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Executive Summary

Zambia is one of the least developed countries in Africa, with approximately 63.8% of the population living below the international poverty line (below $1). After 27 years of authoritarian leadership with a state-controlled economy, the country began a process of political and economic transformation which started in 1991 when a democratically elected government took office. The erstwhile showcase of democratic transition in Africa soon experienced an authoritarian regression into a hybrid regime. During the period under review, there were no developments towards democratic rule and no significant changes in economic transformation. Whereas the presidential elections of 2001 were most likely rigged – according to domestic and international observers – the government regained democratic legitimacy by clearly winning the elections held in 2006. President Mwanawasa won with a clear margin of 43%, while his closest rival received 29% of the vote. A constitutional crisis did not occur when President Mwanawasa died unexpectedly in August 2008; within the stipulated timeframe, his vice president, Rupiah Banda, was elected as his successor. Although he won by a very narrow margin of 35,209 votes, there was no post-election violence as there had been two years before.

The principles of a democratic system of government are observable. There are no violent conflicts, no veto actors and there is a high degree of acceptance of the democratic order. The judiciary is relatively independent, and there is a functional separation of powers, although the executive is dominant. In addition, there is a tradition of civil society, though weak, and a general agreement on the values and benefits of democracy and a market economy. There is also a tendency toward a relatively autocratic style of leadership in both government and opposition parties. The market economy is based on copper extraction and, to an increasing extent in recent years, on food and agricultural products. During the review period, Zambia made no further progress in democratization. Economic reforms have gone further, but the economic environment is still far from what was initially targeted and the standard of living of the vast majority of the population has decreased over the years. The economy continued to improve...
until the international financial and economic crisis started to impinge on Zambia by mid 2008 with falling copper prices. Against all odds, the country survived the crisis without a major downturn in its economy; indeed, it managed to maintain economic growth of 5%. Hence, the international crisis had no negative impact on the country’s nascent political development towards democracy. Since there is no alternative to the democratic order and there are no relevant veto players worth naming, Zambia seems likely to continue on its bumpy road toward development and democracy.

**History and Characteristics of Transformation**

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

For two legislative periods, a dominant party system emerged that proved less conducive to democratic consolidation. The legacy of an authoritarian political culture and ingrained patterns of neopatrimonial governance persisted. The authoritarian-leaning behavior of the president and his ministers was exacerbated by a lasting sense of insecurity in the face of a state administration manned by supporters and clients of the former one-party state. The government was able to amend the constitution at will since it had the necessary two-thirds majority of votes in parliament, rendering the opposition too weak to effectively check the government’s power. For example, during the run-up to general elections in 1996, Chiluba used his vast political power to amend the constitution in order to disqualify former president Kaunda from standing in the elections, causing the UNIP, then the major opposition party, to boycott the elections. Chiluba was re-elected with 72.6% of the vote, and MMD won 131 of 150 seats in parliament. A failed coup attempt in October 1997 posed no real threat to the government.

However, the coup did have a negative impact on the country’s progress toward consolidation of democracy, as the government used the incident to temporarily limit basic rights. During the ensuing state of emergency, the government arrested prominent opposition leaders, such as UNIP leader Kenneth Kaunda and Dean Mung’omba, president of the Zambia Democratic
Congress. On the other hand, sustained civil society and parliamentary opposition thwarted Chiluba’s attempt to amend the constitution to allow him to stand for a third term of office. Since he was not allowed to stand again in the December 2001 elections, he handpicked his successor, Levy Mwanawasa, who narrowly won the presidential election with a tiny plurality of votes (28.7%) over his main rival, who had only 34,000 fewer votes than he did. Many observers believed that the presidential vote was rigged (an EU observer team referred to the elections as “not safe,” while national observers called them “neither free nor fair”).

The elections in 2006 were a different matter. Despite numerous efforts to unite the opposition parties in various alliances, they were unable to challenge the ruling party. President Mwanawasa (MMD) won with 42.98% and was trailed by Michael Sata of the Patriotic Front (PF), who received 29.37% of the vote, and Hakainde Hichilema of the UPND, who received 25.32%, with the remainder shared by two other candidates. In parliament, MMD missed an absolute majority by winning only 73 out of 150 seats, but by winning two constituencies later on and with eight additional nominated members of parliament, Mwanawasa commanded a majority in parliament. As opposed to the 2001 elections, local and international observers rated the 2006 elections as having been generally free and fair. The same applies to the 2008 presidential by-elections, which were won by the ruling party’s Rupiah Banda by a very close margin (only 35,000 votes separated Banda from his closest rival, Michael Sata of the Patriotic Front).

The economic transformation into a market system started at the end of 1991 with the change of government. In order to combat a serious economic crisis, the government was in dire need of loans from the World Bank and IMF, loans which were tied to the introduction of significant economic reforms. One of the biggest challenges was the privatization of the copper mines, Zambia’s prime export earner. The sector was troubled with low and decreasing world market prices for copper, mismanagement and inefficiency, which rendered copper mining unprofitable. The privatization of the mines turned out to be very difficult because of policy mistakes by the Chiluba government.

