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DEPARTMENT OF POLITICAL AND ADMINISTRATIVE STUDIES

THE WORLD BANK'S CONTRIBUTION TO FIGHTING POVERTY IN ZAMBIA THROUGH THE PROMOTION OF FOREIGN DIRECT INVESTMENT (FDI) FROM 1999 TO 2009: A CRITICAL EXAMINATION

DISSERTATION

BY

JOSEPH SELISHO

COMPUTER NO.529002125

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DECLARATION

I Joseph Selisho, declare that this dissertation represents my own work and that it has not previously been submitted for a degree, diploma or other qualification at this or another university.

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ABSTRACT

This study provides a critical analysis of the World Bank's contribution to fighting poverty in Zambia through the promotion of foreign direct investment (FDI) from 1999 to 2009 through its specialized institutions. Although the World Bank does not directly promote foreign direct investment (FDI), it provides the foundation to ensure that foreign direct investment happens. It facilitates an enabling business environment to reduce the cost of doing business. It also helps the macroeconomic stability which is the basis and essence of promoting foreign direct investment. Therefore, the promotion of foreign direct investment is either direct or indirect through various institutions of the World Bank by giving grants, credits, loans and technical assistance. The discussion in this dissertation is mainly focused on the projects and activities that have been funded by the International Development Association (IDA) and the International Finance Corporation (IFC).

Both secondary and primary data were collected under the study, mainly focused on four specific objectives. These were: examining the extent of technical and financial assistance given by the World Bank to promote foreign direct investment in Zambia, identifying and examining any foreign investors that invested in Zambia through the assistance of the International Finance Corporation and its contribution to employment creation, comparing financial and technical assistance given by the International Finance Corporation to local and foreign investors and lastly analysing changes in poverty levels from 1999 to 2009 in Zambia. The analysis of changes in poverty levels from 1999 to 2009 was included in this dissertation to contrast with the level of investment inflows in the Zambian economy and determine whether the investment inflows received had contributed to poverty reduction based on the conceptual and operational definitions of poverty and foreign direct investment introduced in this dissertation. For the survey component, 32 key informants were purposively selected from 16 institutions. Two key informants from each institution consisting of top management were interviewed by the researcher using a structured interview guide and secondary data was collected from official documents, such as books, reports, articles, periodicals, publications and relevant internet materials from verified sources. The key informants were drawn from institutions that included the World Bank Office in Zambia, selected key government ministries, statutory bodies and the private sector to make the findings of the research more comparable. The key findings in the study generally were that the World Bank Group had contributed significantly towards the promotion of foreign direct investment, as a means of fighting poverty as evidenced by the number of projects and activities implemented during the period 1999 to 2009. However, the analysis on changes in poverty levels showed that poverty in Zambia was still high despite the large inflows of foreign direct investment especially in the rural areas. Most rural areas lacked infrastructure, access to markets and financial resources, as revealed from data collected.

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ABBREVIATIONS

ADB:	African Development Bank
AfDF:	African Development Fund
AIDS:	Acquired Immune Deficiency Syndrome
BOP:	Balance of Payments
BOZ:	Bank of Zambia
CAS:	Country Assistance Strategy
CEEC:	Citizens Economic Empowerment Commission
COMESA:	Common Market for Eastern and Southern Africa
CSO:	Central Statistical Office
CSSDP:	Copperbelt Small and Medium Supplier Development Programme
CRAIDS:	Community Response to HIV/AIDS
DAC:	Development Assistance Committee
DANIDA:	Danish International Development Agency
DFID:	Department for International Development
DSA:	Debt Sustainability Analysis
EU:	European Union
ESP:	Environmental Support Project
FDI:	Foreign Direct Investment
FMS:	Financial Management System
FSDP:	Financial Sector Development Plan
GDP:	Gross Domestic Product
GEF:	Global Environment Facility
GER:	Gross Enrolment Ratio
GNP:	Gross National Product
HIPC:	Highly Indebted Poor Countries
HIV:	Human Immunodeficiency Virus
IBRD:	International Bank for Reconstruction and Development
ICSID:	International Centre for Settlement of Investment Disputes

IDA:	International Development Association
IFC:	International Finance Corporation
IFMIS:	Integrated Financial Management Information System
IMF:	International Monetary Fund
IRS:	Indoor Residential Spraying
JAS:	Joint Assistance Strategy
LCMS:	Living Conditions Monitoring Survey
MDGs:	Millennium Development Goals
MDRI:	Multilateral Debt Relief Initiative
MIGA:	Multilateral Investment Guarantee Agency
M & A:	Mergers and Acquisitions
MMD:	Movement for Multi-party Democracy
MoFNP:	Ministry of Finance and National Planning
MTEF:	Medium Term Expenditure Framework
NAC:	National AIDS Council
NCC:	National Council for Construction
NAPSA:	National Pension Scheme Authority
NEAP:	National Environmental Action Plan
NEPAD:	New Partnership for Africa's Development
NER:	Net Enrolment Ratio
NORAD:	Norwegian Agency for International Development
NPV:	Net Present Value
NRFA:	National Road Fund Agency
OAG:	Office of the Auditor General
ODA:	Official Development Assistance
OECD:	Organization for Economic Corporation and Development
PAYE:	Pay As You Earn
PDMRP:	Public Debt Management Reform Plan
PEMFA:	Public Expenditure Management and Financial Accountability
PPP:	Purchasing Power Parity
PREM:	Poverty Reduction and Economic Management Network

PRGF:	Poverty Reduction Growth Facility
PRS:	Poverty Reduction Strategy
PRSPSs:	Poverty Reduction Strategy Papers
PSDRP:	Private Sector Development Reform Programme
PSM:	Public Service Management
QAG:	Quality Assurance Group
RDA:	Road Development Agency
RIAS:	Regional Integration Assistance Strategy
SACS:	Smallholders Agriculture Commercialization Study
SADC:	Southern Africa Development Community
SAPs:	Structural Adjustment Programmes
SDA:	Social Dimensions of Adjustment
SDR:	Special Drawing Rights
SEED:	Support for Economic Expansion and Diversification
SNDP:	Sixth National Development Plan
SMP:	Staff Monitored Programme
TEVET:	Technical and Vocational Training
TEVETA:	Technical and Vocational Training Authority
UK:	United Kingdom
UN:	United Nations
UNCTAD:	United Nations Conference on Trade and Development
UNDP:	United Nations Development Programmes
UNIP:	United National Independence Party
VAT:	Value Added Tax
WDR:	World Development Report
WTO:	World Trade Organization
ZANARA:	Zambia National Response to HIV/AIDS
ZBF:	Zambia Business Forum
ZDA:	Zambia Development Agency
ZDHS:	Zambia Demographics and Health Survey
ZNCB:	Zambia National Commercial Bank

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CHAPTER ONE

INTRODUCTION

1.0 Background

1.1 Issues of Poverty in Zambia

Despite economic progress in recent decades in many parts of the world, many people still live in conditions of extreme poverty. Poverty levels still remain high in sub-Saharan Africa. Zambia is one of the countries in sub-Sahara Africa with high poverty levels. The Country's economic development has been dominated by its copper resources risking an increasing dependence on copper revenues to the detriment of economic diversification and the broader spread of the nation's international trade risks. This situation has been aggravated by frequent droughts, the government's inability to manage this effectively, failure to diversify the economy and the HIV/AIDS pandemic. Even though the Country has experienced a consistently modest recovery since 1999, poverty reduction remains a challenge due to the heavy debt burden, weak institutional capacity and ineffective spending. According to the World Bank (2008), poverty levels remained high despite the Country recording some strong economic performance recently. The Central Statistical Office's 2006 estimates show that 64% of Zambia's population (or approximately 7.5 million people) live below the poverty line. Furthermore, poverty is not uniformly spread, but more prevalent in the rural areas (81%) compared to 34% in the urban areas due to lack of economic opportunities for the rural poor.

There are various causes of the high poverty levels in Zambia. These are found to vary depending on whether one is considering rural poverty or urban poverty. For instance, Litchfield and McCulloch (2003) linked urban poverty to closure of businesses, which had resulted from both increased competition from abroad as a result of economic liberalization as well as voluntary liquidation of some former parastatals after the government stopped funding them. For rural poverty, other than lack of economic opportunities (World Bank, 2008), redundancies resulting from privatization of parastatals are reportedly the main causes of poverty (Litchfield and McCulloch, 2003). Others (Mukuka, 2008) have not only attributed Zambia's high poverty levels to the post-independence macro-economic inappropriate policies and external shocks but also self-inflicted structural biases and distortions that are inherent in the country's political, economic, educational, relationships with rich countries and cultural institutions, and suppress national development. For the later reason, it has been suggested that in order for the country to get out of this poverty trap, there is need for comprehensive and well-targeted structural transformations (Mukuka, 2008) which should be more extensive and growth- and poverty reduction oriented. According to the World Bank (2001), growth is the single most important factor in poverty reduction. For this reason, the Zambian Government has made various attempts at stabilization of the economy. Under close guidance of the World Bank and International Monetary Fund (IMF) the government had experimented with reforms such as removal of subsidies, economic liberalization and privatization of public sector enterprises (UNCTAD, 2006). Furthermore, in order to attract foreign investors, the government offered generous fiscal incentives. These included repealing the investment act, revising and offering other additional incentives through annual budget as well as enacting the Export Processing Zones Authority Act among others (CUTS, 2003). All these have been done to attract foreign direct investment (FDI).

In 1990, John Williamson coined the term "Washington Consensus" to refer to the set of economic reforms that the U.S. government and Washington based international financial institutions such as the World Bank and International Monetary Fund had considered necessary to restore growth in Latin America during the 1980s. Williamson summarized these recommendations as a combination of "prudent macroeconomic policies, outward orientation and free market capitalism. He provided a more specific list of ten policy areas that could be used to characterize the consensus that included:

a. Fiscal discipline-This was in the context of a region where almost all the countries had run large deficits that led to a balance of payments crises and high inflation that hit mainly the poor because the rich could not park their money abroad.
b. Reordering public expenditure priorities or redirection of public expenditure toward the areas of education, health and infrastructure-This suggested switching expenditure in pro-growth and pro-poor way, from things like non-merit subsidies to basic health and education and infrastructure.
c. Tax reform- Constructing a tax system that would combine a broad tax base with moderate marginal tax rates.

d. Interest rate liberalization-This referred to financial liberalization and recognized the importance of accompanying financial liberalization with prudent supervision.
e. Competitive exchange rates -The objective was to ensure that there was exchange rate that was competitive which implied an intermediate regime.
f. Trade liberalization -The concern here was how fast trade should be liberalized and agreed that it was the appropriate direction to move.
g. Liberalization of inflows of foreign direct investment-This needed to include capital account liberalization and needed consensus.
h. Privatization-This was the one area in which what originated as a neo-liberal idea had won broad acceptance. What matters is how privatization is done. It can be a highly corrupt process that transfer assets to a privileged elite for a fraction of their true value but the evidence is that it brings benefits when done properly and the privatized enterprise either sells into a competitive market or is properly regulated.
i. Deregulation -This focused specifically on easing barriers to entry and exists not on abolishing regulations designed for safety or environmental reasons.
j. Securing property rights-This was primarily about providing the informal sector with the ability to gain property rights at acceptable cost.

These policies were based on the assumption that global economic integration through free trade is the most effective route to promote growth and benefits that would trickledown throughout society leading to poverty reduction. Broadly speaking they involve three stages (Green 1995). These stages included control of inflation by stabilization and to get rid of government spending deficits where the money supply is reduced by cutting public spending and raising interest rates. Secondly is the structural adjustment involving letting the market operate unhindered by the state controls, privatizing public enterprises, liberalizing trade, investment and finance and thirdly, to have export- led growth which involves encouraging foreign investors to bring in capital and technology unhindered by government regulation. The Washington Consensus was applied as a universal blueprint for development throughout Third World. The debt crisis in the 1980s gave the IMF and the World Bank the opportunity to institutionalize structural adjustment programme as a debt management strategy in these regions, Zambia inclusive. These prescriptions were extended to every developing country as a blue print without taking into account the various conditions of each country. Eventually the World Bank and IMF's policies were seen as a failure and were criticized by most of the civil society organisations. Although the Washington Consensus originally intended to cover Latin American reforms, broad agreement exists that it is also a generally adequate characterization of the policies urged on other developing countries Zambia inclusive.

The ten points of the Washington Consensus were rather vague because they were to represent a baseline. The points included as explained already, liberalizing foreign investment opportunities, keeping competitive exchange rates within the nation, privatizing enterprises run by the state, letting interest rates be handled by the market and remaining positive and moderate, strong legal guarantees for property rights, spending away from subsidies and to direct investments in infrastructure, education and health care, deregulation and reduce competition, except for consumer safety, environmental health and financial and institutional stability (Williamson 1989). The Washington Consensus has resulted in limited success when it has been applied in nations which are suffering economic crisis. It has come under some criticism for a number of destabilizations. John Williamson himself noted that the results have been disappointing upon implementation and how it could be improved and noted some of the flaws. John Williamson pointed out that the reason for failed results were that the Washington Consensus did not place any special measures on mechanism for avoiding economic crisis (Williamson 1989). This scenario presented requires a critical examination of the World Bank's contribution to fighting poverty through the promotion of foreign direct investment. The critics of the ideas of the Washington Consensus believe that it represents exploitation of developing countries by developed countries. However, some Latin American countries with governments of the left wing have in practice adopted the bulk of the policies included in Williamson's list of the Washington Consensus but often criticized the principle of market fundamentalism that they are often associated with.

There has been a lot of criticism of the Washington Consensus policies; however, there has been evidence of their impact on health, which has led to the development of the "post-Washington Consensus". The ideas and policies of the post-Washington Consensus are aimed at, creating vertical and horizontal policy coherence. This includes the creation of enforceable codes and standards, and concessions to social welfare through targeted social safety nets and manages liberalized trade, finance and monetary systems that include firms and business in a Global

Compact for Development and the Poverty Reduction Strategy Paper (PSRP) process. Many supporters of the Post-Washington Consensus believe it differs from the original ideas and fundamentals of the Washington Consensus. The main goal of the Washington Consensus was to make economic growth in development. The new post-Washington Consensus differed from this and moved away from the neo-liberal, market –friendly approach and places sustainable, egalitarian and democratic development at the heart of the agenda. The Post-Washington Consensus is more focused on poverty which supports and protects the poor and aims towards social spending on health and education. The post-Washington Consensus looks at the importance of employment and balanced roles of the government and markets. This would be completed by promoting and regulating markets, providing physical and institutional infrastructure and also by endorsing innovation, technology and education. (Change2001). The Post-Washington Consensus recognizes the importance of a nation in open markets as well as more liberal policy environment. This approach sees the importance of avoiding state failure which needs institutional innovation and democratic governance. The Post-Washington Consensus sees the need to tackle inequality as well as poverty as their main objectives looking away from efficiency and growth objectives. An example would be that the markets, themselves do not produce efficient outcomes when there is a changing of technology or the learning about markets. These processes are important in development and East Asian countries recognized this but the Post-Washington Consensus is a more progressive approach to development compared to Washington Consensus.(Onis and Senses, 2005).

However, the Post-Washington Consensus also has been criticized that it adopts a technocratic and narrow approach to markets in both a global and at national level. The Post-Washington Consensus sees existing power structures as pre-determined. The World Bank and the IMF often attach loan conditionalities based on what is termed the “Washington Consensus”, focusing on liberalization of trade, investment and the financial sector, deregulation and privatization of nationalized industries. Often the conditionalities are attached without due regard for the borrower countries’ individual circumstances and the prescriptive recommendations by the World Bank and IMF fail to resolve the economic problems within the countries. As there is an increasing shift from public to private funding in development finance as observed recently , the World Bank’s private sector lending arm-the International Finance Corporation (IFC) has also been criticized for its business model, the increasing use of financial intermediaries such as private equity and funding of companies associated with tax havens. There are also criticisms against the World Bank and IMF governance structures which are dominated by industrialized countries. Decisions are made and policies implemented by leading industrialized countries the G7 because they represent the largest donors without much consultation with the poor and developing countries.

