERB including the Office for the Promotion of Private Investment in the energy sector (OPPI), Securities Act and Stock Exchange Commission, and Banking and Financial Services Act, etc. It is these laws and institutions that aim to provide the much needed enabling environment for investment. The sections that follow below discuss on some specific policies and implementation results.

3.3 Fiscal Policy

The fiscal policy focuses on taxes, government spending and borrowing[13]. The government budget accounts for 35.5 percent of the GDP[14]. The problem with the fiscal policy in Zambia is that it has to take care of huge expenditure for development and infrastructure but the tax base is narrow. This raises the tax burden on a few through increase in taxes. Zambia suffered from huge revenue loss and fiscal deficit because of the collapse of the copper price and industry and, therefore, needed to raise revenues from other sources and also restrain expenditure. Starting with a tax reform in 1993, the government has taken steps to improve tax administration and established the Zambia Revenue Authority in 1994. In 1995, Value Added Tax (VAT) was introduced and pegged at 17.5 percent. It is generally believed in Zambia that the existing level of VAT tends to make exports less competitive and unrewarding. This has resulted in an

Zambia suffered from huge revenue loss and fiscal deficit because of the collapse of the copper price and industry and, therefore, needs to raise revenues from other sources and also restrain expenditure.

increase of the informal cash economy and evasive strategies to minimise taxes.

At the core of Zambia's fiscal policy has been the control of government expenditure to reduce the deficit, through cutbacks on civil service emoluments and transfer payments.

At the core of Zambia's fiscal policy has been the control of government expenditure to reduce the deficit, through cutbacks on civil service emoluments and transfer payments. In the pre-reform period, the major cause of expenditure deficit was the policy of price control and provision of free public services- particularly education and health. Price controls entailed subsidies, which the government had to fund through public borrowing. However, even after the recent privatisation of the copper mines required the government to continue subsidising the poorly performing copper industry. In 2000, net public lending to Zambia Consolidated Copper Mines (ZCCM), for instance, was 19.33 percent of government expenditure, or 65 percent of receipts on income tax[15].

Poor fiscal policy management seems to be at the centre of internal distress in Zambia's economic situation. This has negative pressures on the external balance.

The deficit is partially financed from external grants and public borrowing through issue of bonds[16]. The increase in supply of bonds has tended to push interest rates upwards and acted as a brake on private investment growth, through the 'crowding out effect' of government borrowing on the private sector. Poor fiscal policy management seems to be at the centre of internal distress in Zambia's economic situation. This has negative pressures on the external balance.

Another major concern is the quality of government spending. Much of the government expenditure goes towards the emoluments of its personnel (21 percent) and capital expenditure (39 percent), of which 60.4 percent is foreign-funded. Debt service is 15 percent and recurrent departmental charges 25 percent.[17] On account of this, expenditure in development and infrastructure suffers.

3.4 Monetary Policy

The monetary policy in Zambia is based on the belief that a market-determined exchange rate can be helpful in correcting the balance of payments deficits. This, however, led to the depreciation of the Kwacha considerably.

The monetary policy in Zambia is based on the belief that a market-determined exchange rate can be helpful in correcting the balance of payments deficits. This, however, led to the depreciation of the Kwacha (Zambian currency) considerably. The fall in the exchange rate of the Kwacha was expected to shift foreign and domestic demand towards domestic output. By freeing the exchange rate, the country could manage money supply better. Under Zambian conditions of persistent trade imbalances, this also meant reducing money supply to lessen inflation.

However, achieving monetary targets hinges upon the corresponding supply of foreign exchange from the IMF and other balance of payments (BOP) support agencies, since BOP difficulties are driven by export shortfalls. However, the reduction of money supply has had the effect of raising interest rates and lowering the level of income. The negative effect of higher interest rates on the level of expenditure on domestic output has resulted in a lower level of income and employment[18].

3.5 Trade Policy

Prior to 1991, and especially after 1968, Zambia followed a rigidly controlled trade policy, which was aimed at supporting the import-substitution industrialisation programme and the parastatal sector, in general. It was believed that this was the best way jobs could be created and sustained, thereby fostering equity in income distribution and, hence, development. The disaster that followed the economic decline since the 1973 oil crisis and the subsequent lack of investment and growth in the economy, confirmed that the trade regime had defects especially due to high levels of poverty. It made the country complacent in the face of growing socio-economic challenges.

In 1991, the government decided to liberalise the economy and, hence, its trade policy by removing bottlenecks to both domestic and international trade.

In 1991, the government decided to liberalise the economy and, hence, its trade policy by removing bottlenecks to both domestic and international trade. The primary objectives of Zambia's Trade Policy include the following: 1. maintain a liberalised import and export regime that supports industrial development; 2. encourage production of exports and continue diversifying the export base; 3. support and encourage export of value-added goods; 4. seek new markets and strengthen ties with regional and international markets; and 5. ensure efficient customs administration and fair trade practices and poverty reduction through sustainable economic growth.

The effects of the trade policy reforms have been commendable on non-traditional exports, which have grown from a low US$68mn in 1987 to US$336mn in 2002. However, the metals, especially copper and cobalt, have continued to contribute nearly 70 percent of the total merchandise exports. On the whole, the said improvements have arisen from factors such as streamlined export procedures, reformed direct and indirect taxation and the abolition of the import declaration fee. There have been some negative effects of the liberal trade policy, including cheaper imports, compared to locally produced goods and services, leading to the closure of many companies in manufacturing and service sectors. There also has been considerable loss of jobs. All these problems have increased pressure on the government to make appropriate changes in the policy and also membership of the regional trading body, COMESA. Zambia has, remained an overall net importer from the rest of the world despite the trade policy reforms.

There have been some negative effects of the liberal trade policy, including cheaper imports, compared to locally produced goods and services, leading to the closure of many companies in manufacturing and service sectors.

The need for export product diversification was recognised a long time ago.[19] Even if the copper prices were to improve, the cost of mining had increased considerably, because of low copper content and mining at great depths. A major effort was made for encouraging the production of coffee. In addition, the government also encouraged the production of high-value low-volume minerals, gemstones and gold. These efforts had a fair degree of results. A considerable achievement was the increase in horticultural exports. As per the 2001 data, cut flowers, fresh vegetable and sugar exports accounted for almost 17 percent of total exports.

A considerable achievement was the increase in horticultural exports. As per the 2001 data, cut flowers, fresh vegetable and sugar exports accounted for almost 17 percent of total exports.

It was, however, realised that real benefits through trade would come to the country only when the economy is on a competitive footing. This was seen to lie in liberalisation of trade and markets. Zambia has made substantial policy achievements in trade liberalisation, by removing impediments to exports in 1990s by streamlining export licensing. In 1991, discretionary waivers and exemptions on import taxes were also removed. By 1993, a minimum tariff of 20 percent and maximum of 40 percent and the abolition of the 10 percent import licence fee were affected. In 1996, more tariff reductions were implemented and all capital controls were removed. For example, duty on agricultural inputs was removed in 2000 and other customs and excise duties on manufactured products and their inputs were further reduced[20].

A small number of goods may be imported into Zambia duty-free, including books, publications and pharmaceuticals. Most goods fall into one of three tariff bands: 5 percent (raw materials, capital equipment); 15 percent (intermediate goods); or 25 percent (final products). Duty on productive machinery for agriculture and mining is zero-rated. However, there is a 5 percent import declaration fee on all goods. An export licence is required for export of some goods, such as maize, considered to be of strategic importance.

3.6 Privatisation Policy

The government set about the down sizing of the state-owned sector, which accounted for 80 percent of the GDP, By the year 2002, 254 out of 280 companies had been sold.