In his 10 years in office between 1991 and 2001, Chiluba was unable to meet the high expectations of the Zambian population. He failed to overcome the economic crisis and to raise living standards. Meaningful reforms were thwarted by corruption, political patronage, an overburdened bureaucracy and inefficiency. A widespread perception in Zambia is that Chiluba was cleared of the charges of corruption and abuse of office due to political interference by Rupiah Banda’s government.

Despite some positive changes that were put in place after Mwanawasa’s government came into power in 2002, and despite several years of economic growth at over five percent, economic and social conditions are still far from what they could be.

Major groups within Zambian society are still waiting for the new and more democratic constitution that has been promised since the democratic transition in 1991. In 2010, the government managed to derail the fourth constitutional reform process, at least temporarily.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

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

All citizens have the same civil rights, including immigrants who have lived in Zambia legally for some time. The preponderant majority of the population fundamentally acknowledges the state’s constitution and legitimacy, and there is no organized challenge to state authority.

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

The state’s basic infrastructure – administrative institutions, officeholders, basic jurisdiction, making and implementing political decisions – extends throughout the territory. The situation on the ground differs to some degree, as the operation of these structures is somewhat deficient, though it is important to note that there were some improvements in areas such as tax administration in the late 1990s and early 2000s, while since 2005 the achievements tended to be reversed.
2 | Political Participation

General elections are held and accepted in principle as the means of filling leadership positions. However, there are some constraints on the extent to which such elections can be considered fair. This was demonstrated by the fact that, although international observers and the domestic opposition alike heavily criticized the administration of the presidential and parliamentary elections in December 2001, it was not until February 2005 that the Supreme Court turned down a petition to nullify the presidential election results. In contrast, the administration of the 2006 elections improved substantially. Both presidential and parliamentary elections were described as “generally peaceful and well managed” by an EU Election Observer team. However, as in previous elections, the government used state resources for its campaign. The losing opposition parties alleged electoral malpractice. The Electoral Commission proved inefficient in effectively supervising the poll. There were several cases of delays in opening polling stations, while the collation, counting and transmission of results was not only delayed but full of inaccuracies, resulting in more than 50 electoral petitions. Some of these problems turned up in the 2008 presidential by-elections again, but, in general, they were better administered than in the previous elections; for example, the Electoral Commission of Zambia allowed for the results to be posted outside each polling station and countersigned by the political parties’ agents. But its decision to allow voting to take place in two far-flung rural constituencies two days after election day, without the knowledge of all stakeholders, undermined the integrity of the poll with controversy.

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

While the constitution provides for freedom of association and assembly, this has often been qualified and restricted. For example, opposition parties must receive police permission to hold public meetings, while demonstrations and rallies of the political opposition, labor unions and civil society groups have been forcibly dispersed and obstructed by security forces. There is also a dominant government influence in state-owned media. Two daily papers are state-owned and pro-government, but there are a number of independent newspapers and periodicals. Newspapers critical of the government sometimes face indirect sanctions or are tried in court, but the government has been unable to intimidate or silence the most critical paper, The Post, in any meaningful way. Various cases of intimidation of journalists by government officials and by private persons could be observed.
Zambia has one state-owned television and radio station. There has been a boom in radio stations following the liberalization of the airwaves in 2002. Most of the new radio stations have a limited transmission range that cannot match that of the state-owned station, although even this station does not cover the entire country in a satisfactory manner. There are also a number of private television stations whose coverage extends mainly to Lusaka and the surrounding areas, while many rural areas are not covered. Cable and satellite television is also gaining ground but only among the middle class and wealthy sections of society.

Both the private and state media do not provide sufficient platforms for divergent opinions. Coverage of news tends to be biased in favor of either the opposition for private media (e.g. The Post) and government and the ruling party (for state-owned media). Thus freedom of expression is not really in place in the current Zambian context.

3 | Rule of Law

The separation of powers is basically observed. There are no significant constraints on the basic functions involved in the separation of powers. However, the executive clearly wields dominance that extends beyond the stipulations of the constitution. The legislature and the legislators are poorly equipped to act as an effective check on government actions. In rare cases, the legislature has vetoed executive decisions, though in two incidents in 2001 and 2003 it did try or actually exercised its power to impeach the president for violating the constitution. Regarding the separation of powers, mutual checks and balances are partially restricted in practice, although the MMD government does not enjoy the two-thirds majority it did during the 1990s. The judiciary has been relatively independent in passing judgments against the legislature and the executive. However, there is a perception that its independence has tended to be compromised in cases involving the executive (president). There is no record of judicial decisions that have demonstrated a check on the president.

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

Corruption is still widespread. Corrupt officeholders are not prosecuted adequately. Especially in the case of high-ranking officials or politicians, those accused of corruption often slip through political, legal or procedural loopholes, if they are prosecuted at all. Anti-corruption policy has lost most of its credibility. Hardly any of the corruption charges against leading members of the former Chiluba government have been successfully concluded. Many former high-ranking officials of the same government, who were widely believed to be involved in the same corrupt practices, have not been prosecuted. Many believe that the anticorruption policy was and is a political ploy to victimize political opponents and was largely lacking in substance. There are a number of new cases of corruption involving senior members of the Rupiah Banda administration. In addition, there were two major cases of corruption in the health sector that caused bilateral donors and international aid organizations to suspend their support.