The idea of the poverty reduction strategy paper (PRSP) has been adopted rapidly by the official aid community and it is now the centrepiece for policy dialogue in all countries seeking concessional funds from the international financial institutions such as the World Bank. In April 2002, James Wolfensohn's first recommendations, in setting out a post –Monterrey action plan to the Development Assistance Committee (DAC) were the use of PRSP's, as anchors for securing fresh donor support (Wolfensohn's 2002b). However, PRSPs were to be country driven and owned, rather than imposed by outside actors such as the World Bank to assume even more extensive powers over developing countries than under the Washington Consensus, as they are able to validate an entire national development strategy including its social and political aspects. Moreover, with the entire spectrum of donors aligning behind a single development strategy, as part of their coherence and harmonization strategy, there is little room for flexibility or diversity amongst borrowers.. While PRSPs encourage governments to focus more attention on some poverty issues such as health and education, an important potential failing is the continued absence of a real discussion of the link between macroeconomic policy and poverty creation or inequality or possible alternatives to the Washington Consensus. Also the poverty and social impact effects of policies on the poor does not seem to be occurring effectively when policies are considered. The poorest countries, starved of investment resources and crippled with the debt burden, are desperate for immediate debt reduction so as to free up resources for import of essential items without which they cannot function. Therefore, they are under intense pressure to develop PRSPs quickly because without these they cannot receive debt reduction under the Enhanced HIPC or new loans. They are drawing up these plans, however, in full knowledge that if their plans do not fit with the world view of the World Bank and International Monetary Fund (IMF), they are unlikely to get approval and this knowledge is bound to affect the shape of the plans.

1.2 Importance of Foreign Direct Investment

By definition, Foreign Direct Investment refers to investment made to acquire a lasting management interest (usually at least 10% of equity share in an enterprise operating in a country other than the home country of the investor (Mwilima, 2003). This can take the form of "greenfield" investment or mergers and acquisitions (M&A), depending on whether the investment involves mainly newly created assets or just a transfer from local to foreign firms. In theory, Foreign Direct Investment may have the following benefits:

a. Contribute to efficiency by breaking supply bottlenecks although the effect may become less important as the technology of host country advances
b. Introduce new-know how by demonstrating new technologies and training workers who later take employment in local firms
c. Either break down monopolies and stimulate competition and efficiency or create a more monopolistic industry structure, depending on the strength and responses of the local firms
d. Transfer techniques for inventory and quality control and standardization to their local suppliers and distribution channels
e. Force local firms to improve their managerial abilities or to adopt some of the marketing techniques used by foreign companies, either on the local market or internationally.

The importance of foreign direct investment in fighting poverty through promotion of economic development is well illustrated in various literatures. The World Bank (Klein, Aaron and Hadjimicheal, 2001), claims that foreign direct investment remains one of the Government's most effective tools in the fight against poverty. According to Tambunam (n.d.), foreign direct investment is seen as a source of economic development, modernization, income growth, employment and poverty reduction. Because most developing countries do not have adequate domestic capital (CUTS, 2003), foreign direct investment is seen as one of the major sources of capital. According to the World Bank (2001), "FDI is a key ingredient of successful economic growth and development in developing countries partly because the very essence of economic development is the rapid and efficient transfer and cross-border adoption of "best practices". Foreign direct investment is essentially suited to affecting this transfer and translating it into broad-based growth by upgrading human capital. Furthermore, foreign direct investment is viewed as a major stimulus to economic growth in developing countries as it is perceived to deal with major obstacles such as shortages of financial resources, technology and skills (Mwilima, 2003). It is for these reasons why foreign direct investment is the centre of attention for policy-makers in developing countries such as Africa, Zambia inclusive. The benefits of foreign direct investment can also be viewed in terms of its quantitative effects on growth, as measured by the growth domestic product. Because of its potential for such spill over (multiplier) effects, many countries, including Zambia, have embarked on reforms to attract both local and foreign direct investment. The impact of foreign direct investment on the Zambian economy may be examined through government revenue collections. Governments worldwide need both taxes and non-tax revenues to meet the cost of financing their national expenditures and, therefore, this task requires the promotion of both foreign direct investment and local investment through macroeconomic policy direction.

1.3 The World Bank in Zambia

The Bretton Woods order led the establishment of the International Bank for Reconstruction and Development (IBRD) commonly known as the World Bank. Founded in 1944, the World Bank Group today consists of closely associated institutions which are used in the promotion of foreign direct investment either indirectly or directly. Foreign aid was one of the most innovative developments in North-South relations in the Bretton Woods era whose responsibility was given to the World Bank. Over the years the objectives of the World Bank have increased. Today, one of the objectives and mission is to fight poverty. The World Bank is a development institution whose mission is to fight poverty with passion and professionalism for lasting results (Partnership for Development, 2000). Reducing poverty and enhancing social economic development in any society is a fundamental challenge of the 21st century. Today the World Bank continues its operations on the principle of country ownership where “home-grown” poverty reduction strategy papers (PRSPs) are being developed by an increasing number of poor countries as the driver of their national development plans and poverty reduction policies. PRSPs are becoming the focus of donor coordination, with the World Bank’s Country Assistance Strategies (CAS) based on the country’s own PRSPs framework. PRSPs are continuous and evolving processes and many developing country governments have relied on excessive World Bank support in the initial stage of design and implementation.

Over the years the role of the World Bank has shifted. As Europe recovered from the war, World Bank lending shifted to developing countries and the Banks capital was increased to allow greater lending. In 1956 the World Bank members created the subsidiary International Finance Corporation (IFC) to promote private investment in developing countries. In 1960, the International Development Association (IDA) was established as a separate institution closely integrated with the World Bank with a mandate to make soft or highly concessional loans. Therefore, aid emerged in the 1950s and 1960s as a new form of international economic interaction and states voluntarily transferred funds on concessional terms to other countries as well as the multilateral institutions played such a role in economic relations, while aid thus ushered in a new form of international relations, it did not change the balance of economic power between the North and South. The World Bank's relationship with Zambia dates back as far as 1975 when Zambia faced economic decline as a result of a number of external factors outside the nation's control. For instance, the fall in world copper prices and a decline in the quality of its ore exposed Zambia's overdependence on copper, while the world price of oil and energy fuelled global inflation pushing up prices of capital imports. As a result, Zambia's balance of payments situation deteriorated and borrowing from overseas grew significantly while Zambia's real GDP per capita declined by almost 30 per cent. Initially, the government reacted to the deteriorating economic situation by commercial and public borrowing and saw no need to restructure the economy. The Government believed that the market for copper would pick up and the economy rebound. The multilateral donors such as the World Bank shared this optimistic view lending to Zambia having huge sums of money at reduced concessionary rates. However, by 1985, the worsening economic climate forced the World Bank and other donor organizations to put pressure on the Zambian government to restructure the economy through the introduction of a structural adjustment programme. However, attempts to follow these reforms were met with internal opposition such as the food riots in 1986 in which people protested against the removal of subsidies for cornmeal, which had caused prices to rise by 120 per cent. Reduction in government spending in order to reduce the deficit had been demanded by the International Monetary Fund, along with the devaluation of the currency, as a condition for extending new loans to enable Zambia to pay for essential imports. The 1990s saw a move to a more outward oriented economy centered on a market based system.

The Foreign Private Investment and Investor Perceptions in Zambia (2007/2008) report revealed that the Zambian Government supported the promotion of a private sector –led free market economy, since 1991 and called for economic reforms that were and are still aimed at the promotion and facilitation of both local and foreign investment. These reforms were further meant to stimulate economic growth and development and to impact positively on both poverty alleviation and reduction. In particular the reforms were characterized by the abolition of price and exchange rate controls, trade liberalization of interest rates, one hundred per cent repatriation of profits, privatization of some state-owned enterprises and removal of quantitative restrictions on imports. Trade reforms were aimed at simplifying and harmonizing the tariff structure and free entry to investment in virtually all sectors of the economy. The newly elected government (MMD, 1991) adopted a structural adjustment programme agreed with the IMF and the World Bank. This involved three main goals:

a. To restore macroeconomic stability
b. To facilitate private sector growth by reducing the role of the state from controlling prices, foreign trade restrictions and foreign currency transactions
c. To privatize and deregulate agricultural and industrial output

Despite attracting praise from the World Bank for the 'success' of its privatization programme, privatization has had a very mixed record in Zambia. Although some failing state run enterprises began to operate more effectively after privatization, many companies collapsed, jobs were lost and welfare programmes originally performed through parastatals were not continued by private companies. Trade liberalization was also disastrous for manufacturing industries, such as textiles, that used to produce import substitutes. Paid employment in mining, manufacturing and agriculture fell by nearly 40% during the 1990s. It also had a negative impact on government revenues which fell by more than 30% in real terms. With declining growth domestic product (GDP) after 1993, real government expenditure in the domestic economy (excluding interest on debt) fell by almost half through the 1990s. Consequently, spending on important economic infrastructure, such as transport and communications, was heavily cut. Agricultural market reform had a similarly poor record. A 2000 World Bank study acknowledged that the removal of all subsidies on maize and fertilizer led to 'stagnation and regression instead of helping Zambia's agricultural sector'. In its 2003 *Human Development Report*, the United Nations Development

Programme (UNDP) reported that Zambia was the fourth worst performing economy in Africa with a 'growth' rate of -1.7% per capita per year. However, in the last decade there had been some change. According to the World Bank (2010), with good economic management and several years of strong economic growth, Zambia had turned around its image as a country performing below its potential. In contrast with the 1991-1998 period, the country recorded positive GDP growth for the last nine consecutive years, led in particular by the mining, construction and services sectors. The World Bank further points out that reaching and sustaining growth at between 8 and 10 per cent will depend on Zambia's ability to become globally competitive and integrated with the regional and global economy. Moreover, despite efforts to ensure macroeconomic stability and diversify the economy, rural areas have suffered from years of development neglect. Underlying the slow pace of development is a chronic lack of investment in public infrastructure and services both hard (roads, energy, information and communication technologies) and soft (skills, health, markets) and the poor investment climate, resulting from the slow pace of implementing much needed structural reforms. To respond to Zambia's evolving development needs, the World Bank's Country Assistance Strategy (CAS) recommended a multi-sectoral programme of assistance organized around four inter-related areas in promotion of foreign direct investment either directly or indirectly:

a. Macroeconomic and expenditure management
b. Infrastructure development
c. Institutional capacity enhancement; and
d. Social sector development

2.0 Statement of Problem

Zambia is one of the countries in sub-Saharan Africa that has seen a rise in poverty levels despite the attraction of foreign direct investment in most of the sectors of the economy. For instance, Zambia benefited from debt cancellation under the Highly Indebted Poor Countries (HIPC) initiative after reaching the HIPC completion point in 2005. In 1999, Zambia embarked on an IMF supported programme called the Poverty Reduction and Growth Facility (PRGF) whose objectives were poverty reduction and sustained economic growth. The World Bank is one of the nine cooperating partners providing budget support to the Government of Zambia. This budget support contributes towards the funding of government's Poverty Reduction Strategy. Since 2005, the World Bank has provided two budget support credits worth US$50 million in areas such as the Financial Sector Development Plan (FSDP) and supporting the government in the areas of public sector reform, pension reform and macro-economic management. The World Bank has also been helping in the preparation of legislation on agricultural marketing, strengthening government capacity and reducing the cost of doing business. However, despite these high levels of support from donors and the World Bank in particular, poverty levels in Zambia have remained high. According to the Living Conditions Monitoring Survey (1991-2006), even though the incidence of poverty has reduced over the years, the decline has been marginal (from 70 per cent in 1991 to 64 per cent in 2006). Furthermore, whereas there have been a decrease in poverty in rural areas from 88 per cent in 1991 to 78 per cent in 2006, there has been an increase in poverty in urban areas from 49 per cent to 53 per cent for the same period. A look at the various economic indicators (CSO, 2010) shows minimal improvements as urban unemployment is as high as 32 per cent, while over 65 per cent of the Zambians had income below the basic needs basket. Although about 95 per cent of Zambians were reported to have access to health services, only 59 per cent had access to clean water and sanitation, 19 per cent had access to electricity while about 54.2 per cent of the children aged between 3 and 59 months old were stunted in Zambia. The fact that these high poverty levels exist at a time when Zambia is a recipient of various programmes from donors and the World Bank that are aimed at reducing poverty calls for a critical examination of the World Bank's strategy as regards its assistance to Zambia.

3.0 Objectives of the Study

3.1 General Objective

The general objective of the study was to examine the World Bank's contribution to fighting poverty in Zambia through the promotion of foreign direct investment from 1999 to 2009 through its specialized institutions, with a focus on the International Development Association (IDA), and the International Finance Cooperation (IFC).

3.2 Specific Objectives

The specific objectives were:

1. To examine the extent of technical and financial assistance given by the World Bank to promote foreign direct investment in Zambia

2. To identify and examine any foreign investors that invested in Zambia through the assistance of the International Finance Corporation (IFC) as well as their contribution to employment creation
3. To compare financial and technical assistance given by the International Finance Corporation (IFC) to local and foreign investors
4. To analyse changes in poverty levels from 1999 - 2009.

4.0 Rationale

The purpose of this research was to examine the World Bank's contribution to fighting poverty in Zambia through the promotion of foreign direct investment from 1999 to 2009 either directly or indirectly. The general objective was to examine World Bank's contribution to fighting poverty in Zambia through the promotion of foreign direct investment from 1999 to 2009 through its specialized institutions. The findings of the research would be used to improve the operations of World Bank in its fight against poverty in developing countries, Zambia inclusive. Further, the findings would also help to examine whether World Bank has lived up to its mandate of poverty reduction in developing countries. This will further enhance better implementation of the World Bank funded programmes by government institutions and other stakeholders in Zambia's economic development agenda through the promotion of foreign direct investment either directly or indirectly leading to poverty reduction or improving people's living standards.

5.0 Conceptual Framework

5.1 Operational Definitions of Poverty and Measurements

Poverty is multi-dimensional and complex in nature and manifests itself in various forms, making its definition difficult. No single definition can exhaustively capture all aspects of poverty. But there is overwhelming agreement that poverty reduction is the objective of development. The World Bank also states that "poverty reduction is the benchmark against which the Bank should be judged". Furthermore according to DFID, "all projects and research should be directed to poverty reduction". Millennium Development Goals also have an objective of "halving the world poverty by 2015". This subsection looks at poverty. The first part is an attempt at defining poverty based on various definitions that have been used in literature. After defining poverty, various concepts that have been used to measure poverty are explored. This is followed by review of the literature that relates poverty to FDI and finally a look at poverty levels in Zambia.