The government set about the down sizing of the state-owned sector, which accounted for 80 percent of the GDP, with the enactment of the Zambia Privatisation Act and the establishment of the Zambia Privatisation Agency in 1992. Beginning with smaller companies, privatisation went into full swing in 1996-97. By the year 2002, 254 out of 280 companies had been sold. The privatisation of the mines was delayed amidst allegations of incompetence and corruption. At any rate, a veil of secrecy and behind-the-scene manoeuvres shrouded the whole process. Delays in the privatisation of the mines added to investor uncertainty across sectors. The Table below shows the progress made in the privatisation of parastatals.

Table 3.1: Privatisation Programme Status-1994 to 2002

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Completed privatisation deals (cumulative)	15	60	189	213	224	234	245	251	254
Negotiations completed		12	4	8	6	2	3	5	3
Number of agreement signed		30	5	2	6	2	0	0	0
Companies/units privatised (cumulative)	15	102	194	223	236	238	248	256	257
Companies under negotiation	4	24	6	33	20	16	6	2	1
Companies under preparation	32	12	53	25	16	26	26	22	22
Commercialisation of Govt. Departments*				31	31	31	31	31	31
Total Working Portfolio	52	210	253	312	303	311	311	311	313

Source: Economic Report, 2002, Ministry of Finance.

*Total number of Government Departments identified for commercialisation.

By 2002, political commitment to privatise the remaining sectors was waning. Privatisation had resulted in shedding of labour and increasing hardship among the working class.

Despite the tremendous progress achieved in the privatisation of the industry and the trading sector, there has been some delay in the privatisation of the telecommunication, energy, media, railways and banking sectors. By 2002, political commitment to privatise the remaining sectors was waning. After all, privatisation had resulted in shedding of labour and increasing hardship among the working class. The closure of privatised mines viz. Kabwe lead and zinc and Baluba mines, had caused decline of these towns. The uncertainty over the future of the KCM, Zambia's largest copper mine – in July 2002, caused by the withdrawal of the major shareholder Anglo-American Corporation due to poor copper prices and escalating production costs, seems to have soured the official commitment to privatisation.

3.7 Competition Policy and Law

The law on competition and fair-trading in Zambia came into force in February 1995, but only became operational in April 1997, with the appointment of the Board and Chief Executive. The law has two objectives. The first objective is to prevent anti-competitive conduct by encouraging competition and efficiency, in order to provide for greater choice for

The competition law seeks to control, or eliminate, restrictive business practices, including agreements or mergers and acquisitions or abuse of dominant positions on the market, which may limit access to markets or otherwise unduly restrain competition, and regulate mergers and acquisitions that are likely to lead to a dominant market position.

consumers, in terms of price, quality and service. Second, the law aims to ensure that the interests and welfare of consumers are adequately protected in their dealings with producers and sellers.[21] This law seeks to control, or eliminate, restrictive business practices, including agreements or mergers and acquisitions or abuse of dominant positions on the market, which may limit access to markets or otherwise unduly restrain competition, and regulate mergers and acquisitions that are likely to lead to a dominant market position.

This later role is a crucial aspect of the competition law in Zambia, because it gives the country the leverage to challenge foreign mergers and acquisitions that may have influence within its territory. The assessment of mergers or takeovers by the Commission focuses on the question of whether a proposed transaction is likely to prevent, distort or lessen competition. It is an offence under the Act to effect a merger between two or more independent enterprises engaged in the manufacture or distribution of similar goods or services without authorisation.

The Act has set two thresholds for the assessment of mergers or takeovers. One is to deal with situations of unilateral market power, or single firm dominance. This threshold is set at where the merged firm has a market share of more than 50 percent of the relevant market. The other is to deal with the situation of concentrated markets, such as an oligopoly. This threshold is set at where not more than two undertakings share in excess of 50 percent of the market. Although thresholds are set for the purpose of screening market concentrations, there are stakeholders who want them lowered.[22]

Issues for Comments

- To what extent did economic policies of the 1990's help Zambia in achieving its developmental objectives?
- What were the outcomes of donor driven policies introduced during the 1990s?
- What were the policy incoherencies which influenced the poor economic performance from 1991 onwards?
- Were the policies wrong or is it that there were slippages in the implementation?
- What was the nature of stakeholder involvement in the economic policy-making process prior to and after 1991?

CHAPTER-4

Investment Policy Audit

This chapter describes the investment registration process and the details of the rights to entry and establishment of firms by foreign and domestic investors. It also discusses the dispute settlement mechanisms, investment protection guarantees and incentives to foreign investors. There is no legal distinction between foreign and domestic investors and there are no special rights of entry and establishment for foreign investors.

There is no legal distinction between foreign and domestic investors and there are no special rights of entry and establishment for foreign investors.

4.1 Registration

The legal requirements for establishing an office in Zambia are fairly easy. A prospective company must register with the Patents and Companies Registration Office (PACRO), a statutory institution under the Ministry of Commerce, Trade and Industry (MCTI), by submitting the company charter and a registration fee. The minimum nominal capital required to register a limited company is ZK1,200,000 (US$240). A registration fee of 2.5 percent of the nominal capital is charged, plus ZK 31,000 (US$6). After submission of the company charter and payment of registration fees, a Certificate of Incorporation is generally issued within 24 hours.[23]

It is not mandatory to register a foreign investment with the Zambia Investment Centre (ZIC).

It is not mandatory to register a foreign investment with the Zambia Investment Centre (ZIC). Basically, foreign investors are not considered to be different from domestic investors. Thus, both local and foreign investors may or may not register with the Investment Centre. The ZIC may assist holders of investment certificates issued by the ZIC with pre and post investment advice and related support services. This includes companies seeking to set up new businesses, expanding, rehabilitating or modernising the existing ones in Zambia. Registration with ZIC involves submission of a completed standard application form to the Investment Centre and payment of US$250, plus Value-added Tax (VAT) of 17.5 percent as the processing fee.

A Projects Approval Committee of the Investment Board meets every month to consider applications for Investment Certificates. An approved investment license enables an investor to obtain up to five expatriate resident work permits. In practice, companies have had difficulties in securing their allotment.

A Projects Approval Committee of the Investment Board meets every month to consider applications for Investment Certificates. Once an application has been approved, a Certificate Fee of US$1500, plus VAT, is charged for the issuance of the Investment Certificate. An approved investment license enables an investor to obtain up to five expatriate resident work permits. In practice, companies have had difficulties in securing their allotment.

4.2 Investor Protection

The right to private ownership and establishment of business enterprises is fairly secured in Zambia. There are no business ventures reserved solely for the government. Private entities may freely establish and dispose of interests in business enterprises, but Investment Board approval is required to transfer an investment license for a given enterprise to a new owner.

Protection of property rights, in general, is weak in Zambia. Property rights are, in general, poorly defined, except registered private properties on state land. Planned legal reform includes the strengthening of commercial law and property rights. Current business laws are outdated and some modern business practices are not covered under the current law. Though tax laws have been improved, their enforcement concentrates on the formal sector, while a large informal sector goes untaxed.

Investments may only be expropriated by an Act of Parliament, relating to the specific property to be expropriated. Compensation must be at a fair market value, although the method for determining fair market value is ill-defined.

Investments may only be expropriated by an Act of Parliament, relating to the specific property to be expropriated. The law states that compensation must be at a fair market value, although the method for determining fair market value is ill-defined. Land, which is held under 99-year lease, may "revert" to the government, if the local authority considers it undeveloped. There is no bankruptcy law in Zambia.

Zambia is a signatory to the Multilateral Investment Guarantee Agency (MIGA). This guarantees foreign investment protection in cases of war, strife, disasters and other disturbances, or in cases of expropriation. Being a country with a known record of political stability, many investors do not generally insist on this matter. This provision has been used by only one foreign investor, since it was acceded to.