In general, compared with the period of the late 1990s, the protection of civil rights has improved in some areas. Nevertheless, some civil rights violations persist, including unlawful killings, torture, beatings, abuse of criminal suspects and detainees by security forces, arbitrary arrests, prolonged detention, and long delays in trials together with poor and life-threatening prison conditions. Civil rights groups have noted the government’s infringement on citizens’ right to privacy as well as violence and discrimination against women.

4 | Stability of Democratic Institutions

Democratic institutions fundamentally perform their functions, although the institutional set-up is dominated by the executive branch, with extended powers given to the presidency, and legislators have only limited capacity to check the government effectively. Most democratic institutions, such as parliament, human rights commissions and the ombudsman, are generally ineffective in holding the government to account or playing their constitutional roles.

The last presidential (by-)elections in 2008 were probable the best-run since the democratic founding elections of 1991. The judiciary is largely free of extensive interference. This does not apply to the civil service administration. Civil servants are obligated to implement government policy or face sanctions. There are only isolated cases of counter-productive actions, while the local government system is mostly ineffective due to constitutional arrangements. Overall performance, however, is compromised by limited material and human resources. There have been efforts to decentralize more functions to local authorities through the adoption of the Decentralization Policy of 2003, but these seem to represent little more than
rhetoric, as the central government still maintains effective control of politics and the budget. Zambia’s system of local government is still based on effective control from the center – deconcentration. The central government provides funds in the form of grants to local authorities, thereby undermining innovation among local authorities. Many councils have been unable to fulfill their obligations to their communities; for example, they were unable to pay staff wages for many months. Given the fact that the majority of councils are controlled by the opposition, the government has delayed the implementation of the Decentralisation Implementation Plan, which was approved in 2005, for fear that the opposition may outshine it in service delivery.

All relevant political and social players accept democratic institutions as legitimate. However, there is no discourse on ways to strengthen the political system, especially the weak political parties. Policy discourse on alternative policies is absent and generally all major parties do not display distinctive policy differences. Political competition is influenced more by personal disagreements than policy differences. Civil society organizations are more active than political parties in holding the political system to account. But there is also evidence of tolerance of anti-democratic practices, with some sections of society calling for restrictions on the number of political parties and supporting undemocratic leadership and actions in their parties.

5 | Political and Social Integration

The party system is fundamentally established but has become increasingly volatile. The elections in 2006 illustrated this increasing volatility, especially with regard to opposition parties. Nominally, there is moderate fragmentation with three large and four small parties represented in parliament. In reality, however, fragmentation is higher, since two of these “parties” are actually party alliances that are comprised of three and five registered parties, respectively; the United Democratic Alliance (UDA) is not recognized as a party in parliament, while the National Democratic Focus (NDF) is recognized. Altogether, there are seven parties in parliament, plus three independent members of parliament. The growing volatility is illustrated by the fact that the runner-up in the 2006 elections increased his share of votes nearly ten-fold between the elections in 2001 (when he received 2%) and the 2006 elections, in which he received almost 30%. Even the vote share of the ruling party shifted markedly, from 56% in 1996 to 27% in 2001 to more than 40% in 2006. The parties are mainly focused on personalities rather than on programs or ideologies. In 2008, the ruling MMD proved surprisingly stable when its leadership managed to solve the succession problem caused by the sudden death of its President Mwanawasa, who was replaced by Rupiah Banda within a short time and without any political splintering. Most of the parties tend to have regional strongholds that
are, in some cases more than in others, based on ethnicity. This explains the popularity of the UPND in the Southern Province, (the east was previously UNIP’s stronghold, but since 2006 it has been an MMD stronghold), the MMD in the northern and central regions, and the PF in the Copperbelt and Luapula Province. None of these parties are ethnic parties in any traditional sense, but all are ethnic congress parties based on different coalitions of several groups of ethnic elites. The 2006 elections suggest that there was a mobilization of support on the basis of ethnicity, as two of the main opposition parties attracted large numbers of votes on the basis of ethnicity. All opposition parties, apart from one, are relatively new, founded either in the late 1990s, in 2000 and 2001, or even later. At the same time, all parties are highly factionalized (only partly due to the ethnic composition) and prone to numerous defections. Election results in 2006 and 2008 (presidential elections) from urban areas such as Lusaka and the Copperbelt indicate a substantial and increasing number of voters who focus on issues instead of ethnicity. New parties founded by former cabinet members might increase fragmentation and volatility before the 2011 elections.

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

Consent to democracy is high, and political protests do not call the democratic framework into question. According to the Afrobarometer survey conducted in 2009, support for democracy is high at 80% (75% in 2002, 64% in 2005); the support for a multi-party system, however, increased from 52% (2002) to 63% (2005) and to 70% (2009). It should be noted that, according to the Afrobarometer surveys, support for democracy increases with a change of government. Satisfaction with the functioning of Zambian democracy stands at a mere 40%.

However, there is also a high tolerance of undemocratic practices in political institutions and in the country at large.
There is a robust yet heterogeneous web of autonomous, self-organized groups, associations and organizations, and solid trust among the population. Self-organized groups have grown even stronger since the mid-1990s because the Zambian government has failed to provide social security and fight poverty effectively. People organize themselves rather than rely on the state to improve their situation. In rural areas, where the majority of the population still lives, the peasant society with its close informal networks of extended families still provides the social capital to balance the challenges that emerge from economic, social and natural disasters.