Poverty can be simply defined as deprivation. However, to understand its many facets, one needs to ask questions such as who is deprived? What are they deprived of and by how much and over what period? For example, is it by country, region, village, family or individual. Four approaches take different views on these issues and each has problems of interpretation. Poverty measures summarize information on the prevalence, depth and severity of poverty. The P-alpha class of poverty measures developed by Foster, Greer and Thorbeck (FGT) in 1984 has been used in living conditions monitoring survey (LCMS) series analysis in Zambia. The headcount ratio showing poverty incidence is the most widely used indicator of poverty. It gives the proportion of total households classified as poor or those with expenditure below the poverty line. It is the ratio of persons living in poor households to the total population and is used chiefly for comparisons between different periods and areas, as in assessing overall progress in poverty reduction. It is often the starting point for social policy programming, sometimes used to obtain rough figures about the target population for some anti-poverty programmes. However, there are other methods of measuring poverty namely:

a. Income based measures: poverty is a level of total earnings insufficient to obtain the minimum necessities for the maintenance of "merely physical efficiency," including food, rent and other items. Income distribution in Zambia is uneven, as indicated by Gini Coefficient of 0.57.This finding was consistent for both the 2002/2003 and 2004 Living Conditions Monitoring Survey. The 2002/2003 survey indicated that income inequalities were more pronounced in urban areas whereas in 2004, it was more pronounced in rural areas (CSO 2004). The variation could be attributed to differences in amounts of rainfall received as well as crop production. These inequalities in the distribution of income have various impacts on humans such as inability to access basic social services, such as education and health. Consequently poverty has social and health impacts on the families in poor households. The majority of Zambians are not in formal employment, implying that they have to turn to other sources of income. Other than the head count ratio, there are other income and non-income measures of poverty. The non-income measures focus on access to basic needs of life such as:

b. Health**:** infant mortality figures are higher for the poor than rich households. It is a difficult measure as it requires a system for registration of births and deaths. Good health is an essential resource for social and economic prosperity. Health is a key sector in the economic standing of the country. Productivity is severely hampered when disease prevalence is high. The level of mortality in Zambia is still high despite various attempts by the Government to improve the quality of life of Zambians through public measures and programmes. For example, infant mortality rate was 99 deaths per 1000 live-births in 1980, 123 in 1990, 110 in 2000 and 94 in 2001/2002. Similarly life expectancy at birth was 52 years in 1980, 47 years in 1990 and 50 years in 2000. Under-five mortality was 121 in 1980, 151 in 1990,162 in 2000 and 168 deaths per 1000 live-births in 2001/2002 (MoFNP).

c. Education: this measure looks at issues such as net primary school enrolment rate, ratio of enrolled primary school age children to all primary school age. Education is a key determinant of the lifestyle and general status of the population. Studies consistently show that education attainment has a substantial effect on the population and socio economic issues such as health, poverty levels, employment earnings and nutrition.

d. Vulnerability and risk: this is the risk that a household or individual will experience an episode of income or health poverty overtime, including exposure to other risks. This measure looks at issues such as physical assets, human capital, income diversification, and links to networks as well as access to credit.

Poverty lines in Zambia have been based on the Food Energy Intake (FEI) approaches. The methods establish a monetary value at which basic needs are met. The food energy intake method sets the minimum food requirements by finding the consumption expenditure level at which food energy intake is just sufficient to meet pre-determined average food energy requirements for normal bodily functions. Based on this measure, the poor have been classified into categories such as:

a. Extremely poor: under this category are those who cannot afford meeting the basic minimum food requirements even if they allocated their entire spending to food. This group is frequently referred to as extremely poor or the ultra-poor in the literature of poverty. The extreme poverty line is normally set at the total expenditure equivalent to the food poverty line, for example households whose total monthly expenditure is less than K78, 223 per adult equivalent (CSO: Consumer Price Index)

b. Moderately poor: in view of the fact that minimum basic needs do not entail food-energy intake alone, some minimum basic non-food items such as health, shelter and education are also necessary. This category consists of people who can afford to meet the basic minimum food requirements but cannot afford non- food basic needs

c. Non-poor: the overall poverty line is derived from the summation of the food expenditure level that gives the required food energy intake and the mean non-food expenditure allowance. This category consists of people whose expenditure is equal to or more than the overall poverty line.

Based on these measures of poverty, table 1 shows the evolution of poverty in Zambia over time as measured by the Central Statistical Office. These measures are anchored in nutrition and are based on a calorie requirement of 2,800 calories per adult equivalent per day.

Table 1: Poverty Lines in Zambia (Values in nominal Kwacha)

PERIOD	**Values in nominal Kwacha**		**Values in Percentages**		
	Food poverty line	**Overall poverty line**	**Rural**	**Urban**	**Zambia**
1996	16,743	27,985	84%	40%	68%
1998	24,062	41,134	83%	40%	67%
2004	**56,012**	**95,753**	**77%**	**29%**	**58%**
2006	**62,248**	**106,413**	**77%**	**27%**	**59%**

Source: Central Statistical Office-Poverty Trends Report (1996-2006)

5.2. Causes of Poverty

There are many causes of poverty at different levels in society, as poverty is a multi-dimensional problem. To understand the causes of poverty comprehensively, it is normally divided into various types such as global poverty and national poverty. This approach helps to highlight various interventions to reducing poverty and understanding the causes at different levels. For instance, among the causes of global poverty include:

a. International governance

History observes that most poor countries were vassals of the great colonial powers of the 19th and 20th centuries. The exit strategies pursued in granting independence cemented geographical boundaries that were inspired more by the politics of empire than the creation of new nation states. Too many countries found themselves lacking a critical mass of resources or population, landlocked or seething with irreconcilable ethnic division. A significant proportion of today's poverty exists in war –torn and post -conflict countries. The newly independent countries were also denied fair representation in international negotiations, either by exclusion or lack of capacity. Globalization has generated great wealth in recent decades but its governance is driven by more economic power rather than democratic principles. This has been most apparent in global trade rules which have obstructed developing countries from reproducing proven models of industrialization. Agriculture has been similarly impeded by massive subsidies available to US and European farmers. National control of domestic development strategies has also been hampered by conditions attached to concessionary grants and loans. Rules of macroeconomic stability, such as privatization or urban utilities, have been imposed with insufficient regard for the poor

b. National Governance

It has to be said that many developing countries have been the architects of their own misfortunes. Self-perpetuating kleptomaniac governance has drained economic growth through corruption and clientele politics. Weak democracy perverts the allocation of resources. In particular African governments have failed to honour their own commitment to upgrade investment in agriculture, the core need of fast majority of their populations. As long as the poor are denied a political voice, chronic vulnerabilities such as insecure land rights will remain. The broader lack of institutional capacity and infrastructure hinders delivery of aid programmes and business investment alike. Population growth also places great demands on poverty reduction programmes but it is not an underlying cause of poverty. Rich countries themselves emerged successfully from periods of high population growth that coincided with industrial development.

There are also other causes of poverty based on the multi-dimensional definition of poverty. These problems and causes require governmental interventions with specific programmes aimed at poverty reduction as a development agenda. These other causes of poverty include some of the following to mention a few:

a. Overpopulation
b. Unfair global distribution of resources
c. High standards of living and cost of living
d. Inadequate education and employment

Other than global poverty explained above, is national poverty. The causes of national poverty should be seen from different perspectives within the multi-dimensional definition of poverty which should include a variety of factors such as the following:

a. Lack of Economic Growth

The foremost barrier to moving out of poverty in Zambia is lack of sustained levels of positive growth. This has been exacerbated by increased income inequality, the persistence of discrimination against women and the girl child, insufficient investment in economic and social infrastructure to keep pace with requirements for rapid growth and the HIV/AIDS pandemic. Significant poverty reduction requires a substantial injection of resources into poverty reduction activities and that is not possible without growth. In its absence, there can be little increase in domestic resources either through savings or tax revenues. Despite the comprehensive macroeconomic reforms that have been implemented in Zambia in the past ten years, there has not been any significant growth in the economy.

b. High Inequality

The prospects for growth as well as the subsequent impact of any growth on poverty reduction are stymied by a high level of inequality. There is ample evidence that shows that where initial inequality in respect of income, education and assets is high, growth does not easily occur. Income inequality has been very high in Zambia. Rural-urban, inter-provincial and inter-social strata are already evident from the tables presented so far. The main reason why inequality tends to be more is the unequal access to credit. The poor cannot easily access credit, owing to little or no wealth to provide as collateral and hence continue to languish in near or below subsistence state. The rich, on the other hand, have easy access to credit and hence are able to build up further on their already substantial wealth. This is one of the reasons why small scale farmers constitute the poorest social stratum in Zambia and why perhaps poverty has substantially come down among large - Scale farming households. Another group that is also poor for similar reasons is that of female headed households.

c. Debt Burden

Another major factor that has reduced resources for poverty reduction is the heavy debt burden, which has exerted a significant crowding effect on social expenditures. Over the years, debt service has on average accounted for 10 per cent of the GDP, while the social sectors together have accounted for only 5 per cent. The inadequate expenditures on economic and social services have contributed to the debilitation of the country's stock of human and economic capital and this in turn has constrained growth

d. Excessive Donor Dependence

The absence of growth and the huge burden have made external funding a necessity. External funding has tended to create a paradoxical situation in Zambia. Funds from international cooperating partners would be forthcoming only if the country met certain conditions or is on debt serving schedule. As a result, nearly half of the inflow of external assistance has tended to flow out again in the form of debt service payments. External funding also depends on the donors and the Zambian Government congruent in their views on economic and political governance. The lack of such congruence has led to a drastic reduction in donor assistance since the later years of the 1990s. In any case, Zambia today is dangerously dependent on aid as shown in the data presented in this study

e. Unsatisfactory Prioritization

Even within the limited resources, poverty reduction may not get its due share with wrong prioritization, misdirection of resources and lack of transparency in their utilization. For instance, to date Zambia has severely fallen short of fulfilling the benchmarks for allocation to areas of priority of human concerns prescribed by the Human Development Ratio and the 20:20 initiative

f. Inadequate Social Safety Nets

The provision of safety nets in Zambia had been relatively limited. Social safety nets expenditures over the years had been declining in real terms. Between 1998 and 1999, for instance , the community, social and personal services sector that included activities in the area of community development and social services registered a decline in real value added from K178.8 billion to K 175.8 billion (CSO: Zambia Poverty Reduction Strategy Paper 2002-2004)

g. HIV/AIDS and the Tripod Barriers

Human capital formation that is necessary to generate sustained growth is impeded not only by lack of adequate social sector expenditures but also by another major factor, namely the high incidence of HIV/AIDS. In essence the high levels of poverty, the debt burden and the high incidence of HIV/AIDS are mutually reinforcing and together constitute a tripod of fordable barriers to the country's development. Hence, efforts at poverty reduction cannot bear sufficient fruit unless complemented by simultaneous efforts to address the problems of debt and HIV/AIDS.

5.3 Operational Definitions of Foreign Direct Investment

The Foreign private Investment and Investor Perceptions in Zambia 2007/2007 Report defines foreign direct investment as representing investment by non-resident enterprise accounting for ten percent or more of that company's ordinary shares or voting rights. It includes equity as well as shareholder loans and advances, trade credit, etc. advanced by a direct investor to the recipient enterprise. Foreign direct investment involves ownership of entity abroad for production, marketing or service, research and development, raw materials or other resource access. The parent company has direct managerial control. The degree of direct managerial control depends on the extent of ownership of the foreign entity and on other contractual terms of the FDI.

The World Investment Report (2006) defines foreign direct investment as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor. FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. Flows of FDI comprise capital provided either directly or through other related enterprises by a foreign direct investor to an FDI enterprise or capital received from an FDI enterprise by a foreign direct investor. Foreign direct investment has three components which include equity capital, reinvested earnings and intra-company loans. Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than its own. Reinvested earnings comprise the direct investor's share in proportion to direct equity participation of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor. Such retuned profits by affiliates are reinvested. Intra-company loans or intra –company debt transactions refer to short or long –term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprise.

According to the International Monetary Fund (IMF), foreign direct investment known as FDI "–refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the investor." In this case the investment is direct because the investor, which could be a foreign person, company or group of entities, seeking to control, manage or have significant influence over the foreign enterprise. The International Monetary Fund (IMF) guidelines consider an investment to be a foreign direct investment if it accounts for at least 10 percent of the foreign firm's voting stock of shares. However, many countries set higher thresholds because 10 percent is often not enough to establish effective management control of a company or demonstrate an investor's lasting interest (www.worldbank.org). Foreign direct investment should establish a lasting interest in or effective management control over an enterprise. Investment can include buying shares of an enterprise in another country, reinvesting earnings of a foreign owned enterprise in the country where it is located, and parent firms extending loans to their foreign affiliates. In Zambia, the Investment Act of 1993 (Act No. 39 of 26 August 1993) provides a general definition of investment. The Act defines investment as "the contribution of capital, in cash or in kind, by an investor to a new business enterprise, to the expansion or rehabilitation of an existing enterprise or purchase of an existing enterprise from the state". Foreign direct investment can also be defined as a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of the existing business in that country. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits from overseas operations and intra company loans. In a narrow sense, foreign direct investment refers to building new facilities. Foreign direct investment may be undertaken by individuals as well as business entities. The World Development Report (1998/99, P1455) states that openness to trade is essential. One of the main reasons the East Asian economies were able to grow so fast was their ability to build strong links with world markets and to draw upon the technology flowing through those markets. They did this with policies ranging from trade liberalization to export promotion, some of which offset protectionist biases favouring domestic industries. Countries with more open regimes are likely to attract competitive, outward oriented foreign investment, which bring efficient technology and management into the economy, for example, Hong Kong (China), Indonesia, Malaysia, Singapore, Taiwan (China), and Thailand have been particularly welcoming and their growth spurts were closely linked to surges in foreign direct investment. In contrast sub-Saharan Africa has been less open to foreign trade and investment hence the intervention of the international organisations such as the World Bank and the International Monetary Fund. FDI is a major source of external finance which means that countries with limited amounts of capital can receive finance beyond national borders from wealthier countries.

5.3.1 Implications of Foreign Direct Investment for Poverty Alleviation

According to Tambunam (n.d.), FDI is supposed to have positive effects on poverty reduction mainly through three ways: (1) labour intensive economic growth with export growth as the most important engine, (2) technological, innovation and knowledge spill over effects from FDI-based firms on local economy, and (3) poverty alleviation government programs or projects financed by tax revenues collected from foreign direct investment based firms. It is widely believed that, given the appropriate host-country policies and a basic level of development, benefits that might accrue from foreign direct investment include employment creation, the acquisition of new technology and knowledge, human capital development through employee training in new business ventures (for example multinational relocating), contribution to international trade integration, creation of a more competitive business environment and enhanced local/domestic enterprise development, flows of ideas and global best practice standards aiding international competitiveness and increased tax revenues from corporate profits generated by foreign direct investment.

All of these forms of benefits are expected thus to contribute to higher economic and employment growth, which is the most important/effective tool for achieving improvements in human well-being or alleviating poverty in developing countries. However, critics are quick to show that foreign direct investment is no panacea, but, it can have a positive impact on poverty reduction in developing countries (through a variety of ways as mentioned above), provided that mechanisms are in place in the host country to have these positive effects. In other words, the impacts of foreign direct investment on poverty and other social goals of development depend principally on many factors, such as host country policies and institutions, the quality of investment, the nature of the regulatory framework, the flexibility of the labour market, and many others (Mayne, 1997). Among these various forms of foreign direct investment contributions, it is widely believed that the most important one for reducing poverty is widening access to employment, especially productive employment. Experiences in many developing countries show that insufficient job opportunities are the result of inadequate levels of investment, both domestic and foreign.

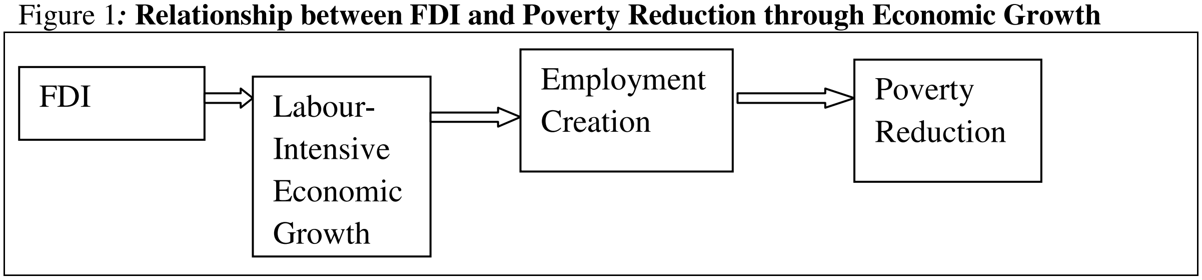
5.3.2 Contribution of Foreign Direct Investment to Poverty Reduction

It should be emphasized that many foreign direct investment impacts are inherently difficult to measure. According to Tambunam (n.d.), academic literature typically approaches the issue in one of three ways:

a. Through Labour-Intensive Economic Growth

   This measurement of impact of foreign direct investment is based on the fact that economic development as measured by growth in gross domestic product (GDP) per capita is an important (though not sufficient) means of achieving improvements in human well-being or reduction in poverty. The basic framework of analysis here is thus the phenomenon of trickle-down effects of economic growth, provided that mechanisms exist to facilitate such trickle-down effects to the impoverished. The most important mechanism by which trickle-down occurs is via economic growth-led employment creation as shown in figure 1.