4.3 Dispute Settlement

The investment code provides that disputants first resort to internal dispute settlement mechanism before they go for international arbitration. The government recognises international arbitration as binding.

There have been relatively few investment disputes since 1991. The investment code provides that disputants first resort to internal dispute settlement mechanism before they go for international arbitration. The government recognises international arbitration as binding. Zambia is not a member of the International Centre for the Settlement of Investment Disputes (ICSID) though it has ratified the convention on settlement of disputes between states and other nationals of other states. But, it has not ratified the Convention on Recognition and Enforcement of Arbitration awards for the settlement of disputes.

The courts in Zambia are reasonably independent, but contractual and property rights are weak and final court decisions can take a long time.

The courts in Zambia are reasonably independent, but contractual and property rights are weak and final court decisions can take a long time. Slow court process and inadequate law enforcement procedures mean that an issue is resolved after protracted legal proceedings.

4.4 Bilateral Agreements on Investments

There are a few bilateral investment agreements involving Zambia, apart from double taxation treaties with a number of countries. Since there is no legal distinction between a foreign and a domestic investor, domestic laws are used to cover interests of foreign investors. However, Zambia ratified the convention establishing the MIGA in 1988 and only one company is reported to have benefited from this arrangement so far[24].

There are a few bilateral investment agreements involving Zambia, apart from double taxation treaties with a number of countries. Since there is no legal distinction between a foreign and a domestic investor, domestic laws are used to cover interests of foreign investors.

There is need to examine the role of bilateral investment agreements and investigate possible lost opportunities by Zambia for not using this framework. The literature is ambiguous on the benefits of such agreements on encouraging foreign investment inflows.

4.5 Investment Facilitation Institutions

Apart from the ZIC, there is also the Small Enterprise Development Promotion legislation, which provides for various tax exemptions for small rural, or village, enterprises. An investor who qualifies for incentives under the Investment Act, in addition to the general incentives, shall be entitled to an exemption from customs duties, sales duties, and sales tax on all machinery and equipment (other than motor vehicles) required for the establishment, rehabilitation or expansion of that enterprise.

The government also introduced additional incentives for investing in the Export Processing Zones. There is a provision for the establishment of the Zambia Export Processing Zones Authority (ZEPZA) to administer the zones.

The government also introduced additional incentives for investing in the Export Processing Zones. Under the new Act, there is a provision for the establishment of the Zambia Export Processing Zones Authority (ZEPZA) to administer the zones. Part VIII of the Act provides for incentives relating to business enterprises in Export Processing Zones as follows:

- A developer or an investor shall, in respect of the investment relating to the development of the export processing zone or, as the case may be, the investment in a business or an activity authorised by the export processing licence or permit, be exempt from:
    - corporate tax;
    - withholding tax on dividends and tax on interest or royalties;
    - capital gains tax;
    - duty on imported raw materials, plant and machinery intermediates, capital goods, and services;
    - import value-added tax; and
    - excise duty.
- An investor or developer shall be entitled to a refund on value-added tax paid on goods and services purchased from a customs territory.

The government's main strategy is to open up the power industry to the private sector. The government, therefore, initiated the need for restructuring the electricity market, through legislative reforms that allowed other players in the market.

By and large, the various sector regulators do perform several functions, including that of investment promotion, as evident in the energy sector. In 1994, GRZ promulgated the National Energy Policy (NEP). The objective of the NEP, with respect to electricity, is to increase accessibility and develop the most cost-effective sites for the domestic and export markets. The NEP sets a number of policy measures, including restructuring of the electricity sector, improving accessibility to electricity, promoting electrification of productive areas and social institutions and developing hydro-power generating potential. To achieve these objectives, the government's main strategy is to open up the power industry to the private sector, thus abolishing the statutory monopoly of the state-owned public utility, ZESCO. The government, therefore, initiated the need for restructuring the electricity market, through legislative reforms that allowed other players in the market. In 1997, the Power Division of the mining conglomerate, ZCCM, was privatised to establish the Copperbelt Energy Corporation (CEC), as the first private-owned utility in the opened electricity market.

The NEP also sets the institutional framework under which these policy measures would be implemented. The policy defines the roles of the Ministry of Energy and Water Development (MEWD) and the Department of Energy and recommends the establishment of the sector regulator, namely, the ERB. One of the recommended functions of the ERB in the NEP is to regulate against monopoly tendencies of energy undertakings.

In 1998, the government launched the Framework and Package of Incentives (FPI) for private sector participation in hydro-power generation and transmission development.

In 1998, the government further launched the Framework and Package of Incentives (FPI) for private sector participation in hydro-power generation and transmission development. The FPI, among other things, established the Office for Promoting Private Power Investment (OPPPI) within the MEWD. The OPPPI is responsible for promoting the FPI, soliciting and evaluating proposals, negotiating and awarding contracts and finalising implementation and power purchase agreements.

4.6 Investment Policy-making Process

Under the 1993 Investment Act, no property or interest in the right over property can be compulsorily acquired, except for public purposes, under an Act of Parliament and against prompt payment of compensation.

The 1993 Investment Act, as amended in 1996 and 1998, promotes investment, including FDI, mainly in productive activities. Articles 16(1) of the Constitution and 35(1) and (2) of the Act provide for the protection of investments. In accordance with the Act, no property or interest in the right over property can be compulsorily acquired, except for public purposes, under an Act of Parliament and against prompt payment of compensation.[25] The Act does not apply to the banking, insurance, mining and quarrying sectors, which are ruled by the Banking and Financial Services Act, the Insurance Act and the Mines and Minerals Act, respectively. The Investment Act and the Mines and Minerals Act apply equally to local and foreign investments.

Under the Mines and Minerals Act 1995, any investment, including prospecting, by a holder of a mining right can be deducted from income tax, and imports of productive mining equipment required for exploration or mining can be exempt from customs and excise and VAT. Further, the 1996 Finance Act reduced the rate of corporate tax from 35 to 30 percent for companies listed on the Lusaka Stock Exchange and abolished the super tax on profits made by large-scale mining enterprises.

The 1996 Finance Act reduced the rate of corporate tax from 35 to 30 percent for companies listed on the Lusaka Stock Exchange and abolished the super tax on profits made by large-scale mining enterprises.

In the 2002 Budget, the following tax concessions were extended to all mining companies: reduction in the rate of taxation on income to 25 percent; removal of withholding tax levied on dividends, royalties, and management fees, as well as on interest payable by mining companies to shareholders and affiliates; and reduction of the rate of mineral royalty to 0.6 percent of the gross minerals produced.

However, the investment policy-making and promotion process in Zambia is uncoordinated and also depended on external assistance.[26] Prior to 1991, investment policies were the subject of political decision-making processes. The current investment act and the establishment of the ZIC was done through foreign technical assistance and role of the legislative institutions in the formulation of the Act was minimal. Following the liberalisation, the decision making moved to bureaucrats from the legislators. But they too have not been able to make changes in the procedures especially in stakeholder involvement and deviate from the old pattern of executive decisions. Some of the investment decisions are handled at the highest executive level without much involvement of the investment promotion and regulatory agencies.

The ZIC is an investment promotion agency whose aim is to create awareness about the investment opportunities in Zambia and facilitate investment processes. The centre is expected to market investment opportunities by improving foreign perceptions on Zambia as an attractive investment destination.

On paper, the ZIC is an investment promotion agency whose aim is to create awareness about the investment opportunities in Zambia and facilitate investment processes. Also, the centre is expected to market investment opportunities by improving foreign perceptions on Zambia as an attractive investment destination. There is no evidence to show that the ZIC has been successful in this respect and it is felt that that the ZIC needs to focus on these matters. However, in its strategic plan for the period 2001 and 2003, the ZIC has given itself the responsibility for the preparation of a National Investment Plan to identify investment opportunities and prepare district investment profiles and facilitate and accelerate domestic investment. However, ZIC has shown undue delay in preparing the 72-district investment profiles. The sluggish progress towards carrying out key activities of ZIC point towards the weakness of the institution.