II. Economic Transformation

The relevant indicators show that the level of socioeconomic development is low and does not permit adequate freedom of choice for all citizens. Zambia numbers among world’s least developed countries. Social exclusion is quantitatively and qualitatively extensive and structurally ingrained. Significant social exclusions are caused by poverty, gender discrimination (especially in rural areas) and – to a lesser extent – education. The Gender Empowerment Measure (GEM) was at 0.43 (2006), clearly below the average of 0.53. HDI of 0.48 (average 0.69) ranked at 150 out of 169 (2010). Only about half of the population has some form of employment, with formal sector employment accounting for only 9% of the labor force (2006). Income distribution is highly skewed, with the majority earning very little. The Gini index was at 50.7 (2004). 81.5% of the population had to live on less than $2 a day (1993-2009). Subsistence agriculture is the single largest occupation, with about two million people working as subsistence farmers. Informal trading is believed to employ over one million, but there are no reliable statistics. During the period under review, there was no significant improvement in the government’s effort to reduce these huge social disparities. In addition, development imbalances in the provinces have not been reduced. Economic development is also hampered by inadequate, poor or non-existent infrastructure and services, including credit, roads, extension and marketing services. Absolute poverty has begun to decline after several years of robust economic growth, which, surprisingly, continued through the world economic crisis.

However, poverty and inequality is still very pronounced and has remained at well over 60% for the last five years. It is structurally and geographically ingrained, with rural areas being the most poor and the urban areas better off. The pattern of income inequality favors the urban areas at the expense of rural areas.
<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2007</th>
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<th>2009</th>
<th>2010</th>
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<td>GDP</td>
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<td>GDP growth</td>
<td>%</td>
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<td>5.7</td>
<td>6.4</td>
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<td>Inflation (CPI)</td>
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<td>Unemployment</td>
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<td>-</td>
<td>-</td>
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<td>6.4</td>
<td>5.4</td>
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<td>Import growth</td>
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<td>Current account balance</td>
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<td>Cash surplus or deficit</td>
<td>% of GDP</td>
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<td>Tax revenue</td>
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<td>Government consumption</td>
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<td>-</td>
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<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>1.3</td>
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### 7 | Organization of the Market and Competition

Market competition operates within a weak institutional framework. However, within Africa, Zambia ranks seventh in the Ease of Doing Business index (World Bank). There are a substantial number of people engaged in the informal sector. Although reliable statistics are not available, the Economic Intelligence Unit (EIU) estimates a 50% unemployment rate and that there are more than one million people working in the informal sector, which is more than double the number of people in formal employment. A fairly strong institutional framework is provided only for the...
strategic sectors linked to the mining industries and also for large-scale commercial farming. More than 65% of the labor force is outside the tax net, constituting a sprawling informal sector in the economy.

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

Foreign trade is liberalized in principle, but there are still significant exceptions. The tariffs are, in regional comparison, very high. There is a significant share (an estimated 50% of the recorded trade volume) of unrecorded cross-border trade between Zambia and its neighbors. Unrecorded imports, particularly of manufactured goods from Zimbabwe, have reached significant levels because of currency distortions in Zimbabwe.

The banking system and capital market are differentiated, internationally competitive and oriented in principle to international standards. Zambia has some of the most liberal banking regulations in southern Africa and the banks function efficiently. There are about 18 registered commercial banks, including six international ones. There is functional banking supervision and minimum capital requirements. Capital markets are open to domestic and foreign capital, and the stock exchange lists 22 companies (up from 13 in 2006). Domestic investors mostly borrow money from outside Zambia to avoid high interest rates. The domestic banks usually borrow money from the state through treasury bonds. The government is running a Private Sector Development Initiative to support the private sector. One major aim is to reduce the cost of doing business in the country, but progress has been limited, as illustrated by the fact that the cost for terminating employees in Zambia is amongst the highest in the world.
8 | Currency and Price Stability

Inflation control and an appropriate foreign exchange policy are recognized economic policy goals, but they have not been implemented consistently over time and do not have an adequate institutional framework. The principle framework of the Bank of Zambia is to formulate and implement monetary and supervisory policies that will ensure stability in price and financial systems in order to promote balanced macroeconomic development. In general, it has failed to implement these ambitious goals because inflation rates have consistently remained high, as has the growth of the money supply. This is because the Central Bank is not fully independent and is thus prone to political spending whims. During the period under consideration, inflation increased again from 12.4% (2008) to 13.1% in 2009, but declined during the third quarter of 2010 to 8.1%, one of the lowest inflation rates in about 30 years. In 2010, the kwacha appreciated slightly as the price of copper, the country’s major foreign exchange-earner, increased by 42%. There is a culture of policy stability that is not institutionally safeguarded but is enforced instead by donors and their financial institutions.

External debts were cut to $2.3 billion under the Heavily Indebted Poor Countries (HIPC) initiative in early 2006, which reduced the total debt service to 1.7% of GNI in 2006. This massive debt reduction was expected to allow the country to invest in the social sector and infrastructure. This debt relief indicates a vote of confidence in the government’s reform policies from international finance institutions and Western donors. It implied that the government had fulfilled most of the structural reform package prescribed by the IMF and the World Bank. Since 2006, debt stock has increased again from $2.3 to $3.5 billion (2010). In December 2010, the IMF concluded that “Zambia’s economic prospects continue to improve, thanks to sound macroeconomic policies and progress in structural reforms. Growth remains strong, inflation is subdued, and the external position has been solid.”