Figure 1**: Relationship between FDI and Poverty Reduction through Economic Growth**

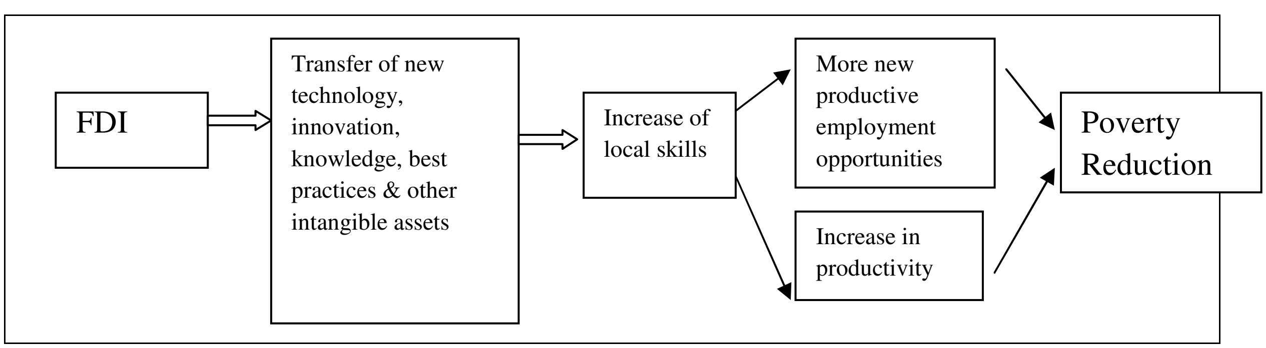


This analytical framework has three (3) important related issues. The first issue is the role of foreign direct investment as an engine for economic growth in the host country. The second issue is the question of whether there is a negative and significant correlation (trade-off) between economic growth and poverty. The third issue is the degree and nature of poverty reduction effect of foreign direct investment through its economic growth effect. With respect to the degree, the main concern here is whether the economic growth induced by foreign direct investment does indeed have a significant impact on employment creation and thus a great effect on poverty reduction.

b. Through Transfer of New Technology, Knowledge, and other Intangible Assets

This measure is based on the assumption that the ultimate impact of foreign direct investment on economic growth in the host countries depends not only on the performance of foreign firms, but also on the diffusion of new technologies, innovations, knowledge, new best practices and other intangible assets from foreign direct investment throughout the economy of the host countries. The transfer of such intangible assets in the form of new business ventures (for example multinationals relocating) also often results in higher wages for production workers and is a much less volatile form of international investment than portfolio investment flows (Bhorat and Poswell, 2003). At least theoretically, the diffusion of all these intangible assets will increase efficiency and productivity, and hence income per worker in the host country as shown in figure 2:

Figure 2: Relationship between FDI and Poverty Reduction through the Diffusion of New Technologies, Innovations, Knowledge, Best Practices, and Other Intangible Assets

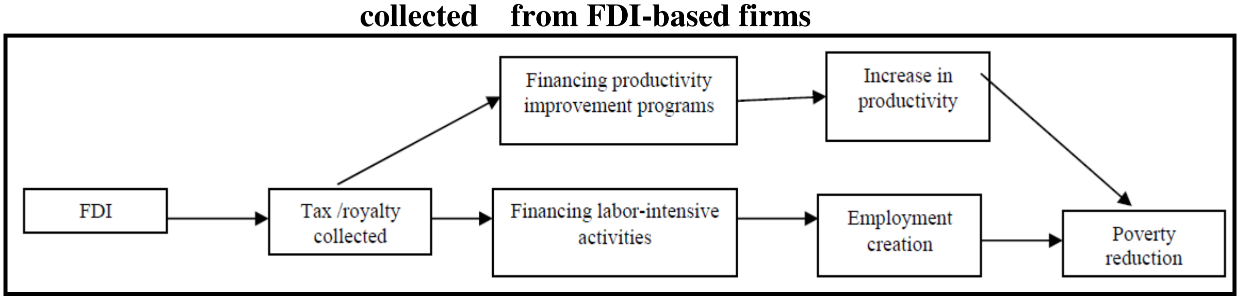


According to this theory, intangible assets may be transmitted across borders by various mechanisms. For example, foreign buyers of exports from developing countries may provide the demand for upgrading, as well as some level of technical assistance to domestic firms, imported capital goods may embody improved technology, technology licensing given by developed countries allows developing countries to acquire innovations, and expatriates transmit knowledge. Klein et al. (2000) show that the most effective means of transferring best practice is foreign direct investment, since it tends to package and integrate elements from the various methods. However, a study by Borenzstein et al (1998) shows that although foreign direct investment is an important vehicle for the transfer of technology, contributing relatively more to economic growth than domestic investment, this is only true when there is some threshold stock of human capital.

c. Through the Allocation of Tax Revenue Collected from Foreign Firms

The third way that foreign direct investment can have a positive effect on poverty reduction is through taxation of foreign subsidiaries, which raises government revenues, which in turn can be used to funding various social development programs, including productive improvement and development of labour-intensive economic activities (such as industry and agriculture) or poverty alleviation oriented projects (Figure 3).

Figure 3: Relationship between FDI and Poverty Reduction through Tax Revenue collected from FDI-based firms



But, whether this type of indirect benefit from foreign direct investment on poverty alleviation in the host countries can be realized, it depends on at least three pre-conditions.

a. First, tax systems in the host countries should be attractive for investment, including from abroad. If, for instance, corporate tax rates in the host countries are too high as compared to other potential countries for FDI, it may deter foreign investment. Internationally compatible corporate tax rates should reduce incentives to engage in ‘transfer pricing’, a practice, which reduces tax revenue in the host economy

b. Second, whether or not government budgets gain sufficiently from taxing foreign subsidiaries depends on what policies and agreements are in place to ensure that tax revenue and/or royalties are really collected. In reality, this is not always the case as foreign firms often use transfer pricing to minimize tax burden
c. Third, whether the collected tax from foreign direct investment is used for financing employment creation or poverty alleviation oriented programs or projects such as development of labour-intensive projects or small and medium enterprises, or to support the development of a safety net for the poor, or it is used to finance imports of components or raw materials for domestic capital-intensive industries.

Overall, despite the potential of foreign direct investment to enhance economic growth and poverty reduction in developing countries through three ways as discussed above, there are at least two main issues of concern. First, the monopolistic tendencies of foreign subsidiaries may crowd out domestic investment or industries, and thus the presence of foreign direct investment may increase instead of reducing poverty in the host countries (Gardiner, 2000). Increased rivalry between domestic and foreign firms could be beneficial in terms of promoting competition, improving efficiency amongst inefficient firms, and ensuring the most productive allocation of scarce resources. However, foreign firms, especially large multinational companies with superiority in technology, information, human resource, capital, marketing, distribution, and have advertising power may create anticompetitive impacts, e.g. displacement of domestic firms or investment. Other possible negative outcomes or “crowding-out” effects of foreign direct investment include, bidding scarce resources (e.g. skilled labour, credit) away from domestic firms, or squeezing out domestic supply networks as new foreign entrants bring with them integrated upstream and downstream supply chains. Such powerful foreign multinational companies tend to be monopolistic or oligopolistic, and they are able to engage in predatory pricing to restrict prospective entrants from gaining access to the market. All these outcomes will result in a contraction in total industry size, a reduction in employment, and an increase in poverty. Nevertheless, the literature concedes that crowding out is the more rare event, and that the benefits of foreign direct investment tend to be more prevalent, especially enhanced competition, improved efficiency and increased innovation (Cotton and Ramachandran, 2001).

6.0 Literature Review

6.1 The link Between FDI and Growth

Foreign direct investment can affect growth if it results in increased physical investment, plant and equipment upgrading and greater transfer of technologies to host country firms. A Study on the Impact of Foreign Direct Investment on Poverty Reduction: A Survey of literature and Temporary Findings from Indonesia by Tulus Tambunan (University of Trisaki) indicate that given the appropriate host-country policies and a basic level of development, benefits that might accrue from foreign direct investment include employment creation, the acquisition of new technology and knowledge, human capital development through employee training in new business ventures (for example multinational relocating) contribution to international trade integration, creation of a more competitive business environment and enhanced local /domestic enterprise development, flows of ideas and global best practice standards aiding international competitiveness and increased tax revenues from corporate profits generated by foreign direct investment. All of these forms of benefits are expected thus to contribute to higher economic and employment growth, which is the most important and effective tool for achieving improvements in alleviating poverty reduction. However, the impact of foreign direct investment on poverty and other social goals of development depend on many factors such as host country policies and institutions, the quality of investment, the nature of the regulatory framework, the flexibility of the labour market and many others (Mayne, 1997). Among these various forms of foreign direct investment contributions, it is widely believed that the most important one for reducing poverty is widening access to employment, especially productive employment. Experiences in many developing countries show that insufficient job opportunities are a result of inadequate levels of investment, both domestic and foreign.

Borenzstein et al. (1998) found a positive growth effect of foreign direct investment but only if the host country has surpassed a threshold schooling level. This result was derived from as a sample of sixty-nine developing countries during the decades 1970-1979 and 1980-1989. The study performed cross country regressions of the growth rate of per capital income on the human capital and other variables such as initial income, domestic investment and others. The authors obtained a negative coefficient from the foreign direct investment and a positive coefficient from the interaction between foreign direct investment and schooling, implying that the effect of foreign direct investment on growth becomes positive only if the schooling level is high. Oliva and Batiz (2002a) considered a sample of 120 developing countries for 1970-1994. The results confirmed the positive effects of foreign direct investment and superiority of foreign direct investment over domestic investment and found that non foreign direct investment capital flows did not exert a significant growth effect.

Foreign direct investment may be undertaken by individuals, as well as business entities. The World Development Report (1998/99, P.145) states that openness to trade is essential. One of the main reasons the East Asian economies were able to grow so fast was their ability to build strong links with world markets and to draw upon the technology flowing through those markets. They did this with policies ranging from trade liberalization to export promotion, some of which offset protectionist biases favouring domestic industries. In terms of foreign direct investment, countries with more open trade regimes are likely to attract competitive, outward oriented foreign investment, which brings efficient technology and management into the economy. Hong Kong (China), Indonesia, Malaysia, Singapore, Taiwan (China), and Thailand have been particularly welcoming, and their growth spurts were closely linked to surges in foreign direct investment. In contrast, Sub-Saharan Africa has been less open to foreign trade and investment. Partly as a result, the region has attracted only about 1 per cent of world foreign direct investment to developing countries. It has lagged behind compared to other regions in acquiring knowledge and in economic growth. To attract foreign investment, developing countries also need appropriate infrastructure both ‘hard’ infrastructure, such as transport and communications and ‘soft’ institutional infrastructure such as effective legal, financial and educational systems

6.2 Types of Foreign Direct Investment

Multinational enterprises and FDI represent an increasing, important element of global commerce and factor mobility. During the past decades, the growth of foreign direct investment has surpassed the growth of exports. By the late nineties, the global sales of foreign affiliates had surpassed the value of exports. Moreover, many countries have dismantled long –standing restrictions on foreign direct investment and have shifted strategies toward policies designed to attract foreign direct investment. Moran (1998) reported that the number of countries with a more proactive stance toward foreign direct investment doubled from 60 to 118 between 1991 and 1998. The major source of foreign direct investment is from multinational enterprises (MNEs). A multinational enterprise is a firm that owns and controls productive assets located in more than one country. Multinational enterprises engage in foreign direct investment by acquiring or augmenting control over host country firms. This foreign direct investment happens when a firm invests directly in facilities in a foreign country. There are two forms of foreign direct investment, namely:

a. Location of new or expanded production facilities: this type of foreign direct investment involves "greenfield" investments, research and development activities and managerial resources in a host country. This type of foreign direct investment requires physical investment abroad

b. Merger with acquisition of existing host country firms: this involves securing partially or having absolute control of a source country firm. Mergers and acquisitions (M & As) do not require committing new physical investment to the host country but often generate physical investment for upgrading and expansion purposes.

6.3 Effects of Foreign Direct Investment

When the effects of foreign direct investment come into play, the subject becomes controversial. Foreign direct investment has been blamed for reducing employment and wages in their home markets. Hosts often argue that foreign investors monopolize local markets. On the other hand, foreign direct investment is said to increase employment, to generate transfers of technologies, to lead to faster productivity growth and encourage growth in host countries. Among the benefits of FDI include:

a. Spill over effects

   There are no arguments on the spill over effects attributable to foreign direct investment. It brings managerial talent, generates technological spill overs and raises the marginal productivity of labour to greater extent than it lowers the productivity of capital. There are two major types of dynamic externalities (i.e. spill overs). One externality arises from communication among firms within the sector. The second type of externalities often called Jacobian spill overs derive from the accumulation of knowledge associated with the diversity and, therefore, involves learning across sectors. There is evidence that both intra-sectorial spill overs are highly localized (Glaeser et al, 1992). There is substantial evidence indicating that multinational corporations have positive spill over effects on home countries and that technology transfer is a major channel for these effects (Blomstrom and Kokko, 1998). Rhee and Belot (1989) offer evidence of technology transfer to domestic textile firms in Bangladesh and Blomstrom (1989) found Mexican sectors featuring greater foreign ownership experience, faster productivity growth and faster convergence to US productivity levels.

b. Employment effects of outward Foreign Direct Investment

Groups and political leaders in developed countries sourcing foreign direct investment have argued that it reduces source country employment and wages. The notion that FDI reduces wages has an analogy in the notion that foreign direct investment reduces the demand for labour and employment. In the cases of Japan and Sweden, Lipsey et al (2000) detect a positive correlation between the foreign affiliate's volume of production and parent's employment levels.

6.4 Determinants of Foreign Direct Investment flows

The analysis of foreign direct investment involves questions such as what determines the volume and location of foreign direct investment, mergers and acquisitions as well as a wide range of factors such as multinationals characteristics, host country policies and others. Markusen (1995) presented the major stylized facts about foreign direct investment. Multinationals are important in industries offering products that are innovative, sophisticated and differentiated. These industries display high levels of product advertising. Indicators of scale economies at the plant level are often negatively related to multinationalisation. Firm age is positively related to multinationalisation. An intriguing finding is that many studies do not find clear evidence relating to foreign direct investment to a number of factors that would appear to be natural determinants. Foreign direct investment is not related to cross country differences in factor endowments. Notwithstanding the substantial wage gaps, foreign direct investment does not flow from rich to poor countries. It rather flows from a developed country to a roughly similar developed country. Foreign direct investment is not always closely associated with differences in the rates of return on capital or to risk diversification motives.

6.5 General Trends in Foreign Direct Investment

The flow of foreign direct investment and stock has increased over the last 20 years. In spite of the decline of trade barriers, foreign direct investment had grown more rapidly than the world trade because:

a. Businesses fear protectionist pressures

b. Foreign direct investment is seen as a way of circumventing trade barriers

c. Dramatic political and economic changes in many parts of the world

d. Globalization of the world economy has raised the vision of firms who now see the entire world as their market.

6.6 Impact of Foreign Direct Investment on the Zambian Economy

The economic benefits of both local and foreign direct investment may be measured by the favourable and positive impact on factors or indicators, which include government revenue, employment generation, export earnings, technology transfer and skills training for resident employees, as well as multiplier effects to utility service providers and the general public. According to the World Bank (2000) reducing global poverty is the fundamental challenge of the 21st century. Despite economic progress in recent decades in many parts of the world, too many people still live in conditions of abject poverty. And while social indicators have been improving, those for the poor remain generally worse than those for the better off. Furthermore, the recent financial crisis increased the number of poor people, the gap between the rich and the poor is growing and the AIDS epidemic is reversing progress in mortality, particularly in sub-Saharan Africa, including Zambia. The report further stated that prospects for reducing poverty depend on economic growth and the extent to which the benefits of growth are shared. This approach suggests that foreign direct investment is required to attain this economic growth where the benefits of growth can be shared.