In short, Zambia does not have a clearly defined investment policy which focuses on social-economic objectives. What does exist, as rules governing investment, is the Investment Act and a set of fiscal measures for new investments. An investment policy would have a clear focus on technology development and transfer, productivity growth, human resource training and job creation. Policy makers often make statements calling for foreign investors in improving job creation and social development. However, no concrete efforts have been made by the concerned authorities to ensure that how these goals can be achieved.

Policy makers often make statements calling for foreign investors in improving job creation and social development. However, no concrete efforts have been made by the concerned authorities to ensure that how these goals can be achieved.

It has been already noted that the investment incentives are silent on development clauses. For instance, one would like to see that incentives are tied to employment creation or measures related to sound production or clean technology, export promotion, etc. The question that needs to be answered, therefore, is whether the current investment Act legislative tools are sufficient enough to attract FDI and, if not, what additional measures need to be put in place?

Issues for Comments

- What were the guiding principles in the FDI policy-making process of Zambia prior to 1991 and thereafter?
- How far have investment policies helped Zambia increase FDI inflows in the economy?
- Have the previous policies helped attract FDI to priority sectors of the Zambian economy?
- What are the lessons for future policies?

CHAPTER-5

Analysis of Civil Society Survey

Under the project, a civil society survey was conducted in each of the project countries including Zambia. The civil society survey intended to obtain the views/perceptions of the civil society on a number of issues pertaining to FDI in Zambia. For purposes of this research, questionnaires were sent to prospective respondents from a range of civil society organisations, namely, trade unions, the media, business associations, NGOs and charitable organisations. This Chapter discusses the survey results from Zambia, as well as some examples cited by respondents during the survey.

Questionnaires were sent to prospective respondents from a range of civil society organisations, namely, trade unions, the media, business associations, NGOs and charitable organisations.

The questionnaires were administered to 43 respondents in Lusaka and the Copperbelt Provinces with questions dealing with both positive and negative aspects of FDI. The break-up of the respondents is as follows:

Community-based organisations	-	8
Research organisation	-	6
Business associations	-	6
Religious associations	-	5
International non-governmental organisations	-	5
Trade unions	-	4
Women's organisations	-	4
Farmers' organisations	-	3
The media	-	1
Consumers' organisations	-	1

The survey results indicate the view of respondents that FDI can positively contribute to the economy. They perceive foreign investors, especially in the mining industry, as adopting cleaner production processes.

The survey results indicate the view of respondents that FDI can positively contribute to the economy. It also reveals that most of the respondents were aware of the negative aspects of FDI, except that FDI brings in environmentally harmful technologies. They perceive foreign investors, especially in the mining industry, as adopting cleaner production processes within the framework of the Environmental Council of Zambia (ECZ) guidelines. However, the discussions with civil society during the course of the study seem to suggest that a majority of the respondents still perceive that FDI is not helping much to address the developmental concerns commonly raised by the civil society. The majority of respondents from the Copperbelt region held this view. This can be explained by the fact that most of them had breadwinners or relatives who were directly affected by the privatisation of the mines, which resulted in most miners being declared redundant, as a result of the ensuing downsizing strategy embarked upon by the new mine owners.

The civil society perception that FDI is not doing much to add to the quality of jobs is the fact that the new mine owners do not provide their employees with free services they used to receive before the privatisation.

Another reason for the civil society perception that FDI is not doing much to add to, among other things, the quality of jobs is the fact that the new mine owners do not provide their employees with free services they used to receive before the privatisation. These included:

- health care;
- accommodation and transport;
- security services and communication;
- education; and
- water, electricity and sanitation services. [27]

The respondents felt that, since FDI is profit-oriented, foreign investors tend to be exploitative in order to maximise profits. Thus, certain employees remain casual workers for as long as five or more years at meagre salaries.

The survey results show that the respondents felt that, since FDI is profit-oriented, foreign investors tend to be exploitative in order to maximise profits. Thus, certain employees remain casual workers for as long as five or more years at meagre salaries. Further, the respondents felt that foreign investors are generally anti-labour union, while the inherent weaknesses in the Ministry of Labour and Social Security to enforce labour laws have exacerbated the situation.

5.1 Civil Society Perceptions of FDI

On the whole, the civil society shows general agreement with the positive aspects of FDI. The respondents felt that FDI contributes positively to the national economic development through, *inter alia*:

- bringing in valuable new technologies and new management techniques;
- improving the competitiveness of the national economy;
- making up for insufficient domestic investment;
- increasing access to world markets;
- being a valuable source of foreign capital; and
- contribution to the domestic economy by enhancing exports.

The civil society shows general agreement with the positive aspects of FDI. It contributes positively to the national economic development.

Table 5.1 contains the survey results on the positive aspects of FDI. Most of the responses represent a strong or partial agreement with all the positive aspects of foreign direct investment. Sectors that are perceived to have had significant inflows of FDI are mining, agriculture and tourism. However, 60 percent of the respondents thought that FDI does not balance exports/imports.

Table 5.1: Perceptions of Civil Society on Positive Aspects of FDI (By Number of Respondents)

Positive Perceptions	Agree Strongly	Agree	Disagree	Disagree Strongly	Don't Know	Total Responses
FDI brings in valuable new technologies	11	26	4	2	0	43
FDI brings in valuable new management techniques	5	27	8	2	1	43
FDI increases the competitiveness of national economy	5	22	9	3	4	43
FDI increases access to world market	7	27	4	3	2	43
FDI makes up for insufficient domestic investment	15	18	4	4	2	43
FDI is a valuable source of foreign capital	7	20	9	6	1	43
FDI helps enhance export	3	21	16	2	1	43

They opined that FDI in Zambia has contributed significantly to the economy only in the last ten years or so. This is in conformity with the fact that only in the last ten years, or so, (i.e., in 1990s) Zambia experienced a substantial increase in FDI flows.

The civil society's perceptions towards negative aspects of FDI are rather strong. A lot of people lost their jobs during the privatisation process of the 1990s, where FDI, to a great extent, was used for the purchase of privatised parastatals.

However, civil society also felt that:

- foreign investors are only interested in getting access to the domestic market;
- FDI reduces the profit opportunities available to domestic investors;
- FDI provides unfair advantages to multinational firms; and
- foreign investors do not care about the social impact of their investments.

The survey results show that civil society's perceptions towards negative aspects of FDI are rather strong. Again, the probable explanation of this can be that a lot of people lost their jobs during the privatisation process of the 1990s, where FDI, to a great extent, was used for the purchase of privatised parastatals. Table 5.2 below presents the perceptions of civil society regarding some potential negative aspects of FDI.

Table 5.2: Perceptions of Civil Society on Negative Aspects of FDI (By Number of Respondents)

Positive Perceptions	Agree Strongly	Agree	Disagree	Disagree Strongly	Don't Know	Total Responses
FDI brings in environmentally harmful technologies	2	3	27	10	1	43
FDI reduces the profitable opportunities available to domestic investors	14	17	11	1	0	43
Foreign investors are only interested in getting access to domestic market	13	9	17	2	2	43
FDI results out of unfair advantages of multinational firms	18	15	5	2	3	43
Foreign investors do not care about impact of their investments on civil society	16	12	10	5	0	43

Table 5.2 shows that 52 percent of the respondents felt that foreign investors are only interested in getting access to Zambia's resources. A ready example cited by most respondents was the Kapiri Glass factory, which, after being privatised, was ripped off its assets and abandoned.