9 | Private Property

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

Since the privatization of state companies is almost complete, private companies represent the backbone of the economy. Although it occupied only 20% of the economy in 1990, the private sector is estimated to have increased this share to around 80% in 2005. Nevertheless, there are still some state-owned companies in crucial sectors of the economy. The government does not just tolerate this state-
controlled concentration of market power; it supports it. However, the government has made some progress with privatization. Zambia National Commercial Bank was privatized and Rabobank of Netherlands has a controlling stake of 49%, with the remainder held by the government of Zambia (22%) and the rest by private individuals through the Lusaka stock exchange. ZAMTEL was also privatized and sold to LAP Green of Libya. Apart from providing fixed phone lines, ZAMTEL also provides mobile phone services through its mobile division, CellZ.

10 | Welfare Regime

There are only rudimentary measures in place to guard against social risks, and these are extremely segmented in terms of area, social stratum and sector. Only the few who are employed in the formal sector have some access to retirement packages and health care. This applies mostly to the urban population (mainly civil servants and mine workers; apart from parastatal companies, the government does not provide health care to its employees). Public pensions have not been paid for the past several years, while private pensions and social security schemes cover a very small section of the population. There is no unemployment insurance system and no reliable statistics on unemployment. The country cannot combat poverty on its own in any systematic way and, given the huge volume of funds pumped into Zambia by international donors in the past four decades, donor effectiveness and the lack of effective political leadership in combating the debilitating effects of poverty have become an issue. While there is no real debate on social protection in the country, the government runs an inefficient national social welfare program known as the Public Welfare Assistance Scheme (PWAS). The PWAS only covers a limited number of beneficiaries and benefits are inadequate. The social cash transfer scheme is being implemented as a pilot project in only two provinces (Southern and Eastern) and very few districts. Many public service workers go for several years without receiving their pensions.

The government, with the help of donors, has in recent years been piloting a social protection scheme based on a system of cash transfers in two provinces. Social protection has been prioritized in the Fifth National Development Plan. However insufficient, a number of institutions exist to compensate for gross social differences. Family, clan or village structures are of relevance only in the rural areas, where half of the population lives. But these structures are put under stress by droughts or other calamities that negatively affect food production. However, in many areas, the traditional extended family system that has acted as a form of social security has all but collapsed under the weight of structural economic reforms.

Public health care in Zambia is poor both in terms of quality and coverage as a result of underfunding. This has led to failure to contain many diseases, including malaria, TB and HIV/AIDS, although the infection rates for malaria and HIV
declined during the last couple of years. In 2009 and especially in 2010, the government has increased spending in the health sector.

More men than women have access to higher education, which is a function of the persistent notion that male children are more of an economic asset than women. But this is changing, and there is now an increase in the number of females at secondary school and higher institutions of learning. Women have access to higher education and public office, and in most cases they tend to come from privileged families and urban areas. However, as the government provides bursaries to all who are accepted to enter the universities, some women from rural areas and less affluent families can enjoy higher education as well. There is no discrimination against ethnic minorities.

11 | Economic Performance

The economy has experienced robust growth rates of more than five percent for several years, and these rates continued to increase during the period under review. The growth rate is expected to decline slightly from 5.7% in 2008 to 5.4% in 2009 and increase slightly again to 5.8% in 2010. Hence, the economy performed surprisingly well during the global economic recession. After a peak of 16.6% in 2008, the inflation rate showed a clear downward trend to 9.9% (2009) and to 6.9% (estimate) in 2010. The expected growth of the formal sector labor force was not accomplished due to improvements in the performance of the mining industry. The drastic downturn of copper prices as part of the international financial crisis of 2008 continued in 2009 and darkened the formerly bright prospects for the mining sector, illustrating the volatility of an economy that essentially depends on just one commodity. During the crisis, the mines laid off a significant number of workers. The budget imbalance that was decreasing during the previous period under review increased in 2009 and reached 3.4% of GDP, and is expected to decrease only marginally to 3.2% in 2010. The reduced debt burden started to increase again (see “currency and price stability”). After a chronic trade imbalance caused by higher levels of imports than of exports, this trend has changed since 2004 and continued into 2010. The reversal of the trade balance is mainly due to a rise in copper prices and increasing agricultural exports.

The budget is slightly unbalanced, but it is within acceptable margins.

12 | Sustainability

Ecologically compatible growth receives only sporadic consideration and has a small but in some cases vocal and active institutional framework in the Environmental Council of Zambia (ECZ). Among government officials, there is no deeply ingrained awareness of the environment or nature. Environmental laws and
regulations are not strictly enforced and there many cases of non-compliance involving large-scale organizations, especially the mining companies. The ECZ came into being with the encouragement of donors and, as a result, it largely lacks local ownership. While the ECZ has legal powers to enforce its mandate, it is hampered by political interference. The government has signed all major international environmental treaties. However, environmental standards are unsatisfactory, with recorded accidents and continued threats to human health due to pollution of rivers, streams and the air in mining areas.