Moyo (2009, P.28), reports that " more than US$ 2 trillion of foreign aid has been transferred from rich to poor countries over the past fifty years, Africa being the biggest recipient, by far. Yet regardless of the motivation for aid giving, economic, political or moral, aid has failed to deliver the promise of sustainable economic growth and poverty reduction". She further said aid has not lived up to expectations of the users, it remains at the heart of the development agenda". If well managed aid through promotion of foreign direct investment, can be a vehicle to reduce poverty in Zambia. The fact that aid has been flowing to Zambia is further confirmed by the sentiments of Zambia's first president Dr. Kenneth Kaunda (Fortman, 1969, P.vii) who stated that "While Humanism will allow maximum possible participation by Zambians in the development of the economy in order to increase the flow of goods and services, it is clear that foreign investment will continue to have a great role to play in Zambia's development, to this end the foreign investment Act is to be enacted to guarantee protection for such foreign investment in Zambia." This, in itself, is a testimony of the Government's open door policy in regard to participation of investors in Zambia's economic growth. This statement simply indicates that foreign direct investment has always been there, from time in memorial but the question is, has it been reducing poverty or it is business as usual?

Zambia's Ministry of Finance and National Planning: Fifth National Development Plan (2006-2010, P.123(c)) stated that "trade is widely viewed as an important tool for economic growth, which in turn, is a pre-requisite for long-term poverty reduction. It further stated in its broad policy objective on the trade sector, that trade stimulates investment flows into export oriented production areas in which Zambia has comparative and competitive advantages, as a strategy for inducing innovation and technology transfer into the national economy. The report entitled Globalization Growth and Poverty –Building an Inclusive World Economy, 2002, suggested that integration into the World Economy has a positive impact on developing nations and can be used to reduce poverty. This statement showed that foreign direct investment is one of the ways of fighting poverty. The World Bank works relentlessly to find solutions to poverty through its closely associated institutions through the promotion of foreign direct investment as stated earlier.

However, Punabantu (2009 P.111) stated that "Zambia's aggregate value in market terms was incapable of supporting productivity to levels where the living standards of people were internationally acceptable. This was due to huge annual deficit of US $587 billion (2005). Therefore, the domestic demand and global market for foods and services does not see 98.8 per cent of Zambia's potential for domestic demand and international trade. "The African Economic Outlook OECD (2007/2008, p.628) reported to the contrary that "poverty rates have fallen from 68 per cent to 64 per cent in 2006 in Zambia. However, it was estimated at least 10 per cent of the population would have very little or no productive capacity and thus were trapped in long term chronic poverty. These included disabled and households affected by HIV/AIDS and an estimated 75,000 children living on the streets."

The Treasury data showed that Zambia received nearly $1.5 billion in foreign direct investments, while earnings in copper exports were around $4.7 billion in 2007. The critical issue is how much of this foreign direct investment received was from the World Bank as a contribution to fighting poverty? The September, 20, 2005, article entitled World Bank Calls for Market-Driven Equality stated that "the level of equity in a country is a major determinant in its long-term development." Speaking at the release of the World Bank's World Development Report (WDR) 2006 in Washington, it was stated that "there is a complementarity between equity and the rate of growth". The World Development Report is an annual publication of the Bank that debates over sustainable development issues and policies. According to the Bank's President Paul Wolfowitz, equity can be defined as "equal opportunities regardless of race, gender, social and family background or country of birth and avoidance of deprivation of health, education and consumption levels". The report cited markets as mechanisms that address the problem. A free market economy is required for foreign direct investment inflows to flourish where all citizens would be free to participate and reduce poverty levels. Another article entitled, "9 out of 10 World Bank Poverty Reduction programmes demand privatization" reported on 19 September, 2005 by the World Development Movement, stated that the World Bank and International Monetary Fund's (IMF) trumpeted poverty strategy little more than classic structural adjustment. The study found that 90 per cent of the poverty reduction strategy papers (PRSPs) were relief, loans and aid to the poorest and contained privatization measures, 96 per cent policy and 70 per cent include trade liberalization.

Foreign direct investment can only occur in an environment that is liberalized and employs a free market system that works. The Article entitled "The International Monetary Fund and the World Bank in Africa: A Disastrous Record" from Pambazuka News No.175, by Demba Moussa Dembele stated that Poverty Strategy Reduction Papers (PRSPs) are supposed to provide more freedom to developing countries in formulating their policies. This is what the World Bank and International Monetary Fund (IMF) call "national ownership". Representatives from government, the private sector, civil society organizations and even the poor are supposed to "participate" in drafting the poverty reduction strategy papers (PRSP) of each country to decide on how to use the proceeds released by “debt relief” to achieve “poverty reduction”. In reality, the macroeconomic framework that underpins the poverty reduction strategy papers is the same as that which underpinned the now discredited structural adjustment programmes (SAPs). That framework is not negotiable and includes fiscal austerity, trade and financial liberalization, privatization, deregulation and state retrenchment, etc. In essence, despite the disastrous outcome of their past policies, the World Bank and the IMF still believe that those policies are in the “interest of the poor”. In particular they think that trade liberalization and openness are the best, if not the only road to growth, which they see as a prerequisite for poverty reduction. Hence the export led growth strategy advocated by the two institutions, but which has been a big failure in Africa and other developing countries. Despite the failure of these measures in Africa, they still indicate that poverty can be reduced through the promotion of foreign direct investment by implementing trade and financial liberalization, deregulation, privatization, etc., that would lead to higher economic growth and reduce poverty for the poor.

The Publication by JCTR on policy brief, Promotion of Social Justice and Concern for the Poor, First Quarter 2006: Zambia after the HIPC ‘surgery’ and the Completion Point highlighted some of the initiatives by the International organizations in trying to cancel the debt for Zambia. Notable ones included World Bank under the International Development Association (IDA) promising debt relief to Zambia amounting to US$ 885.2 million to be delivered from 2001 to 2020.The IMF also promised to provide debt relief of US$ 602 million in net present value (NPV) terms on payments falling due to the IMF during 2001-2008.The other remaining stakeholders were the bilateral and multilateral creditors who were expected to provide their share of relief to Zambia. The major concern is, are all these promises being fulfilled? There seems to be no reduction in poverty despite these huge sums of money promised to Zambia.

The World Development Report (2005) stated that the principle message to the developing countries was that they should adopt policies related to foreign investment to spur economic growth and development and that the development of binding multilateral rules relating to foreign investment would create a favourable climate for foreign investment in developing countries. This is the same argument made to the developed countries for developing new rules on investment liberalization in the World Trade Organization (WTO) and bilateral agreements with developing countries.

The World Development Report (2005) further argued that improvements in the investment climate in developing countries would lead to increased flows of foreign direct investment (FDI) and consequently, to higher levels of economic growth and development. The report stated that improvements in the investment climate e.g. those location with specific factors that shape the opportunities and incentives for firms to invest productively, create jobs and expand, are the driving forces behind growth and poverty reduction. It further argued that the establishment of international rules or standards relating to investment is one of the major factors that help to create a favourable climate for investment in terms of enhancing the credibility of government investment policies, reducing international transaction costs and addressing international spill overs or shared concerns.

The World Development Report (2005) furthermore suggested that the developing countries must have international agreements that have the following features:

a. The agreements must focus on the liberalization of trade and investment and on the reduction in barriers that can improve the investment climate by reducing costs, expanding market sizes and enhancing competition
b. The agreements must contain higher standards of protection for investment and investors. The report further stated that developing countries will benefit from a multilateral agreement on investment that provides high standards of protection to investors, including provisions on dispute settlement, indirect expropriation and transfer of funds
c. The agreement must encompass harmonization, as opposed to customization of standards, as harmonization reduces costs and also provides signals of high standards to traders and investors
d. The agreements must be binding commitments so that there is little chance of rolling back.

The World Development Report (2005) further argued that such international agreements would lead to greater flows of investment and further stated that developing countries needed larger capital inflows to raise the level of investment and gross domestic product (GDP) that would encourage growth and create jobs. Inflows of foreign direct investment can contribute to these objectives and developing countries should understand that investors are looking for rules that would reduce the risks to investment. By the same token, the developed countries are looking for rules that would ensure that these flows provide development benefits. The report on Operations under the Bretton Woods and Related Agreements Act: 2 produced by the Department of Finance of Canada, explained the pertinent issues on the operations of the World Bank. In the Financial Year (FY 2005), the Bank committed loans, grants and credits of US$22.3 billion to 103 developing and transition countries. The International Bank for Reconstruction and Development (IBRD) committed US$ 13.6 billion in new loans in FY2005, up substantially from US$ 11.0 billion in FY 2004. The World Bank provided concessional loans and grants through the International Development Association (IDA) valued at US$8.7 billion in FY 2005, or roughly US$400 less than recorded in FY 2004. The World Bank had sharpened its support for development agenda through a two pillar strategy for reducing poverty that was based on building the climate for investment, jobs and sustainable growth, and investing in poor people and empowering them to participate in development. In FY 2005, the Bank's work remained closely aligned with this framework. The Bank recognized the need for it to intensify its efforts in implementing the framework by sharpening the tools and procedures for meeting the challenges set forth in the Millennium Development Goals. The recognition that achievement of the Millennium Development Goals (MDGs) depends heavily on empowerment of the poor underpins the World Bank's approaches to countries and sectors. The MDGs now form the cornerstone of the World Bank's strategic planning and operational priority setting. The World Bank is also closely working with the United Nations system and the Development Assistance Committee of the Organization for Economic Co-operation and Development in strengthening international monitoring of the progress being made towards achieving the MDGs.

At the Millennium Summit in September 2000, world leaders adopted specific development goals that can be monitored, subsequently, the United Nations published 8 Millennium Development Goals and 18 associated targets in the September 2001 report of the United Nations Secretary General as part of the road map to implement the UN Millennium Declaration. Out of the eight goals, Goal number one was relevant to the study since it is about poverty reduction and is stated as "To halve, between 1990 and 2015, the proportion of people living on less than one US dollar a day, and to halve, between 1990 and 2015, the proportion of people suffering from hunger." Therefore, the study was looking at this Millennium Development Goal number one, through promotion of foreign direct investment in reducing the suffering of people and those living on less than one US dollar a day which corresponds to the World Bank's mission of fighting poverty. To ensure that poverty reduction remains at the heart of the institution's operations, the World

Bank's Poverty Reduction and Economic Management Network (PREM) undertakes country specific assessments and advises the Bank country teams on the poverty reduction impacts of policies, programmes and individual projects. The quality of poverty data, however, is uneven, and PREM continues to improve the consistency of its assessments. In July 2003, the Bank's Executive Board approved an infrastructure Action Plan to revitalize the Bank's work in this area. Infrastructure is about providing basic services that the people need for everyday life such as water, sanitation, energy, roads and other aspects of transport and access to modern information communications technology. The overarching premise of the action plan is to ensure efficient, affordable and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC and MIGA products.

The World Development Report (2006) stated that inequality of opportunity, both within and among nations, results in wasted human potential and often weakens prospects for overall prosperity and economic growth. To correct this situation and reduce poverty more effectively, the World Development Report recommends ensuring more equitable access by the poor to health care, education, jobs, capital and secure land rights, among others. It also called for increasing equality of access to political freedoms and political power, breaking down stereotyping and discrimination, and improving access by the poor to justice systems and infrastructure. To play the level playing field among other countries and thereby reduce global inequalities that hurt the poor in developing countries, the report calls for the removal of trade barriers in rich countries, flexibility to allow greater migration of lower skilled people from developing countries and increased and more effective development assistance through the promotion of foreign direct investment. A major challenge facing Zambia today is to reduce poverty and achieve sustained economic growth for national development. Poverty is one of the major barriers to human development in Zambia that has been identified. Poverty is defined as a level of living when individuals and households are not able to meet their food and basic needs such as shelter, energy, sanitation and water supply, (CSO, 1993). Others have defined poverty as the lack of basic necessities that all human beings need to have such as food, clean water, shelter, education, medical care, security, etc. The causes of third world poverty are believed to include, unfair trade agreements, lack of technology and investment and rapidly changing prices of goods, war or conflict, debt, land taken over by large businesses, HIV/AIDS, lack of food and education, gender inequality between boys and girls, etc.

7.0. Methodology

The research was an examination of the World Bank's contribution to fighting poverty in Zambia through the promotion of foreign direct investment from 1999 to 2009 through its specialized institutions. The study focused on the activities of the International Development Association and International Finance Corporation in the promotion of foreign direct investment as a means of fighting poverty.

7.1 Sources of Data

Both primary and secondary data were collected under the study. Structured interview guide in annex 1 was used to collect primary data by the researcher from selected key informants that included the World Bank office, Ministry of Commerce, Trade and Industry, Zambia Development Agency, Ministry of Finance and National Planning, Ministry of Tourism, Citizens Economic Empowerment, Bank of Zambia, Road Development Agency, Ministry of Works and Supply, Central statistical office, Road Fund Agency, National Council for Construction, Airtel, Tourism Council of Zambia, Banks Association and Chambers of Mines. Sources of secondary data included the Internet material, books, articles, written reports and publications.

7.2 Location and Duration of Study

The study was conducted in Lusaka and all the respondents were chosen from Lusaka. The reason for this was that most of the targeted institutions were located in Lusaka including the World Bank office. The duration of study was 6 months

7.3 Sampling Procedure and Sample Size

For the survey component, 32 key informants were purposively selected from 16 institutions mentioned above in the sources of data. The respondents from the selected institutions made up the total sample size of 32.Two key informants from each institution consisting of top management were interviewed by the researcher using a structured interview guide as indicated in annex 1 and secondary data was collected at the same time from written reports, books, articles and publications including the internet material.

7.4 Methods of Data Collection

Primary data was collected using a structured interview guide attached in annex 1 by the researcher involving 32 informants, two from each selected institution. The overall method of data collection included, structured interview guide used to interview two key informants from each selected institution by the researcher, desk research was used to collect secondary data from official documents such as books, reports, articles and periodicals from each targeted institution and other sources during the process of primary data collection and relevant internet materials from verified official sources were also collected.

7.5 Methods of Data Analysis

The data collected was summarized for easy analysis. In addition, the data collected was subjected to qualitative analysis using the computer to create tables and graphs. Microsoft word and excel was used to create the tables. Comparisons with figures from the research findings were used where possible to measure the amount of change resulting from the level of investment inflows towards poverty reduction. The data collected was analysed objectively and, therefore, the results expressed in this study represent the findings based on the secondary data and response rates of the respondents to a variety of questions posed in the interviews.

CHAPTER TWO

FOREIGN DIRECT INVESTMENT TRENDS

1.0 Global Foreign Direct Investment Growth

Foreign Private Investment and Investor Perceptions in Zambia (2007/2008) Report states that at global level, cross country literature showed that there had been a global surge in foreign direct investment (FDI) and other capital flows to developing countries since the 1990s (UNCTAD 1988). Nils Bhindha et al (1999) noted the global surge of FDI in the 1990s and acknowledged that sub-Saharan Africa, including Zambia, benefited from the global surge. These flows were highly significant as a proportion of growth domestic product (GDP). Furthermore, the United Nations Economic Conference for Africa (UNECA) Report of 2005 also showed that since the early 1990s, private resource flows accounted for almost of the growth in financial flows to developing countries. From 1990 to 1999, private net resource flows to all developing countries increased almost six fold, from US$42.0 billion to US$239.0billion. In 2007, for instance, FDI flows reached a record of US$1.833trillion, up 30 per cent their 2006 level and well in excess of the previous all-time high set in 2000 (UNCTAD 2008). The surge in the inflows, notably FDI, was mainly driven by record values of mergers and acquisitions and facilitated by the continued favourable policy changes at national level. Factors that attracted foreign direct investment included high commodity prices and profitability (Africa), demand for natural resources (Latin America and the Caribbean), improvement in the general investment climate and regional integration (South, East and South East Asia), improvement in the business environment and growing number of energy and construction projects and fast growing consumer market, natural resource and privatization . Undoubtedly, the World Bank has facilitated a number of projects that contributed to the surge in the flow of foreign direct investment as the findings reveal in the case of Zambia. Foreign private capital flows are generally acknowledged to have positive impact on the recipient economies via enhanced employment generation, increased technology transfer, contribution to the treasury through direct and indirect taxes, fees, commissions, increased export earnings and contribution to growth in overall growth domestic product (GDP). However, in order to alleviate and reduce poverty, foreign direct investment or private capital enterprises need to adhere to sector specific regulations, including environmental issues and corporate social responsibility. Foreign direct investment and other capital flows may, however, have a negative impact on the host economies if not well embedded and managed. This is clearly demonstrated by the financial crisis of the Far East Asia (1997), Latin America (2002) and the current global financial crisis in Europe.