At present, no domestic private enterprises in Zambia have been able to take over a firm owned by the foreign investors. The domestic industrial sector has not been in a good shape and since liberalisation, industries have closed down in towns such as Luanshya, Ndola, etc. Therefore, foreign investment proves invaluable, especially in areas where local investment fails to endure.

The survey results show that 86 percent of the respondents disagreed with the view that FDI brings in environmentally harmful technologies.

The survey results further show that 86 percent of the respondents disagreed with the view that FDI brings in environmentally harmful technologies. One reason for this perception could be that the respondents of the survey associated the enactment of the Environment Protection and Pollution Control Act, 1990 (Act No. 12), which saw the establishment of the ECZ, with the increased contribution of FDI to the Zambian economy since 1990s.

Most respondents were inclined to perceive that the requirements being enforced by the ECZ resulted in positive actions by the new mine owners, from mere compliance to adoption of cleaner technologies.

For example, Mopani Copper Mines and Konkola Copper Mines were required to produce an Environmental Impact Assessment and an environmental management strategy within two years of setting up operations. Most respondents were inclined to perceive that these requirements being enforced by the ECZ resulted in positive actions by the new mine owners, from mere compliance to adoption of cleaner technologies (with minimum failures), and may have left a positive mark on the civil society's perception of the environmental impact of foreign technologies.

Table 5.3: Civil Society Suggestions about Policies to Increase the Benefits of FDI

Factors	Yes	No/Don't Know	Total
Support local business to upgrade technology/ gain access to finance, etc.	39	4	43
Strengthen environmental regulation	31	12	43
Introduce/strengthen competition policy	28	15	43
Strengthen sectoral regulation	16	27	43
Strengthen labour legislation	32	11	43
Impose requirements on firms to:			
(i) create jobs	40	3	43
(ii) employ local managers	32	11	43
(iii) transfer technology	35	8	43
(iv) source supplies from local firms or impose local content norms	37	6	43
(v) transfer skills and know-how to local firms	37	6	43

The survey results also show that there are strong views as to what role the government should play in facilitating FDI. Civil society responses on the direction of government policies on FDI are reflected in Table 5.3. The survey results show that civil society respondents agreed that it is necessary for the government to:

- support local businesses to upgrade technology/gain access to finance etc.;
- strengthen environmental regulation;
- introduce/strengthen competition policy; and
- strengthen labour legislation.

However, they did not feel that it is such a good idea to strengthen sectoral policy, which would restrict FDI entry to certain sectors. This is surprising in the light of the respondents' view that FDI should be restricted in certain sectors. These include energy (electricity generation and distribution), retail trading, as well as timber harvesting and exporting. Incidentally, the energy sector, i.e., electricity generation and distribution, is in the process of being commercialised by the government. "Commercialisation" according to the Privatisation Act, 1992, is the reorganisation of specific government departments into commercialised enterprises, which operate as profit-making commercial ventures without the subvention of the government. This came about since it was realised that the traditional provider of electricity (The Zambia Electricity Corporation) had inherently weak institutional capacity and that it was incapable of satisfying the consumer demand for provision of satisfactory electricity needs. This issue raises questions as to what extent the implemented programmes by Government reflect the views of civil society.

The energy sector, i.e., electricity generation and distribution, is in the process of being commercialised by the government. This came about since it was realised that the Zambia Electricity Corporation had inherently weak institutional capacity and that it was incapable of satisfying the consumer demand for provision of satisfactory electricity needs.

Civil society is also of the opinion that policies should impose certain requirements on foreign investors to:

- create jobs;
- employ local managers;
- transfer technology;
- source supplies from local firms; and
- transfer skills and know-how to local firms.

This need was voiced by civil society at the second National Reference Group (NRG) meeting with particular reference to small-scale mining (i.e., emeralds) most of which is labour intensive and needs policy support.

Civil society felt that studies on the impact of FDI on certain sectors should be taken up and then target the ones with potential of having the highest impact of FDI viz. agriculture, mining, health, manufacturing, textiles and tourism.

Civil society also felt that studies on the impact of FDI on certain sectors should be taken up and then target the ones with potential of having the highest impact of FDI. The significant sectors that were mentioned in the survey included, *inter alia*, agriculture, mining, health, manufacturing, textiles and tourism. These sectors were also identified as having a high positive impact on the:

- quantity of jobs;
- quality of jobs;
- available technologies;
- competition in markets;
- opportunities for domestic businesses;
- quality of products available to consumers;
- prices of products for consumers;
- choice of products available to consumers;
- balance of payments; and
- the environment.

The respondents unanimously agreed that Zambia needed to attract more FDI. They also expressed their opinion as to why the country did not attract as much FDI as it should.

While all the respondents unanimously agreed that Zambia needed to attract more FDI, they also expressed their opinion as to why the country did not attract as much FDI as it should. The following were identified as major reasons:

- Poor geographical location, i.e., landlocked with high communication and transports costs and dilapidated infrastructure;
- Macroeconomic instability, i.e., high inflation rates, high interest rates, high budget deficits and overruns and politically, rather than economically, motivated decisions;
- High corporate tax;
- Lack of skills among the workforce to market the country as attractive for FDI;
- The country has a small domestic market with low purchasing power;
- Bureaucratic procedures for registration that involve too many players.
- Some respondents suggested that it is easier to take money out of the country than bring it in;
- Lack of cheap raw materials and high cost of production;
- Corruption and its attendant effects of high costs of investment transactions;
- Fear of investors that the current policy may be reversed; and
- Archaic labour laws that allow for meagre incomes, resulting in an unattractively small market base for future products.

Certain incentives given to foreign investors should also be extended to local investors. It was felt that investments in small-scale mining in precious stones should be reserved exclusively for the Zambians.

The respondents also felt that certain incentives given to foreign investors should also be extended to local investors. As seen from the discussions above, the respondents and, indeed, members of the second NRG meeting felt that investments in small-scale mining in precious stones should be reserved exclusively for the Zambians.

To sum up, survey outcomes revealed the civil society perception that FDI plays an important role in the economic development of the country. Although the total is relatively small there is a high degree of agreement among the respondents on the positive contribution FDI can have on the economic development of the country.

Issues for Comments

- Does the civil society reflections on the impact of FDI in Zambia represent the ground realities?
- What should be the nature of civil society involvement in FDI policy-making in Zambia?
- To what extent are civil society's views being reflected in the way the Government is implementing its programmes?

CHAPTER-6

Analysis of Case Studies

6.1. Introduction

This chapter presents an analysis of sectoral case studies conducted to determine the impact, or the lack, of FDI on the mining, tourism and agro-processing sectors in Zambia. The three sectors were specially chosen for assessing the performance of FDI due to their deemed potential in contributing to Zambia's economic growth and development, in consultation with the National Reference Group constituted under the project in Zambia. It is believed that the realisation of this potential would go a long way in eradicating the high incidence of poverty, which is estimated at 73 percent of the population.

The three sectors, mining, tourism and agro-processing were specially chosen for assessing the performance of FDI due to their deemed potential in contributing to Zambia's economic growth and development.

The stark reality in Zambia is that, whereas the GDP growth averaged about 0.5 percent per year between 1990 and 2000, various measures were taken to encourage investments, particularly FDI, but to little avail. This has raised concerns as to what went wrong and, hence, the chapter focuses on specific sectors to understand the general situation prevailing in the country, with suggestions on the way forward in maximising benefits from FDI.

6.2 Analysis Of Sector Profiles

6.2.1 The Mining Sector Overview

Mining is the mainstay of Zambia's economy. Large-scale mining has, for 70 years, exploited the country's natural endowments of copper, coal, lead and zinc. In addition, small-scale mining has made exploits of gemstone deposits, such as emeralds, amethysts, aquamarines, tourmalines, garnets and citrines. Emerald mining has dominated this sub-sector.