Institutions for education, training, and research and development are present in significant segments but remain inadequate on the whole. Since the 1990s, there is a trend showing that access to education and its perceived value have deteriorated. Since 2005, the government continued the implementation of the free basic education program (mainly donor funded). This led to primary school enrollment of almost 100%. Secondary school enrolment remained much lower. Overall gross enrollment in education is at 63.3% in 2010. However, the failure rate at grades seven and nine is very high, at around 60%. This is partly because of insufficient school places at the next level, and it poses enormous challenges for out-of-school children to be absorbed in the job market. Funding for higher education has also failed to keep pace with enrollment. There are only three public universities; the newest one was established in 2007, and not all those who qualify to enter university are able to proceed due to limited places, inadequate facilities and insufficient staff. Six private universities have sprung up in recent years, but little is known about their capacity and quality. Many teachers are not motivated because of low salaries. Teaching and learning materials are insufficient. The government reacted to these shortfalls by employing an increasing number of teachers under the previous period under review. It also continued with the rehabilitation and construction program for schools, which also included country-wide distribution of textbooks and other teaching support. As a first result, literacy rates have improved; the adult literacy rate is now at 70%. Public expenditure on education declined after a rather low peak of 2.0% of GDP in 2007 to 1.4% in 2010.
Transformation Management

I. Level of Difficulty

Structural constraints on governance are very high in Zambia. This is mainly caused by widespread and extreme poverty. The HDI ranked Zambia at 150 out of 169 countries (2010). Indeed, 63.7% of the population is living in poverty (2010). With an urban population of 35%, the figures indicate that poverty is not restricted to rural areas but also exists in the urban areas. HIV/AIDS infections are another structural constraint on governance. As of 2008, the prevalence of HIV infection was estimated at 14.3% of the population between the ages of 15 and 49. Physical infrastructure is in poor shape and in many aspects dilapidated.

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

Unlike many other countries in Africa, there is no evidence of irreconcilable ethnic, religious or social cleavages. Nor have there been violent incidents. All relevant actors respect the democratic constitution. However, there is a simmering low-level tension between some sections of civil society, mainly the Catholic Church, the main opposition, the Patriotic Front, and the government over constitutional reform and the conduct of the next parliamentary and presidential elections.
II. Management Performance

14 | Steering Capability

The political leadership pursues long-term aims, but it sometimes postpones them in favor of short-term political benefits. The results of policies aimed at political reform are mixed. While for a number of years some improvements were noticeable, there seems to have been a reversal since President Banda came to power. During the constitutional reform process, the president was successful in fending off all changes that might have implications for the president’s power and control over the legislature and which would have endangered his re-election in 2011, e.g. a 50%-plus-one system that was favored by most civil society organizations and opposition parties. In fact, the constitutional reform process culminated in a bulky draft constitution with many unresolved issues that are expected to be solved by a national referendum. However, given the terms for a referendum, it became quite clear that it would not take place before the next presidential and parliamentary elections. Since the democratic transition of Zambia in 1991, this was already the fourth failed attempt at a fundamental overhaul of the constitution to make it more democratic. At the same time, Banda’s commitment to fighting corruption has become more seriously questioned than his predecessor’s (see “anti-corruption policy”). The implementation of economic reform policies continued to remain on track. The IMF was satisfied with the government’s performance (see “implementation”).

The Zambian government sets strategic priorities and has been consistent in meeting broad macroeconomic targets. However, there are short-term policies that have undermined the overall attainment of macroeconomic targets, which are influenced by a neopatrimonial logic, such as the fertilizer subsidy to rural farmers, the distribution of which is almost always not based on commercial considerations.

Despite many previous problems in implementing reform policies agreed upon with the IMF and other donors (who, in the past, have often suspended disbursement), economic reform policy has remained on track. In December 2010, the IMF mission noted that “all end-June 2010 quantitative performance criteria were met, and structural reforms are progressing … the execution of the 2010 budget has been in line with the program … the economic outlook is positive.” Without mentioning major problems, the IMF mission endorsed the continuation of the Extended Credit Facility (ECF) arrangements which support the implementation of the very general
terms of the second half of Zambia’s Fifth National Development Plan 2006-10 (FNDP). At the same time, the implementation of anti-corruption policies remained weak, because the government continued with its neopatrimonial politics.

Some sections of the political leadership (including the president) responded to mistakes and failed policies with changes, as indicated by the late Mwanawasa’s handling of the opposition and of demands voiced by civil society organizations. However, its policy frequently remained stuck in the same routines of patronage politics and occasional threats directed at the political opposition. Learning processes occurred, but since President Banda took over in 2008, this capacity seems to have declined. He continues to consult and to moderate rather than make decisions single-handedly, but he engages in autocratic behavior more often than his predecessor did. In general, there are clear indications that Banda has indulged in the same patronage politics, awarding public positions on the basis of loyalty as opposed to merit.