Furthermore, available literature on the gains from trade and foreign direct investment, by developing countries was estimated that by 2000, the growth domestic product (GDP) of developing countries would have grown roughly by 5 per cent annually as a result of their access to international markets in goods and services (The Economist, 2003). Further research had shown that foreign direct investment had been growing globally in recent years, having increased from $711 billion in 2004 to $916 billion in 2005 (UNCTAD). Global foreign direct investment inflows climbed to 1.3 trillion in 2006, at 42 per cent increase in US dollar terms on the 2005 total of $916 billion and the first time since 2000 that global foreign direct investment inflows surpassed the US$ 1 trillion mark. This was the third consecutive year of strong growth in global foreign direct investment inflows by 30 per cent or more each year in nominal US dollar terms.

The growth of foreign direct investment was spurred by cross border mergers and acquisitions, with increasing deals also undertaken by global investments funds. The recent surge in M & A activity included several major transactions by developed country companies, partly fuelled by the recovery of stock markets. Most foreign direct investments inflows have been going to services sector, particularly finance, telecommunications and real estates. The sharpest rise had been in natural resource extractive industries such as oil and minerals.

Table 2: Selected Indicators of Global Foreign Direct Investment 2004-2006

Item	**2004**	**2005**	**2006**
FDI inflows	742	946	1306
FDI stock	9,545	10,048	11,999
Cross border M & A	381	716	880
Cross fixed capital formation	8,700	9,115	10,307
Export of goods and services	11,196	12,588	14,120
GDP(current prices)	40,960	44,486	48,293

Source: UNCTAD, World Investment Report (2006-2007)

Global foreign direct investment inflows in the period between 2004 and 2006 followed a deep slump as reported by the Economic Intelligent Unit. Global foreign direct investment flows had experienced a sharp decline after 2000, in line with global economic slowdown and the end of the previous mergers and acquisitions boom, reaching an all-time low in 2003. Global foreign direct investment inflows plummeted by a cumulative 60 per cent in US dollar terms between 2001 and 2003. Despite the discovery in the 2004 to 2006 period, foreign direct investment inflows as a percentage of the world's growth domestic product (GDP), at 2.8 per cent in 2006, were still considerably lower than their level at the end of the previous decade. The 2006 inflows were also slightly below the peak of US$1.4 trillion recorded in 2000.

The growth in foreign direct investment inflows reflected the positive economic growth rates in some developed countries, as well as strong economic performance in many developing and transition economies. Inflows to developed countries in 2005 amounted to $542 billion, an increase of 37 per cent over 2004, while to developing countries they rose to the highest level ever recorded at $334 billion. In percentage terms, the share of developed countries increased somewhat to 59 per cent of global inward foreign direct investment. The share of developing countries was 36 per cent and that of South-East Europe and the Commonwealth of Independent States (CIS) was about 4 per cent. There had also been a notable increase in developing country firms in the universe of transitional corporations. The growth in investment and trade is facilitated by the growing integration of countries in the global economy. This is evidenced by the growing number of international investment and trade agreements. International investment agreements reached a total of almost 5, 500 at the end of 2006, of which 2,573 were bilateral investment treaties, 2,651 were double taxation agreements and 241 were free trade agreements and economic cooperation arrangements containing investment provisions. The number of preferential trade agreements with investment provisions had almost doubled in the past five years.

Table 3: Foreign Direct Investment Inflows by Region

Source	**2004**	**2005**	**2006**
World	742.1	945.8	1305.9
Developed Economies	418.9	590.3	857.5
Europe	209.2	495.0	566.4
Japan	7.8	2.8	-6.5
United States	135.8	101.0	175.4
Developing Economies	283.0	314.3	379.1
Africa	18.0	29.6	35.5
Latin America	94.3	75.5	83.8
Asia	170.0	208.7	259.4
South East Europe & CIS	40.3	40.2	69.3

Source: UNCTAD, World Investment Report, 2006, 2007

2.0 Regional Foreign Direct Investment Trends

Africa has attracted significant investment in recent years. Foreign direct investment inflows shot up from US$18 billion in 2004 to US$ 30 million in 2005 and an unprecedented US$ 36 million in 2006 (UNCTAD). The $36 billion foreign direct investment inflows in 2006 in Africa were twice their 2004 level. However, Africa's share in global foreign direct investment continued to be low, at just 3 per cent of the world total. Most of the foreign direct investment flowing to Africa is in the form of Greenfield investments. Foreign direct investment to Africa in 2005 went mainly into natural resources, especially oil, although services e.g. banking had also attracted significant investment. High commodity and strong demand for petroleum led to an increase in exploration activities in a number of African countries, representing about 48 per cent of inflows into the region in 2005. The doubling of foreign direct investment inflows between 2004 and 2006 can be attributed to increased interest in natural resources, improved prospects for corporate profits and a more favourable business climate in most African countries. Many African countries adopted measures to attract foreign direct investment as well as to improve the impact of foreign direct investment on their development. Prospects for foreign direct investment inflows into Africa remain positive due to persistently high commodity prices. With respect to the Southern African region, the performance had been relatively poor with regard to attracting foreign direct investment. In 2005, SADC received close to US$4 billion of the $30 billion investment that flowed into Africa. This relatively poor performance of the Southern Africa region in attracting foreign direct investment can be attributed to the following factors:

a. Small market size (domestic and regional)
b. Poor macroeconomic performance
c. Geographical factors.

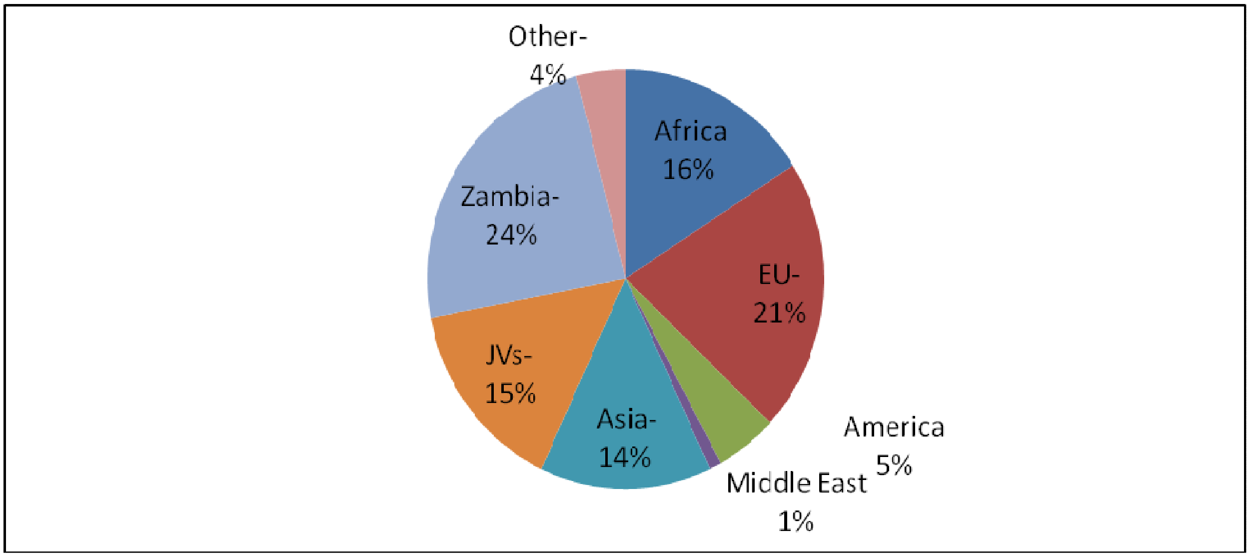
The small market size in Southern Africa had contributed to the relative unattractiveness of the region as a destination for investment. This compounded by high incidences of poverty, unequal distribution of income, wealth and opportunities and generally low average per capital income growth rates. Another constraining feature inherent in the Southern African region is its distance from the major markets such as Europe, USA and Asia. This combined with the relatively underdeveloped and inefficient port and labour facilities (and insufficient air cargo facilities) contribute significantly to transport costs, and overall transactions costs. This tends to reduce profitability and hence affect the firm level investment decision. An environment conducive for business is required to attract substantial foreign direct investment. Against the backdrop of globalization and the competition for foreign direct investment, Southern African countries had made efforts in liberalizing their national policies on foreign direct investment; particularly allowing the externalization of profits and dividends and guaranteeing legal protection of foreign direct investment.

3.0 Profile of Investment in Zambia

Zambia's foreign direct investment mainly came from regions listed below and have contributed significantly with the following percentages.

a. Africa -16 per cent
b. EU- 21 per cent
c. America- 5 per cent
d. Middle East -1 per cent
e. Asia-14 per cent
f. JVs-15 per cent
g. Zambia- 24 per cent
h. Other- 4 per cent.

Figure 4: Zambia's Sources of Foreign Direct Investment



Source: Zambia Development Agency

The manufacturing sector attracted the most investment in Zambia, followed by agriculture and services. However, the mining sector, most of whose enterprises were not registered with Zambia Development Agency, attracted significant investment as a result of the discovery of new mineral deposits in the North Western province of Zambia.

A Foreign Private Investment and Investor Perceptions in Zambia (2007/2008) Report revealed that the major source countries of foreign direct investment(FDI) inflows in Zambia in 2007 were Australia, at US$295.3 million accounting for 22.3 per cent, Canada US$ 146.9 million, accounting for 11.1 per cent, India accounting for 10.4 per cent, Switzerland, accounting for 9.9 per cent, United Kingdom, accounting for 8.0 per cent, South Africa, accounting for 8.0 per cent and Bermuda accounting for 5.9 per cent. A sectoral analysis showed that foreign direct investment inflows in 2007 were concentrated in the mining sector accounting for 59.0 per cent with a major source countries being Australia, Switzerland, India and Netherlands. The banks and non-bank financial institutions ranked second accounting for 8.4 per cent with United Kingdom being the major source country. This was followed by the manufacturing sector which accounted for 8.2 per cent dominated by the Republic of South Africa and France. The wholesale and retail trade, which accounted for 6.1 per cent of FDI inflows, had major investment inflows from Switzerland and Mauritius. The transport and communication sector contributed 5.1 per cent to FDI inflows, driven by the Republic of South Africa, Saudi Arabia and Isle Man. The tourism, construction, agriculture and real estate sectors ranked sixth, eighth and ninth, respectively. These trends are consistent with global trends in foreign direct investment inflows particularly to developing countries. High metal prices on the international market in the period under review made Zambia an attractive investment destination both for Greenfield and reinvestments. However, the Zambia Development Agency Report revealed a number of investment pledges made by sector in Zambia during the period 1993 to 2006 as shown in table 4 below.

Table 4: Investment Pledges by Sector in Zambia 1993-2006

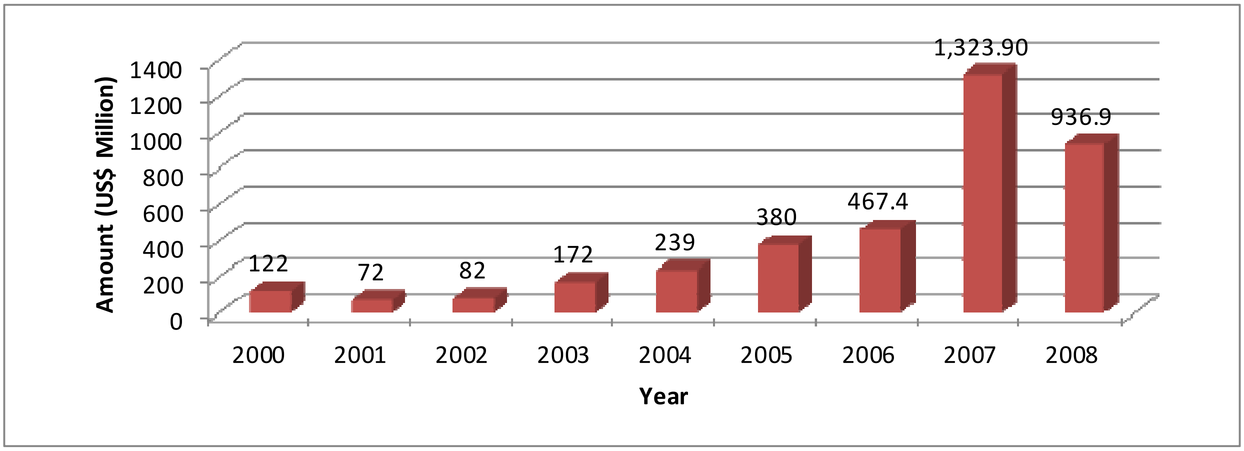
Sector	No. of projects	Pledged investments in (US$)	Pledged Employment
Agriculture	595	679,959,013	80,277
Construction	114	271,312,980	11,634
Consultancy	5	1,268,832	421
Engineering	10	8,237,089	483
Finance	5	5,604,975	483
Fisheries	14	8,626,037	1,918
Health	25	10,225,799	776
Manufacturing	734	1,392,569,699	76,884
Mining	70	455,801,725	13,714
Service	262	802,996,525	15,849
Tourism	319	341,432,361	12,475
Transport	120	197,866,023	4,357
Total	**2,273**	**4,175,901,901,058**	**218,922**

Source: Zambia Development Agency (2007)

The Zambia Development Agency (2007) Report further stated that the majority of investment in Zambia came from the European Union (EU), Asia and Africa. Within Africa, South Africa and Zimbabwe had been the major sources of investment for Zambia. However; Zambians also owned a significant proportion of the investment in Zambia. There had also been an increasing trend of joint ownerships between Zambian and foreign investors.

The Zambian government's liberalized economic policies, coupled with the implementation of economic reforms aimed at improving the investment climate had in more recent years, resulted in increased FDI inflows. The Investment rose from $122 million in 2000 to a record US$1.3 billion in 2007 as illustrated in figure 5 below.

Figure 5: Foreign Direct Investment Inflows to Zambia in US$ (Millions), 2000-2008



Source: Zambia Development Agency report 2007

As the foreign direct investment rose from US $122 million in 2000 to a record of US$1.3 billion in 2007 as illustrated above, more investments were pledged by the licensed companies as illustrated in table 5 below which shows the total pledged investments in Zambia between 2000 and 2009. This totalled to about 15.5 billion dollars. The mining sector accounts for about half of the pledged investments (8.2 billion) followed by the energy sector (1.4 billion). The table also shows that the spur in pledged investments was triggered in 2007. Another interesting thing to note is that the sectors in which majority of the poor are likely to be involved (i.e., agriculture) did not receive as much in terms of pledged investments. Similarly the majority of the investments are targeted towards the extractive industries while the manufacturing sector received very minimal pledges.