As the mainstay of Zambia's economy, the mining sector is the main contributor to the GDP, export earnings (about 70 percent), government revenue and economy-wide forward and backward linkages.

As the mainstay of Zambia's economy, the mining sector is the main contributor to the GDP, export earnings (about 70 percent), government revenue and economy-wide forward and backward linkages. This sector remained significant for the economy irrespective of doldrums faced by the economy over the years. Zambia can manage to take advantage of and cushion itself from the vagaries of the marketplace, such as price volatilities due to its rich endowment of mineral resources. However, the key to doing so depends on the flexibility of the sector to adjust to market signals and switch to sub-sectors that offer the best opportunities over time.

Mining Sector Performance and Market Prices

The trends in world prices for refined copper, which have, apart from production volumes, accounted significantly for the country's declining revenue. Copper prices declined by as much as 44 percent since mid-1997, at the onset of the Asian crisis. It was projected in 1999 that the subsequent average price would be 40 percent lower than the 1997 figure, a phenomenon that is explained principally by the western commercial stocks, which have doubled over the 1997-98 period, to 1.2 million tonnes. Current forecasts predict that it will take several years for world copper prices to recover to the 1997 average of 100 cents per pound. In January 1999, the World Bank warned that, as a result of excessive supply of metals to the world market, 'it may take several years of rapid economic growth to wear off existing surpluses (of copper) and to provide conditions for a rise in prices'.

The consumption of copper reduced due to the changes in technologies in the rich countries, such as application of fibre optic cables for telephones, etc., which replaced copper.

To begin with, it is noteworthy that demand for copper is sensitive to the levels of industrial production in the major industrialised consumers and, as such, prospects in demand for this mineral depend, to a considerable degree, upon the strength and duration of world recovery, such as in 1973-1975 and in 1982. The overall metal consumption by OECD countries reduced by 8.3 and 4.3 percent in the periods 1973-1975 and 1979-1982 respectively. Thus, individual metal consumption reduced though not uniformly.

In 1991, the mining sector performance was its poorest, in terms of metal exports, while non-traditional exports, including semi-precious stones, recorded some upswing.

The consumption of copper reduced due to the changes in technologies in the rich countries, such as application of fibre optic cables for telephones, etc., which replaced copper. Besides, copper output has registered a downward trend for several years now, mainly due to reduced global demand and lower prices. The production in 1997 was 322,888 metric tonnes and it fell to 298,773 metric tones in 2001

Export Performance of Minerals

At the beginning of the last decade, in 1991, the mining sector performance was its poorest, in terms of metal exports, while non-traditional exports, including semi-precious stones, recorded some upswing. Despite the downturn of the sector, the contribution of metal exports to total merchandise exports earnings remained about 70 percent, as shown in table 6.1

Table 6.1 Zambian Merchandise Export Proceeds – 1997-2002, in US$mn

YEAR	1997	1998	1999	2000	2001	2002
Metal Exports	809	630	468	479	593	594
Non-traditional Exports	315	308	298	249	294	326
Metal Exports (% of merchandise exports)	72	67	61	66	69	70

Source: Bank of Zambia, IMF and Economic Report of 2002

Mining Sector Policy Reforms and FDI Performance

Ever since the inception of large-scale mining in Zambia, at the turn of the 20th century, FDI has been, and remains, the prime mover of mining operations. FDI in the sector was present from the very beginning except during the period when mining was nationalised in 1968-1969 and grouped under the ZCCM as the parastatal sector holding company. As of 1991, the ZCCM and its mining divisions were in a poor operational state, resulting in the lowest-ever production levels and dilapidated plant and machinery. The sector was in dire need of re-capitalisation and management overhaul.

Ever since the inception of large-scale mining in Zambia, at the turn of the 20th century, FDI has been, and remains, the prime mover of mining operations.

Therefore, to restore the viability of the once-prosperous and gigantic conglomerate, Zambia Consolidated Copper Mines, which contributed about 90 percent of Zambia's net foreign exchange earnings in the 1980's and hence, was the lifeblood of the Zambian economy, was placed under the divestiture sequence plan for eventual privatisation by the government.

This was necessary in order to attract investment and, with it, better management and re-capitalisation.

Table 6.2: Copper and Cobalt Prices, 1997-2002 (in US$ per pound)						
Period	1997	1998	1999	2000	2001	2002
Copper	1.03	0.75	0.71	0.83	0.73	0.70
Cobalt	23.53	18.50	18.16	9.55	7.97	5.88
Source: Ministry of Mines and Minerals Development, the Bank of Zambia and Economic Reports of 2001 and 2002.						

Despite the said adverse effects of poor price levels on the international markets, considerable muscle was put into the privatising of ZCCM and, generally, the mining sector. What followed the sale of the mines was a surge in economic activity in the Copperbelt area and the rest of the economy. Firstly, about 37,000 jobs were created in the mines, which meant that about 100,000 people were to benefit from employment of their next of kin. Secondly, numerous mine suppliers who were previously not paid by ZCCM were now paid by the government and donor arrangements, thereby rehabilitating them to get back into business and be suppliers to the mines again. These developments entailed far-reaching spill over effects into the rest of the economy.

Due to the privatisation of the mines, by way of FDI, there have been huge production capacity improvements in the mines, which have led to production increases.

Due to the privatisation of the mines, by way of FDI, there have been huge production capacity improvements in the mines, which have led to production increases. The role of FDI in turning around operations in the sector had been timely. The sector was, earlier, burdened with poor returns due to the high import content of raw materials and hardware, and poor market prices. Besides, the mining sector was plagued with high cost of operations on account of lower grade ores and increased depth of extraction sites. The landlocked nature of Zambia made freight costs prohibitive especially for export products. These were the grave concerns about mining in Zambia warranting numerous changes for which the transnational corporations (TNCs) possessed the needed preparedness with proven track record.

The announcement of the withdrawal of Anglo American Corporation (AAC) from Zambia's copper industry in 2002 created uncertainties over the country's economic prospects.

The announcement of the withdrawal of Anglo American Corporation (AAC) from Zambia's copper industry in 2002 created uncertainties over the country's economic prospects. AAC, through Zambia Copper Investments (ZCI), bought Zambia's major mining assets in March 2000 and decided to pull out within two years. The implications of AAC's announcement-which include massive job cuts and a marked drop in export earnings-jolted the government and it's cooperating partners into seriously seeking alternative strategy for the hitherto copper-dependent economy. Economic observers predicted that Anglo's withdrawal would cost the country some 11,000 jobs in the mining sector and many more in its support industries. They, however, say that AAC's decision not to invest further in the Konkola Copper Mines (the largest privatised mining company in which it is the majority shareholder) is only a small part of the problem because the industry suffered a major setback in 2001 when the mining house shelved plans to develop the Konkola Deep Mining Project (KDMP). They point out that while the Konkola Copper Mines have an estimated life span of eight years, the Konkola Deep Mining Project would have extended the life of the copper industry by some 40 years. This will therefore result in severe consequences for the country's balance of payments; the exchange rate; and the economic survival of mining suppliers that are dependent on the copper sector.

6.2.2 The Tourism Sector

The policy recognises that tourism in Zambia is an unexplored area, with vast potential to contribute greatly to wealth creation and poverty reduction.

Zambia has a tourism policy whose mission is to develop a sustainable market and private sector-driven tourism industry and enable equitable access to it by bona fide entrepreneurs wishing to enter the industry, whilst ensuring the preservation of environmental, historical and cultural integrity. The two key objectives of the policy are making the sector economically sustainable and encouraging foreign, indigenous, domestic and local community investment in the sector. The policy recognises that tourism in Zambia is an unexplored area, with vast potential to contribute greatly to wealth creation and poverty reduction. Over the years, performance in the sector has been positive as shown in the following table.