15 | Resource Efficiency

The government uses only some of its available resources efficiently. The civil service wage bill is still high, at 8.2% of the GDP (2010). The tax administration system improved during the 1990s, but tax revenue relative to GDP began to decline in recent years, partly due to the withdrawal of donor control and an increase in private and politically motivated “interventions.” The tax reform of 2007 and 2008 (higher company taxes and VAT) resulted in revenue collection that exceeded the target. Following low tax collection after the major tax reform for the mining sector, revenue from the mining sector recovered in 2010. The number of public employees, apart from short-term contract workers, has not been significantly reduced. As in the past, there remains a substantial overstaffing problem, and the services offered by the state are unsatisfactory. Significantly, the Public Service Reform Program (PSRP), which is aimed at reducing the civil service by about half, as well as at restructuring civil service positions and improving pay and working conditions, has been a failure. There have been a number of politically motivated dismissals and new appointments, but this is mostly restricted to top-level officeholders. Constitutional appointments must be confirmed by the Parliamentary Select Committee. As such, while there is some modicum of transparency, political influence is still observable. There is no balanced state budget, but during the last couple of years, the government has managed to keep the financial deficit below 3%, marking an exceptionally low rate in Zambian history. However, the deficit increased again to 3.3% in 2010. There are still shortcomings with the implementation of the Public Expenditure Management and Financial Accountability (PEFMA) reform, while the Integrated Financial Management and Information system (IFMIS) continues to be implemented. Both reforms aim at
enhancing the financial management of the government. The level of debt used to be very difficult for the government to manage up to 2005, when the debt burden was eased by debt relief from major donors. Decentralization of government structures is a mess; there are unclear and overlapping authority structures that are prone to political as well as central government interference, which has become frequent. Local governments have no financial autonomy, as all funds are allocated by the central government. Hence the whole local government system is in need of a complete overhaul, but the government shows very little interest in carrying this out for fear of losing political control.

The government tries to coordinate conflicting objectives and interests, but it experiences only limited success. Intra-governmental friction, redundancies and gaps are significant. The coordination style is partly based on informal networks, but it is also hierarchical and centralized. Traditional rulers are recognized and do wield some political influence, though they only play a consultative and advisory role through the House of Chiefs. Increasingly, some traditional rulers have been playing visible roles in politics by supporting particular party candidates, and they have called for the change in the law to allow them to contest parliamentary elections.

In the fight against corruption, the government has implemented some integrity mechanisms. These figured prominently in the late Mwanawasa’s political agenda when he came to power, as his campaign primarily targeted high-ranking civil servants and politicians. It must be noted, however, that the fight against corruption was selective and aimed especially at certain politicians from the Chiluba era. This has changed since President Banda came to power; he seems to protect Chiluba as a political ally, and has even tried to stop the prosecution of corruption cases of this era. As a rule, corrupt officeholders are prosecuted under established laws, but many slip through political, legal or procedural loopholes. At the same time, the judicial system seems to have administrative and managerial problems that prevent it from properly handling a substantial and politically sensitive caseload. The public welcomes the fight against corruption, but it has become very skeptical about the true intentions of the anti-corruption campaign. In fact, during the time under review, there were some major corruption cases in the public health sector and related to road projects, and the president’s sons were also implicated in graft affairs. Negative impressions about the fight against corruption also worsened with the government’s decision not to appeal a High Court decision not to continue with the prosecution of former President Chiluba, who was found guilty by a London court of having misappropriated public funds while in office. After donors had stopped funding the Task Force on Corruption (TFC) because of ineffectiveness, the government dissolved the TFC.
16 | Consensus-Building

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

There are no veto powers and no significant resistance to a market-based democracy. Although the political leadership is trying to prevent cleavage-based conflict from escalating, it cannot reduce existing divisions caused by persistent poverty. As the government only has a slim majority in parliament, it is conciliatory and shows willingness to compromise in response to civil society activities. But maneuvers to control the press and civil society have been made in draft legislation that would regulate non-governmental organizations. There has also been talk of regulating the media since President Banda came into office.

Reformers are not completely in control of reform policies, partly because of the high tolerance of non-democratic practices in politics.

There are no religious conflicts in the country, but ethno-regional cleavages frame politics, as all major parties have ethnic and regional strongholds and are usually associated with one particular ethnic group, despite efforts to maintain a multiethnic character. No single ethnic group is in a dominant position, though, and the group that is considered the strongest in terms of population is heterogeneous and subdivided into smaller ethnic subgroups that belong to different political parties. While ethnicity forms an undercurrent of politics, none of the parties has an agenda explicitly based on concerns related to ethnicity. The political elites make use of the different ethnic identities, but at the same time they try to prevent cleavage-based conflicts from escalating. Because the president used to come from small ethnic groups, there is a tendency as well as a necessity to bridge some of the ethnic undercurrents or divisions.

Although the political leadership occasionally takes into account and accommodates the interests of civil society actors, there have also been occasions in which the government tried to ignore civil society actors. One example is the concession made by the government to civil society demands related to constitutional reform. The government agreed that the constituent assembly was the appropriate institution to author the new constitution. In the end, however, the government skipped the constituent assembly completely and replaced it with its own National Constitutional Conference in 2007, a body in which most civil society
organizations participated despite their fundamental criticism. One notable exception was the influential Catholic Bishops Conference, which maintained its critique of the process throughout.

The question of reconciliation between the victims and perpetrators of past injustices does not play a role in Zambia. The authoritarian regime did not commit gross human rights violations. The question of reconciliation has to do mostly with past political torture or molestation suffered by a few individuals. The former president of one-party rule has even been rehabilitated as an honored public figure, founder and father of the nation.