Table 5: Pledged Investments by licensed companies in (US$), 2000-2009

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Agriculture	**8,799,253**	**26,399,539**	**12,036,605**	**37,120,802**	**34,428,242**	**32,186,118**	**60,908,995**	**13349500**	**77550342**	**45561270**	**348,340,666**
Construction	**10,355,628**	**4,772,615**	**13,065,184**	**10,148,500**	**2,801,340**	**5,428,000**	**140,812,266**	**23555800**	**33929000**	**11410000**	**256,278,333**
Education	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4127000**	**-**	**14650000**	**18,777,000**
Energy	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1306743661**	**92100000**	**1,398,843,661**
Engineering	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11050398**	**-**	**-**	**11,050,398**
Financial Inst.	**340,000**	**-**	**-**	**106,500**	**-**	**-**	**-**	**1000000**	**58345500**	**38000000**	**97,692,000**
Health	**-**	**-**	**-**	**-**	**-**	**114,617**	**1,497,000**	**1281000**	**35775400**	**58414000**	**97,082,017**
ICT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**275140000**	**4598900**	**3850000**	**283,588,900**
Manufacturing	**31,042,741**	**30,476,557**	**7,397,227**	**30,117,635**	**45,439,110**	**116,534,328**	**429,603,263**	**586997196**	**1042545140**	**585236669**	**2,905,389,866**
Mining	**2,322,363**	**14,658,945**	**6,800,000**	**656,766**	**14,547,563**	**62,483,548**	**72,973,000**	**441500000**	**7444922289**	**182264750**	**8,243,129,224**
Real Estate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5900000**	**63825000**	**433538456**	**503,263,456**
Service	**8,924,161**	**25,026,594**	**41,900,026**	**3,829,468**	**15,603,883**	**18,584,292**	**6,803,430**	**44726559**	**102353718**	**100097770**	**367,849,901**
Tourism	**18,835,420**	**13,956,040**	**645,175**	**17,541,500**	**6,626,545**	**10,869,275**	**20,533,969**	**78406759**	**183455701**	**198496000**	**549,386,384**
Transport	**2,287,025**	**-**	**-**	**20,160,968**	**3,685,292**	**7,152,392**	**1,306,680**	**271983343**	**51774498**	**59634000**	**417,984,198**
Total	**82,906,591**	**11,529,0290**	**81,844,217**	**119,682,139**	**12,313,1975**	**253,352,570**	**734,458,603**	**1759017555**	**10405719149**	**1823252915**	**15498656004**

Source: Zambia Development Agency

4.0 Foreign Direct Investment and Poverty Reduction

4.1 Employment Creation

Considering that one pathway through which foreign direct investment can impact on poverty is through job creation (see figure 2 in the conceptual framework), table 6 below shows the total pledged employment by licensed companies (FDI) from 2000 to 2009 as provided by the Zambia Development Agency (ZDA). A total of 127,304 jobs were supposed to be created in the nine-year period. The manufacturing sector was supposed to account for the majority of these jobs (38,127) followed by the agricultural sector (31,181 jobs). It is interesting to note that even though the majority of the pledged investments (in US$) is towards the mining sector and the energy sector, these do not account for so much in terms of job creation. The mining sector, despite accounting for more than half of the pledged investments accounts for less than half of the jobs pledged in the manufacturing sector. The scenario is even worse for the energy sector which gets the second largest amount in terms of pledged investments. The energy sector only accounts for only 543 jobs, a scenario that may already show that FDI may not really lead to such a marked reduction in poverty as the sectors accounting for the majority of the FDI pledges do not contribute so much in terms of employment creation and consequently poverty reduction.

Table 6: Total Pledged Employment by Licensed Companies (FDI), 2000-2009

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
Agriculture	1,338	1,809	2,797	7,435	5,027	1,669	1,551	4,910	2,996	1,849	**31,181**
Construction	662	414	265	641	98	234	535	461	854	948	**5,112**
Education	-	-	-	-	-	-	-	20	-	178	**198**
Energy	-	-	-	-	-	-	-	-	526	17	**543**
Engineering	-	-	12	-	-	-	-	200	-	-	**212**
Financial Institutions	22	-	-	19	-	-	-	23	4,991	37	**6,592**
Health	-	11	51	-	-	8	97	29	388	158	**742**
ICT	-	-	-	-	-	-	-	3,080	86	51	**3,217**
Manufacturing	1,839	1,316	973	1,558	2,432	3,936	3,750	6,070	8,888	7,605	**38,127**
Mining	183	300	37	250	716	1,694	1,293	1,162	7,605	2,015	**15,255**
Real Estate	-	-	-	-	-	-	-	33	256	3,318	**3,607**
Service	485	424	756	585	1,442	1,272	244	794	1,450	1,945	**9,397**
Tourism	549	397	58	412	530	605	557	1,512	3,560	1,127	**9,307**
Transport	146	-	-	909	160	151	58	582	873	935	**3,814**
TOTAL	**5,024**	**4,671**	**4,949**	**11,809**	**10,405**	**9,569**	**8,085**	**18,876**	**33,973**	**19,943**	**127,304**

Source: Zambia Development Agency

As shown in the literature review, Foreign Direct Investment can also be locally sourced. This is usually through retained earnings which are reinvested in the business by the foreign investors. In short when a foreign investor decides to reinvest the profits in Zambia other than expropriating them to their country of origin, this is considered as foreign direct investment. Table 7 shows the pledged local investments in absolute dollar terms for the period 2000 to 2008. For the year 2008, the total amount pledged was US$566,156,967. Disaggregated by source, the manufacturing sector accounted for the largest proportion of this amount (US$325,256,168).

The same licensed companies pledged local investments in various sectors of the Zambian economy. These pledges covered the period of 2000-2008 as illustrated in table 7 below. Most of the investment was in the mining sector and covered the entire period from 2000-2008. However, the agriculture and services sector were also able to attract reasonable investment. It can be noted from these figures and other specific funded projects and activities that the World Bank had contributed greatly to these sectors leading to poverty reduction and employment creation.

Table 7: Pledged Local Investments in absolute US$ in Zambia 2000-2008

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture	-	430,000	531,000	4,180,934	23,99,076	1,922,000	3,793,184	3,320,000	10,666,016
Construction	406,200	-	-	200,000	-	-	31,020,429	-	14,380,000
Education	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	83,500,000
Engineering	-	-	-	-	-	-	-	2,000,000	-
Financial Inst.	-	-	-	30,800	-	-	-	-	23,300,000
Health	-	-	66,850	-	-	44,617	285,000	-	3,000,000
ICT	-	-	-	-	-	-	-	26,363,617	-
Manufacturing	1,715,938	1,938,091	308,250	3,935,986	766,000	2,256,500	13,696,947	21,176,069	325,265,168
Mining	-	-	-	-	100,000	80,000	9,500,000	-	-
Real estate	-	-	-	-	-	-	-	1,500,000	38,400,000
Service	226,450	5,376,000	-	260,000	-	1,152,000	680,000	3,600,000	51,435,000
Tourism	-	-	-	-	-	2,483,621	1,853,100	5,898,459	3,360,783
Transport	-	-	-	-	-	796,323	200,000	-	2,850,000
TOTAL	**2,348,588**	**7,744,091**	**906,100**	**8,607,720**	**3,265,076**	**87,735,061**	**61,028,660**	**64,458,145**	**566,156,967**

Source: Zambia Development Agency

Table 8 below shows the corresponding pledged employment resulting from the pledged local investments for the same period. The total amount of jobs pledged is 23,397 jobs for the given period with the majority of the jobs expected to be created in the year 2008. For the local investments, the amount of FDI invested was positively correlated with the amount of jobs. Consequently, the manufacturing sector which accounted for the largest amount of pledged resources also accounted for the largest proportion of jobs pledged (10,691). It is also worth noting that these jobs are created in the years when the pledges are highest showing the relationship between investment in manufacturing and job creation. This is likely to have implications on poverty reduction.

Table 8: Pledged Employment from Local Investments in Zambia 2000-2009

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
Agriculture	-	24	222	644	58	-	57	-	850	179	**2,034**
Construction	164	-	-	41	-	-	-	-	702	244	**1,151**
Education	-	-	-	-	-	-	-	-	-	61	**61**
Energy	-	-	-	-	-	-	-	-	-	17	**17**
Engineering	-	-	-	-	-	-	-	-	-	-	**-**
Finance	-	-	-	9	-	-	-	-	6,250	-	**6,259**
Health	-	-	8	-	-	4	16	-	110	94	**232**
ICT	-	-	-	-	-	-	-	-	-	-	**-**
Manufacturing	406	127	43	223	-	123	365	428	4,535	4,441	**10,691**
Mining	-	-	-	-	-	-	50	-	-	308	**358**
Real Estate	-	-	-	-	-	-	-	33	165	297	**495**
Service	40	7	-	5	-	340	36	44	345	444	**1,261**
Tourism	-	-	-	-	-	93	7	-	84	366	**550**
Transport	-	-	-	-	-	-	-	-	109	179	**288**
TOTAL	**610**	**158**	**273**	**922**	**58**	**560**	**531**	**505**	**13,150**	**6,630**	**23,397**

Source: Zambia Development Agency

4.2 Tax Revenue

4.2.1 Pay As You Earn

The conceptual framework (figure 3) shows that the other pathway through which FDI can lead to poverty reduction is through taxation or royalties. In the event that the resources collected from taxation or royalties are used to finance productivity improvement programmes such as education or financing labour intensive activities, this is going to result in improved or increased numbers of local people earning incomes and consequently lead to poverty reduction. The Zambia development Agency‘s survey findings of 2004-2006 on the Economic impact of direct investment on the Zambian Economy revealed that the private sector investment contribution to the treasury, through pay as you earn (PAYE), increased from K273.4 billion to K333.7 billion. The mining sector clearly had the greatest impact, in value terms, this is due to magnitude of investment and employment levels in the sector. The agriculture and tourism sectors registered consistent increments in pay as you earn, while manufacturing and mining sectors reflected a fluctuating contribution to P.A.Y.E during the period 2004 -2006. These statistics are shown (table 9) on payments of PAYE between 2004 and 2006.

Table 9: Payments of Pay As You Earn per Sector 2004-2006 (kwacha)

SECTOR	2004	2005	2006
Manufacturing	38,404,414,600	34,301,759,770	46,615,024,030
Agriculture	6,077,473,525	9,443,804,800	13,386,162,424
Mining	167,116,559,509	144,144.057,199	180,103,096,009
Tourism	18,535,820,690	22,917,167,740	29,465,158,170
Other	42,011,003,889	81,166,910,000	61,259,431,000
Manufacturing & Agriculture	393,186,000	512,937,400	524,746,000
Manufacturing & Other	800,000,000	1,100,000,000	2,200,000,000
Agriculture & Other	112,094,000	105, 276,000	110,652,000
Grand Total	**273,450,562,213**	**293,691,912,909**	**333,664,269,633**

Source: ZDA- Impact of Direct Investment on the Zambian Economy

4.2.2 Corporate Tax

In value terms, corporate tax did not contribute to the treasury as much as PAYE did, during the period 2004-2006 as revealed from the Zambia Development Agency's survey on the Economic Impact of Direct Investment on the Zambian Economy. The tax exhibited an increasing trend and rose from K80.6 billion in 2004 to K2, 221.4 billion in 2006 as shown in table 10 below.

Table 10: Payments of Corporate Tax per Sector 2004-2006 (kwacha)

SECTOR	2004	2005	2006
Manufacturing	13, 353, 214, 380	46, 292, 587, 377	58, 344, 027, 379
Agriculture	5, 820, 401, 443	4, 390, 905, 863	4, 063,150,100
Mining	3, 920, 422, 393	1,787, 288,649	10,361,196, 909
Tourism	15, 131, 415, 576	36, 831,743, 578	28, 815, 129, 470
Other	40, 672, 785,9 10	71, 822, 076, 200	117, 399,760, 500
Manufacturing & Agriculture	400, 000, 000	500,000,000	-
Manufacturing & Other	700,000,000	1,100,000,000	2,300,000,000
Agriculture & Other	588, 630, 000	554, 887, 000	132, 369, 000
Grand Total	**80, 586, 869, 702**	**163, 279, 488, 667**	**221, 415, 633, 358**

Source: ZDA- Impact of Direct Investment on the Zambian Economy

4.2.3 Value Added Tax

Taxation through value added tax contributed significantly to government revenue, during the period 2004 -2006. The VAT increased from an amount of K611.5 billion to K728.5 billion, representing a significant 19.1 per cent growth as indicated in table 11 below.

Table 11: Payments of value Added Tax per Sector in Zambia 2004-2006

SECTOR	2004	2005	2006
Manufacturing	108, 038, 280, 800	121, 566, 167, 200	184, 412, 567, 000
Agriculture	4, 589, 226, 130	7, 627, 821, 560	7, 192, 343, 040
Mining	359,775,633, 029	338, 807, 196, 009	317, 853, 354, 858
Tourism	53, 494, 482,100	56, 578, 608, 200	60, 495, 535, 401
Other	71, 739, 512, 000	7, 971, 813, 480	140, 655,786, 000
Manufacturing & Agriculture	-	-	-
Manufacturing & Other	13, 000, 000, 000	16, 200, 000, 000	17, 300, 000, 000
Agriculture & Other	827, 236, 000	261, 492, 000	575, 940, 000
Total	**611, 464, 370, 059**	**619, 013, 098, 449**	**728, 485, 526, 299**

Source: ZDA- Impact of Direct Investment on the Zambian Economy

As more investment was increased, the country was able to create some employment in the various sectors of the economy. This is illustrated in table 12 below which shows the employment generation in Zambia created during the period 2004-2006. The Mining sector showed a steady progression in employment generations among the identified sectors. There were about 32, 007 new jobs created between 2004 and 2006 and almost half of this came from the mining sector. Many of these sectors were financed by the World Bank's specialized institutions such as IDA and IFC in specific sectors as a contribution to fighting poverty through the promotion of investment projects and activities for both local and foreign investors as seen in the findings and discussions.

Table 12: **Employment Generation in Zambia 2004-2006**

SECTOR	2004	2005	2006
Manufacturing	4, 577	4, 691	4, 838
Agriculture	2, 448	3, 575	4, 028
Mining	5, 574	6, 266	18, 375
Tourism	1, 843	1, 957	1,742
Other	1, 535	1, 680	2,466
Manufacturing & Agriculture	177	203	250
Manufacturing & Other	232	233	308
Agriculture & Other	-	-	-
Grand Total	**16, 386**	**18, 605**	**32, 007**

Source: ZDA- Impact of Direct Investment on the Zambian Economy

While the investment was increasing in the various sectors of the economy, a number of managerial workers were created as illustrated in table 13 below which shows that there were about 2,306 new managerial jobs that were created by all sectors over a period of three years. The mining sector accounts for the largest number of people employed as managers. One interesting element from the table is that the manufacturing sector had fluctuated with the highest generation of 842 in 2004 and nose-dived in 2005 to 619 but steadily picked up in 2006.

Table 13: **Employment Generation of Managerial Workers in Zambia 2004-2006**

SECTOR	**2004**	**2005**	**2006**
Manufacturing	842	619	713
Agriculture	51	57	76
Mining	788	737	813
Tourism	246	255	255
Other	316	327	393
Manufacturing & Agriculture	27	31	36
Manufacturing & Other	4	6	10
Agriculture & Other	12	11	10
Grand Total	**2, 286**	**2,043**	**2, 306**

Source: ZDA- Impact of Direct Investment on the Zambian Economy

Furthermore, a number of non-managerial jobs were also created. This is illustrated in Table 14 below which shows that non managerial jobs kept a steady increase from 2004 to 2006. The sectors that generated more jobs were the mining and manufacturing sectors. However, one interesting aspect to note here is that the Agriculture sector also generated a lot of non-managerial. The conclusion is that most of these new employees were casual labourers. On the other hand the tourism sector also kept a steady increase in job creation.

Table 14: **Employment Generation of Non Managerial workers in Zambia 2004-2006**

SECTOR	2004	2005	2006
Manufacturing	3, 359	3, 596	3, 573
Agriculture	1,354	1, 582	1, 915
Mining	11, 760	12, 081	13, 047
Tourism	1,109	1, 162	1, 082
Other	983	959	1, 197
Manufacturing & Agriculture	130	152	194
Manufacturing & Other	228	227	298
Agriculture & Other	311	298	247
Grand Total	**19, 234**	**20, 057**	**21, 553**

ZDA- Impact of Direct Investment on the Zambia Economy

The job creation during this period of 2004-2006 was not restricted to managerial and non-managerial jobs but also part -time workers were also created. This is illustrated in table 15 below which shows the employment generation of part time workers. It should be noted that the agriculture sector generated most jobs for part time employees. This can be attributed to the fact that agriculture industry usually picks up during the rainy season and so there is demand of part time workers. However, it should also be noted that the number of part time workers in the mining sector declined in 2005; this may indicate that the economic status of the mining sector improved in delivery of goods.