Table 6.3: Selected Performance Indicators in the Tourism Sector

Year	International Visitors (Arrivals)	Tourism Earnings (US$mn)	Jobs
1995	163,000	46.7	5,909
1996	263,986	59.8	6,792
1997	340,896	75.5	7,902
1998	362,025	74.4	8,991
1999	404,503	85.2	10,340
2000	457,419	91.2	11,892

Source : Ministry of Tourism, Environment and Natural Resources

Table 6.3 reveals that tourism has experienced positive growth with foreign exchange receipts increasing by an annual average of 13 percent between 1995 and 2000 or an absolute increase from US$47mn in 1995 to US$91 mn in 2000. The number of tourists' arrival in Zambia increased from 163,000 in 1995 to 457,419 in 2000. In terms of employment creation, the sector has contributed about 12,000 jobs in the year 2000.

Real value added in the tourism sector as measured by activities in the hotels, bars and restaurants sector increased from K48.2bn in 2000 to K59.9bn in 2001, representing an increase of 24.4 percent. This increase was a result of the opening of two major hotels in Livingstone by the Sun International Hotels, the occurrence of the eclipse of the sun in June 2001 and the hosting of the Organisation of African Unity (OAU) Heads of State and Government Summit. Additionally, there was an improvement in the frequency of both scheduled and chartered flights which facilitated tourist movements.

The government has noted that the sector requires massive investment and has set out measures to make it viable, including the restructuring of the Tourism Ministry and the commercialisation of its units.

The government has noted that the sector requires massive investment and has set out measures to make it viable, including the restructuring of the Tourism Ministry and the commercialisation of its units; the leasing of game management areas to the private sector; tax reviews to promote investment in the sector; manpower development; service charge reviews to benefit targeted beneficiaries; hotel upgrading; land use and ownership policy reviews, etc.

The implementation of the tourism strategy has begun to pay dividends in many respects. These include improved funding to tourism institutions and setting up of a development fund to support entrepreneurship in the sector. FDI has taken root in the sector. This is evident from the acquisition of the Holiday Inn/Ridgeway Hotel, construction (at a cost of US$55mn) of the modern Sun International Hotel at the Victoria Falls as a franchise, *While FDI inflows in the sector have picked up, the government has also responded by improving on the requisite infrastructure, including the trunk roads, aerodromes, air travel, code sharing and increasing the frequency in various modes of travel.*

which is ideal for international marketing of Zambia as a tourist destination, the development of various lodges and inns in the country through diverse international arrangements, e.g., the Protea Hotels of South Africa, and the many fast food outlets. While FDI inflows in the sector have picked up, the government has also responded by improving on the requisite infrastructure, including the trunk roads, aerodromes, air travel, code sharing and increasing the frequency in various modes of travel.

These achievements are not without policy pitfalls such as government's decision to increase visa fees in the 2003 Budget from ZK200,000 (US$40) to ZK1,200,000 (US$240), in some cases. The impact of this budgetary revenue measure is that the fees seem to be very high and would, therefore, reduce tourists to Zambia. It is envisaged that if the government were to reduce tax on tour operators, more tourists would visit the country, making the government raise more money from the sector. The fact is that the tourism sector in Zambia still remains largely undeveloped and its enormous potential has, thus, not been fully exploited. The road networks to tourist sites still need lots of investment and modernisation as this will, in turn, improve affordability and also attract domestic tourists.

The fact is that the tourism sector in Zambia still remains largely undeveloped and its enormous potential has not been fully exploited.

6.2.3 The Agro-processing Sector

Agriculture and agri-food processing hold the key to the economic performance of Zambia for a number of reasons. To start with, the sector is not only the largest contributor to GDP (22 percent), it is also the largest employer (2.8 million), largest contributor to visible non-traditional export earnings (60 percent), and total export earnings (23 percent). Besides, it is the largest sub-sector in manufacturing by number of enterprises and persons employed. Farming sector comprises 800,000 smallholdings, 100,000 emergent commercial farmers and 1,000 commercial farms.

Zambia has a significant potential in the sector due to its temperate climate, the existence of 90 percent un-exploited land and abundant water resources. However, the country has an apparent deficiency in farming and processing capacity for basic food products and is a net importer of the same (about US$100mn per annum). Except for individual champions, the food-processing sub-sector is un-competitive. This is so because the Zambian food chain industry has failed to modernise effectively. Despite the incidence of increased trade competition at the regional level, most sector players have not corrected the shortcomings.

Zambia has a significant potential in the sector due to its temperate climate, the existence of 90 percent un-exploited land and abundant water resources.

Agro-processing industries in Zambia are geographically sparsely distributed with a high concentration in the Lusaka Province. Central Province has the second highest distribution of these industries, followed by Southern, Copperbelt and Northern Provinces.

Table 6.4: Number of Small-scale Agro-processing Industries and Geographical Distribution by Sub-sector									
Province	**Sub-sector**								
	Meat preparation and preservation	**Dairy Products**	**Fruit Vegetable canning**	**Grain milling products**	**Sugar & Confectionery**	**Food Products**	**Animal Feeds**	**Wine**	**Vegetable and animal oil**
Central	0	1	0	15	0	0	0	1	0
C/belt	1	1	0	7	3	2	0	0	0
Eastern	0	0	0	7	0	1	0	0	2
Luapula	0	0	0	6	0	0	0	0	0
Lusaka	6	1	2	10	1	5	2	0	2
Northern	0	0	0	14	0	0	0	0	0
N/Western	0	0	0	9	0	0	0	0	1
Southern	2	3	0	5	0	0	1	0	4
Western	0	0	0	6	1	0	0	0	0
Total	**9**	**6**	**2**	**79**	**5**	**8**	**3**	**1**	**9**

Source : Establishment Register, 1998, Central Statistical Office

Based on data shown in Table 6.4, approximately 65 percent of agro-processing industries are engaged in grain milling, 7 percent in meat preparation and preservation and another 7 percent are in vegetable and animal oil manufacturing. About 6 percent of the companies manufacture food products[28] . Agro-processing in rural areas is almost non-existent.

Zambia faces the likely danger of importing food subsuming food production, as food economies globalise.

Zambia, therefore, faces the likely danger of importing food subsuming food production, as food economies globalise. The following issues need resolving to avoid such a situation:

- small agricultural base despite vast arable land;
- under-investment in road, rail and telecommunication infrastructure;
- high borrowing cost and cost of imported inputs;
- declining domestic consumption as abject poverty increases; and
- modern food retailing dynamics not addressed, e.g., the entry of the South African retail chain, Shoprite and the arising procurement standards and credibility issues.

FDI has taken full advantage of the lack of 'local competition'. During the privatisation of the state-owned enterprises, Zambia has managed to attract FDI inflows in this sector.

The bulk of the failure in the sector is attributed to lack of local enterprises. FDI has, on the other hand, taken full advantage of the lack of 'local competition'. FDI in the sector is good enough, with the entry of retails chains like 'Shoprite' and the possibility of exporting to international markets. Other success stories include Zambeef Products Limited and Agriflora which have become the best sector players in the region and are currently involved in capacity building.

During the privatisation of the state-owned enterprises, Zambia has managed to attract FDI inflows in this sector. Privatisation related FDI inflows in the sector included, *inter alia,* the following:

- the privatisation of National Milling Company Ltd to Erabus BV and Namib Mills of Namibia;
- Lint Company of Zambia–Chipata Unit was sold to Clark Cotton of South Africa;
- Zambia Coffee was sold to African Plantations Corporation;
- Zambia Horticultural Products was sold to Foodcorp Ltd of South Africa;

- Zambia Seed Company Ltd (Svalof Weibull AB shareholding 27 percent, Swedfund International AB shareholding 25 percent); and
- Zambia Sugar Company (Ilovo shareholding 40 percent, CDC shareholding 30 percent).