17 | International Cooperation

The political leadership works with bilateral or multilateral international donors and tries to make use of international aid, but this facilitates only partly significant policy learning and improvement. The government is highly dependent on foreign development assistance; official development assistance was at 11.2% of GNI in 2009. But foreign assistance to the budget has declined in recent years from around 60% in the early 1990s to less than 30% in 2009. However, the government’s capital budget is mainly financed by foreign sources. The political leadership complies with the goals of poverty reduction and development strategies laid out by donors, though it is too early to judge whether the PRSP is working towards its goals. The first independent assessment of the PRSP indicated that it failed to achieve the goal of reducing overall poverty, mainly because of budgetary constraints and problems of prioritizing development initiatives. Spending on poverty alleviation sectors (e.g., education, health) has increased in recent years, but it remains unclear whether this would be effective without donor influence. As indicated above there are some indications that poverty rates started to decline in recent years.

Overall, the political leadership is highly dependent on international assistance and is inconsistent in devising its own development priorities.

Despite the delay of some reforms, especially those related to governance, the international donor community considers the government more and more credible and reliable. The commercial risk ratings assessed are still low, but there is a trend toward improvement. Foreign investment increased substantially as a result of debt relief and growing confidence in macroeconomic management. Finally, having been granted massive debt relief of more than $3.9 billion in 2005, it became obvious that the government had won the confidence of the major donors, including the IMF, because it had implemented almost all 15 key reforms and objectives listed as a condition for debt relief by the IMF. Since then, the government has remained largely on track with its economic reform and adjustment policy (see also
“implementation”). Recurrent corruption cases in the public administration (health sector) have caused donors to temporarily suspend aid; such cases have raised doubts about the reliability of the government.

The political leadership successfully builds and expands as many cooperative international relationships as possible. Zambia is a member of various regional and international organizations, such as the South African Development Community (SADC), host to the Common Market for Eastern and Southern Africa (COMESA), and the African Union (AU). It has cordial relations with its neighbors and was involved in the peace talks for the Great Lakes region and the DRC. The government has yet to make a decision on whether to continue its membership in both COMESA and SADC. The Zambian government continued to be one of the most outspoken critics of President Mugabe’s repressive policies in Zimbabwe. Ever since the coalition government was installed in Zimbabwe, the Zambian government has tried to normalize its relations with the neighboring country. The Zambian government was the first SADC member to condemn the military takeover in Madagascar.
Strategic Outlook

The new president has not enacted any significant policy changes. Collaboration with international financial agencies and donors will continue in the same way. This applies also to foreign policy within the southern African region.

Substantial reforms cannot be expected, as the failure of constitutional amendments demonstrates. The failure to pass the Constitution of Zambia Amendment Bill in late March, due to opposition from Patriotic Front (PF) and UPND members of parliament, is a major setback to the constitutional reform process. Some useful proposals will not be effected, such as providing for the date of elections in the constitution, forming coalition governments and dealing with defection of members of parliament.

Contrary to widespread expectations, the international financial and economic crisis had no substantial negative effect on the Zambian economy. Copper sales together with copper prices – copper is the major income earner – recovered substantially and provided the basis for more than 5% growth in 2009 and even higher growth in 2010. The crisis did not offset the relative macroeconomic stability that was gained during the last decade. The economic reform process is still on track and will continue in 2011. We can only expect a temporary increase in public spending in the first half of 2011 due to the election campaign of the government, which will increase its neopatrimonial distribution of favors in order to secure its re-election.

Despite winning a number of by-elections during 2010, the likelihood that opposition parties will win the elections in 2011 has become slim. The two major opposition parties, the Patriotic Front (PF) and the United Party for National Development (UPND), which formed an alliance in 2009, were unable to compromise on one single presidential candidate; as a consequence, the alliance is about to fall apart completely.

Since the government was able to resist any constitutional change, the elections will be conducted according to the first-past-the-post system. The outcome of the previous presidential election suggests that PF’s Michael Sata, who lost with a very small margin, will be the major challenger on the opposition side. Sata was able to increase his share of the vote in 2008, closing the margin to the ruling MMD to just 35,209 votes. Since he was basically campaigning on social issues – although in 2006 with a xenophobic twist that he abandoned in the 2008 campaign – these concerns will persist. However, it is not unlikely that the xenophobic twist might be used again, because of a number of nasty incidents with Chinese company managers (who shot Zambian workers).
However, there also two points of uncertainty related to Sata. First, his party, the Patriotic Front, is deeply split over basic political issues and approaches; and second, Sata’s poor health might become a problem as it did already in the past. The PF is a personality-driven party, based on Sata’s popularity, and it is difficult to imagine that the party will survive without him at the helm.

As a very close election result can be expected, the kind of post-election violence seen in 2006 cannot be ruled out. Indeed, if the contest will be close, it should be expected that the government will try to manipulate the result in one way or the other as it did before in 2001. In this case, it would be the third time that Sata lost an election (he challenged all of the results before, and this election is probably the last chance of his life), which might entice him (or his followers) to turn to violence.

If the incumbent wins the election with a clear margin, no major policy changes are to be expected; the MMD government will continue with its economic reform policy in consensus with major donors. However, in the following years, some political uncertainty and instability will persist, caused by the fate of the unfinished constitutional process.