On the whole, FDI has had a positive impact on creation of wealth and jobs, foreign exchange generation, balance of payments, technology transfers and modernisation.

Issues for Comments

- What are the changes required for using FDI as a tool of economic development in Zambia?
- Was there any need for better co-ordination among stakeholders, such as the Government, intergovernmental agencies, donors and the civil society groups?
- What should be the priorities of Zambia at regional discussions, such as COMESA and SADC, on investment issues?
- What should be Zambia's approach to discussions taking place at the WTO on investment issues?

CHAPTER-7

Conclusions

This chapter provides conclusions based on the analyses made in the various chapters of this study.

Socio-economic indicators in Zambia have not been encouraging for an investor. Zambia is categorised as an LDC and highly indebted and internally distressed poor country.

Zambia has achieved some amount of success in attracting FDI since 1991. Every country is a potential investment destination and the actual investment flows are based on attractiveness of investors. Socio-economic indicators in Zambia have not been encouraging for an investor. About 73 percent of the population has been categorised as poor and a quarter (23 percent) cannot read or write. Zambia is thus categorised as an LDC and highly indebted and internally distressed poor country. Further, Zambia has a dual economy dominated by copper mining as the mainstay of economy while majority of the people depend on rain-fed small holder agriculture.

In 1991, the government realised that for economic growth and development to take place, investment is the key factor. Since investment decisions are a function of expected income streams and therefore the investor perceptions about present and future conditions for commercial activity matter greatly. Accordingly, Zambia sought to deal with these necessities that constitute the 'investment climate'. This included the introduction of a policy framework for a private sector-driven economy and also promulgation of various requisite legislations that were deemed supportive of a private sector.

The presence of FDI in the mining sector has been pervasive since inception. The privatisation of mines through FDI gave rebirth to mines which were deprived of capital and modern technology.

The 1993 Investment Act, as amended in 1996 and 1998, promotes investment, including FDI, mainly in productive activities. The Investment Act and the Mines and Minerals Act apply equally to local and foreign investments. The presence of FDI in the mining sector has been pervasive since inception, except during the period 1968/69 when mines were nationalised. The privatisation of mines through FDI gave rebirth to mines which were deprived of capital and modern technology. The role of FDI in turning around operations in the sector has been very timely.

The policy recognises that tourism is a virtual greenfield area with vast potential to contribute greatly to wealth creation and poverty reduction.

Zambia has a Tourism Policy to develop a sustainable private sector driven tourism industry. The policy recognises that tourism is a virtual greenfield area with vast potential to contribute greatly to wealth creation and poverty reduction. The government acknowledges massive investments and has set out measures to make it viable. Implementation of the tourism strategy has begun to pay dividends. Investment has also responded by providing the infrastructure including trunk roads, aerodromes, etc. If government were to reduce tax on tour operators and initiate measures to improve cost effective transport and lodging facilities, it seems more tourists would visit the country.

Agriculture and agri-food processing is key to the economic development of Zambia. These are the key contributors to the GDP (22 percent), largest employers of labour at 2.8 million, large contributors to non-traditional export earnings (60 percent), and to total exports earnings (23 percent). Zambia has significant natural potential in terms of temperate climate, large unexploited land, and abundant water resources. However, it has an apparent deficiency in farming and processing capacity for basic food products and is a net importer of the same.

Zambia has made considerable progress towards liberalisation and also stabilisation of the economy by controlling inflation.

Civil society respondents felt that FDI can have a positive contribution to the economy. However, a majority of respondents from the Copperbelt region known for mining held the view that FDI is not adequately helping to address the concerns commonly raised. The respondents felt that since FDI is profit oriented, foreign investors tend to be exploitive in order to maximise profits. The respondents also felt that foreign investors are generally anti labour union.

The research carried out under the project has shown that Zambia has made considerable progress towards liberalisation and also stabilisation of the economy by controlling inflation. It is however obvious that the government will have to undertake deliberate measures to encourage investment beyond fiscal incentives.

The investment policymaking process and investor promotion in Zambia has not been a well-coordinated activity. There has been no proper coordination among the various agencies such as the Investment Centre, Registrar of Companies, Immigration Department, agencies dealing with land, power, environmental protection, etc. and also sector regulators in this respect.

Zambia does not have a clearly defined investment policy, which has the economic or social objectives of what qualifies as a development oriented investment policy.

Zambia does not have a clearly defined investment policy, which has the economic or social objectives of what qualifies as a development oriented investment policy. What does exist at present is a set of fiscal measures for new investments, which is enshrined in the Investment Act and the periodic budget documents. A progressive investment policy would have a clear focus on technology upgradation and transfer, human resource training and job creation. The investment incentives are silent on development clauses.

The government should have policies that promote domestic investments if significant foreign investors are to follow.

What is required is targeted investment promotion in specific sectors and activities to encourage production and entrepreneurship among people. It seems plausible to assume that foreign investors will continue to bypass the country unless it can be shown that domestic investors themselves are keen in investing in Zambia. Therefore the government should have policies that promote domestic investments if significant foreign investors are to follow.

- Fiscal incentives and legislation on their own are not sufficient to attract FDI in Zambia. It is therefore recommended that in attracting FDI to Zambia, there is need to reform in the socio-economic, political and cultural climate in the country.

- The government should also seriously consider investing or encouraging in quality professional education and skill training beyond what is currently done. It is through education that a lot of problems can be tackled–poverty, HIV/AIDS, sustained availability of skilled human resources for the competitive private sector. An investor would certainly look at not only labour cost but also labour productivity and availability of skilled labour as variables determinig the cost effectiveness of an investment.

- Another invariable factor that discourages FDI in Zambia is the perception of high levels of corruption and delay in decision-making due to myriad bureaucratic procedures. This is a fundamental issue that needs to be addressed with results. Futher, there is no one-stop- shop for investment faciliation.

It is evident that Zambia has introduced several incentive schemes for promoting FDI. However, there is no hard evidence or assessment to show that how these measures helped in promoting FDI in specific sectors. Most of the foreign investments received during the 1990s were destined for take-over of privatised state enterprises. Greenfield investments have been very few. Further, incentives should be rule based so as to enable regulation because foreign investment is not an end in itself. In fact, what was observed is that they are too open ended and prone to abuse because there is no effective closure rules. It is therefore recommended that fiscal incentives should have penalties for closure so that existing conditions are sufficiently stringent to discourage the footloose investors who appear only during the tax holiday and leave once that ends.

Most of the foreign investments received during the 1990s were destined for take-over of privatised state enterprises. Greenfield investments have been very few.

Furthermore, a close examination of double taxation agreements should be made to ensure that they take into account the fact that Zambia is a capital importing country. This is more relevant to double taxation arrangements with countries that originate most of the investments into Zambia. The United Kingdom and South Africa are foremost here.

For Zambia to have any meaningful prospects for attracting foreign and domestic investment there should be seriousness in infrastructure and provision for supporting services at an affordable cost. The roads, transport infrastructures, telecommunication and power infrastructures should be extended and ensured that quality and cost effective services are provided. An area which deserves immediate attention is improvement in quality of information about potential investment opportunities in Zambia. Moreover, there should be periodic investor surveys to add to the knowledge and gather investor perceptions and policy reform needs. The present situation where no institution seems to have a detailed database on actual investments in the economy needs to change.

For Zambia to have any meaningful prospects for attracting foreign and domestic investment there should be seriousness in infrastructure and provision for supporting services at an affordable cost.

The investment policymaking process needs reform too. The institutions concerned should encourage an inclusive process that takes on board the beneficiaries of investment policies. In this respect, there should be investment policies at sub-national/province levels and these should involve technology, labour and development concerns. Investment policies should be guided by well thought out economic and social objectives and not as if FDI is an end in itself.

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