Table 15: Employment Generation of Part-Time Workers in Zambia 2004-2006

SECTOR	2004	2005	2006
Manufacturing	421	225	210
Agriculture	1,495	1,783	1,782
Mining	1,200	1,029	444
Tourism	2	7	17
Other	61	140	623
Manufacturing & Agriculture	-	-	-
Manufacturing & Other	-	-	-
Agriculture & Other	-	-	-
Grand Total	**3, 179**	**3, 184**	**3, 076**

Source: ZDA- of Direct Investment on the Zambian Economy

As the investment kept on increasing, different kinds of workers emerged. This included the casual workers in many of the sectors that were supported. This is illustrated in table 16 below which shows that the country was able to generate employment for casual workers from all sectors as shown below. However, there is no available data or information regarding casual workers in the sectors of agriculture and manufacturing combined as one. Mining sector showed a fluctuation with the highest number of casual being employed 2005.

Table 16: Employment Generation of Casual Workers in Zambia 2004-2006

SECTOR	2004	2005	2006
Manufacturing	1, 530	1, 212	1, 341
Agriculture	1, 564	1, 272	2,415
Mining	1, 702	1, 488	1, 805
Tourism	252	307	254
Other	48	131	102
Manufacturing & Agriculture	20	20	20
Manufacturing & Other	-	-	-
Agriculture & Other	-	-	-
Grand Total	**5, 116**	**5, 430**	**5, 937**

Source: ZDA-Impact of Direct Investment on the Zambian Economy

However, it is important to note that the employment created in different sectors of the Zambian economy during the period 1999-2009 is not directly attributed to the contribution of the World Bank's efforts to fighting poverty alone. The figures clearly show that they are a summary of different investments and donors as there are no specific figures attributed to the World Bank in employment creation. Nevertheless, its impact is seen through the promotion of foreign direct investment by financing various development projects and budget support to the Zambian Government leading to employment creation in various sectors such road development, education, health, energy, etc. The International Finance Corporation has also been seen contributing in the private sector by financing various development projects and activities. A number of local and foreign investors have benefited though more needs to be done in terms of publicity as an institution funding the private sector.

CHAPTER THREE

THE EXTENT OF THE WORLD BANK'S TECHINICAL AND FINANCIAL ASSISTANCE IN THE PROMOTION OF FOREIGN DIRECT INVESTMENT IN ZAMBIA

1.0 The World Bank Group in Zambia

The World Bank Group is made up of five complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). The IBRD and IDA together commonly known as the "World Bank" provide funding for investment projects and for adjustment of economic and sector reform operations. The IBRD lends on non-concessional terms charging an interest rate that is slightly above its own borrowing costs to better-off borrowing members, while IDA provides 35-40 year interest free credits and grants to the poorest borrowers. IDA is the largest source of development finance for the world's poorest countries. IDA on the other hand receives grant funding from donors, loan repayments and annual allocations from IBRD net income. As at June 2005, outstanding IBRD loans and IDA credits amounted to US$ 104.4 billion and US$ 120 billion respectively. The analysis covered details of the World Bank Group's funded projects activities in Zambia that received technical and financial assistance during the period 1999 to 2009 with a view of promoting foreign direct investment leading to poverty reduction.

Although the World Bank does not directly promote foreign direct investment (FDI), it provides the foundation to ensure that foreign direct investment does happen. It promotes the business environment to reduce the cost of doing business. It also helps the macro stability which is the basis and essence of promoting foreign direct investment (FDI). The World Bank promotes foreign direct investment either indirectly or directly. Foreign direct investment is promoted through grants and credits through the various institutions of the World Bank such as the International Development Association (IDA) working the Zambian Government through budgetary support. The promotion of foreign direct investment directly in the private sector is through the

International Finance Corporation (IFC) working with the private sector institutions by facilitating appropriate loans and technical assistance.

The World Bank Group actively supported Zambia's efforts to accelerate economic growth and improved competitiveness. The World Bank's Country Assistance Strategy (CAS) for Zambia for the FY08-FY11 period looked forward to a period of great potential and transition, as Zambia's economy moved from stagnation and dependence on aid toward steadier growth, greater prosperity and readier access to domestic and foreign investment. The strategy was closely aligned with the Zambian Government's Vision 2030 and the Fifth National Development Plan (FNDP). The FNDP was organized around "broad based wealth creation and job creation through citizenry participation and technological advancement." The strategy had specific development goals to foster a competitive and outward-oriented economy in order to significantly reduce hunger and poverty and reach middle-income status. (www.worldbank.org/zambia). The World Bank Group's strategy adheres to the principles agreed with the other cooperating partners supporting Zambia's development efforts as articulated in the Joint Assistance Strategy for Zambia (JASZ) and comprises highly selective and targeted interventions that maximize the impact of the government's development efforts.

2.0 Aid Policy and Strategy for Zambia

This was an initiative to identify ways to enhance aid effectiveness and efficiency by increasing donor coordination and harmonization procedures started by a group of likeminded agencies in Zambia. The initiative was pursued in close collaboration with the Government of the Republic of Zambia and was a product of the Directors generals for International Corporation of the four Nordic Countries (Sweden, Denmark, Norway and Finland), the United Kingdom and the Netherlands that met in September 2002 in Helsinki and proposed a joint study on harmonization in Zambia. Following the initiative from the Helsinki meeting, the Lusaka based missions of Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom met in November 2002 to push forward the donor harmonization effort and agreed to facilitate the "Harmonization in Practice" mapping exercise in Zambia. Emanating from that effort, a draft joint statement of commitment by cooperating partners and the Government of Zambia to increase aid effectiveness and reduce transactions costs for Zambia, through harmonization, was signed. The need for developing the aid policy and strategy for Zambia was recognized at that stage.

Recognizing the challenges of uncoordinated projects, the Development Assistance Committee (DAC) of the OECD decided to establish a special task force to explore and recommend best ways for donors to better deliver and manage the aid through the simplification and harmonization of their procedures. The initiative set itself to offer good practices in broad functional areas where donors can enhance their procedures which included the following:

a. Good practices between donors and partner governments' e.g. greater reliance on recipient government systems for aid management
b. Good practices between donor agencies in order to avoid unjustified duplication of work
c. Good practices within individual donor staff to better manage aid
d. Best modalities for applying good practices by using them as a point of reference rather than a matter of prescription for all development agencies
e. Recognizing the importance of simplifying and harmonizing procedures in ways that promote recipient country capacity development
f. How best to monitor changes as a result of aid.

3.0 World Bank Group Funded projects and Activities in Zambia

The World Bank Group as explained earlier consists of five closely associated institutions that promote foreign direct investment in various countries either directly or indirectly. Most of the financial and technical assistance used in the promotion of foreign direct investment are in the form of projects and activities where loans, grants and credits are given to the beneficiaries who are both the government and businesses. The financial and the technical assistance have different conditions based on whether they loans, grants or credits. The support of the World Bank Group in the promotion of foreign direct investment in Zambia during the period 1999-2009 included the following:

3.1 The World Bank Group's Support to Zambia's Vision 2030

The World Bank Group helped Zambia during the period 1999 - 2009 in the promotion of foreign direct investment by facilitating various development projects and activities in various sectors of the economy in order to achieve and maintain its vision of becoming a prosperous middle income country by 2030. Zambia recorded positive GDP growth for the last nine consecutive years, led in particular by the mining, construction and services sectors. However, the country needed to grow faster than its current rate of 6 per cent per year in order to achieve the Millennium Development

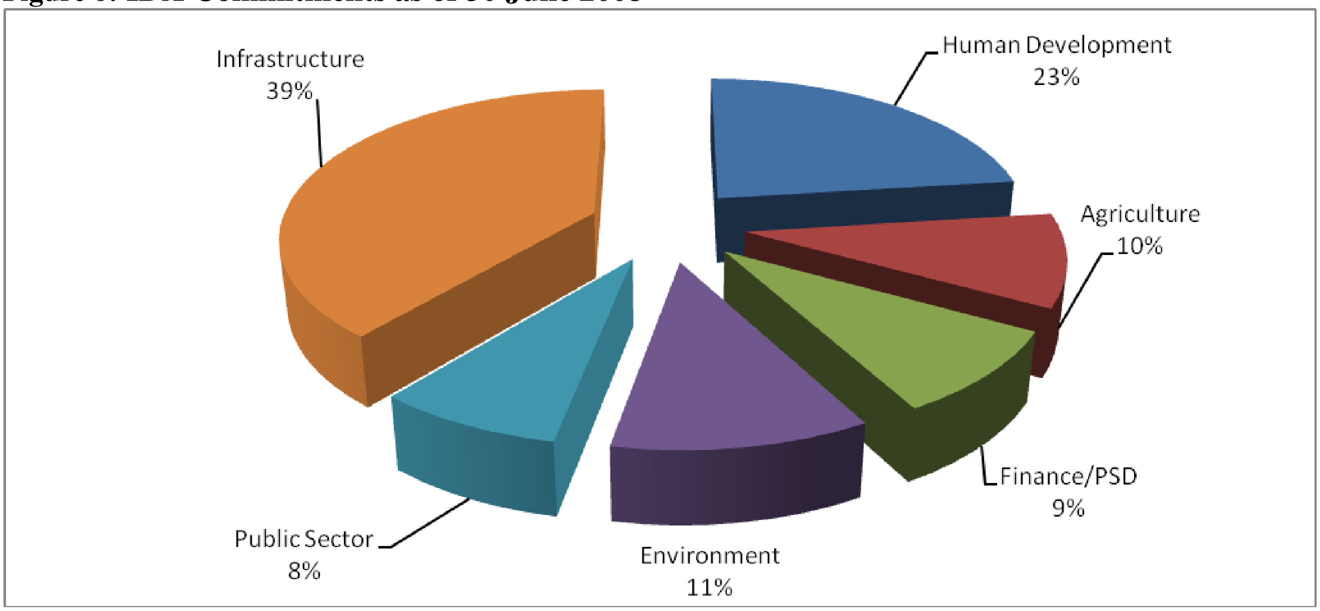
Goals and maintain the full national vision of a middle income economy by the year 2030. In addition, the growth needs to be diversified, as continued dependence on copper creates risks and is unlikely to generate the jobs and income levels needed to achieve its goals. Reaching and sustaining growth at between 8 per cent and 10 per cent depended on Zambia's ability to become globally competitive and integrated with the regional global economy. Moreover, despite efforts to ensure macroeconomic stability and diversify the economy, rural areas have suffered from years of development neglect. The World Bank Group reported that the underlying slow pace of development in Zambia was a chronic lack of investment in public infrastructure and services both hard such as the roads, energy, information and communication technologies and soft such as the skills, health, markets and the poor investment climate, resulting from the slow pace of implementing much needed structural reforms. (www.worldbank.org/zambia).

To respond to Zambia's evolving development needs, the World Bank's Country Assistance Strategy (CAS) recommended a multisectoral programme of assistance organized around three inter-related areas of macroeconomic policy, expenditure management and social sector development. The three areas got special emphasis because of the potential fiscal windfall coming from the boom in copper export prices. The CAS supported improved expenditure management and close collaboration and monitoring with the government and local stakeholders to ensure that those revenues were used wisely and effectively to benefit as many households as possible. Secondly, because of the significant gaps between urban and rural areas, and the need for increased access to regional markets, the country assistance strategy supported a programme of investments in infrastructure that increased economic opportunities for all Zambians through improved connectivity and integration with regional economies, resulting in increased competitiveness. This was mainly through infrastructure development especially road network. The World Bank operationalized the CAS strategy using a wide menu of the World Bank Group products such as IDA lending and non- lending activities, IFC's support to private sector investment, MIGA political risk guarantees for foreign investment, IBRD partial risk guarantees and access to trust funds managed by the World Bank such as Global Environment Facility (GEF), Carbon Financing Fund, Water Sanitation Programme, Private Infrastructure Advisory Facility and Africa Catalytic Growth Fund.

3.2 IDA's Financial and Technical Assistance in Zambia

The World Bank had, since 1955, financed 250 projects through concessional IDA credits (no interest loans) and grants, with a total value of US$ 4.6 billion in Zambia. As of June 30, 2008**,** there were 11 active projects in the Bank's portfolio with total net committed of US$372 million. As summarized in figure 6 below, Infrastructure accounted for 39 per cent, the social sectors for 23 per cent, with the remaining portfolio comprising initiatives aimed at improving the investment climate, environment and supporting public administration.

Figure 6: IDA Commitments as of 30 June 2008



Source*:* The World Bank Group in Zambia publication

Table 17 below, gives a summary of World Bank's (IDA) specific funded projects and activities during the period 1999-2009. These projects or activities were meant to facilitate foreign direct investment as well as local investment leading to poverty reduction as defined in this thesis as well as contributing to employment creation.

Table 17: IDA's Concessional Loan Summary of Projects/Activities 1999-2009

NAME	DATE SIGNED	LOAN AMOUNT (SDR)	PURPOSE	INTEREST RATE/FIXED	GRACE PERIOD/MATURITY
Public Sector Reform & Export Promotion	27/01/99	122 ,700 ,000.00	Support to Balance of Payments	0.75	10 Years-40 Years
Public Sector Reform & Export Promotion	18/04/99	2, 000 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Basic Education Sub-sector Investment	11/05/99	28 ,500 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Mine Township Services	30/06/99	28 ,200, 000.00	On-Lending	0.75	10 Years-40Years
Public Service Capacity Building	18/04/00	20 ,400 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Zambia Social Investment Fund	14/06/00	48 ,300 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Fiscal Sustainability Credit	30/06/00	105 ,500, 000.00	Support to Balance of Payments	0.75	10 Years-40 Years
Railways Restructuring Project	22/11/00	21, 000 ,000.00	On-Lending	0.75	10 Years-40 Years
Fiscal Sustainability 1st Amendment.	22/12/00	1 ,600 ,000.00	Support to Balance of Payments	0.75	10 Years-40 Years
Fiscal Sustainability 2nd Amendment.	22/12/00	23 ,500 ,000.00	Support to Balance Of Payments	0.75	10 Years-40 Years
Regional Trade Facilitation Programme	17/08/01	11 ,600 ,000.00	Financing of Projects	0.75	10 Years-40 Years
TEVETA Program Support Project	17/08/01	19 ,500 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Fiscal Sustainability, 3rd Amendment	23/04/02	5 ,310 ,000.00	Support to Balance Of Payments	0.75	10 Years-40 Years
ERIPTA 1st Amendment	04/10/02	3 ,675 ,133.21	Financing of Projects	0.75	10 Years-40 Years
Emergency Drought Recovery Project	22/11/02	22 ,800 ,000.00	Imports	0.75	10 Years-40 Years
Copperbelt Environment Project	14/04/03	14 ,100, 000.00	On-Lending	0.75	10 Years-40 Years
ERIPTA 2nd Amendment	09/07/03	7 ,300 ,000.00	Support to Balance of Payments	0.75	10 Years-40 Years
Southern Africa Power Marketing Programme	03/02/04	715 ,659.52	Financing of Projects	0.75	10 Years-40 Years
Road Rehabilitation And Maintenance Project	22/03/04	33 ,500 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Support To Economic Expansion & Diversification	16/08/04	19 ,200 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Economic Management & Growth	16/12/04	27 ,400 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Malaria Booster Project	12/12/05	13, 700 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Public Service Management - Support Project	10/02/06	20 ,700 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Water Sector Performance Improvement Project	22/12/06	15 ,700 ,000.00	Financing of Projects	0.75	10 Years-40 Years
Increased Access To Electricity	21/10/08	20 ,100 ,000.00	On-Lending	0.75	10 Years-40 Years
Economic Management & Growth II	23/10/08	6 ,300, 000.00	Financing of Projects	0.75	10 Years-40 Years
Road Rehabilitation II	25/11/09	48 ,300 ,000.00	Financing of Projects	0.75	10 Years-40 Years

Source: Ministry of Finance and National Planning-Zambia

IDA and IBRD continued funding a number of projects by giving credits, grants and guarantees to would investors. This is illustrated in table 18 below which further shows the contribution of the World Bank's Group towards the promotion of foreign direct investment leading to poverty reduction between 1953-2007 covering the period of the study from 1999-207 using IDA and IBRD. These activities have created employment and uplifting the standard of living of the Zambian citizens. This goes to show that the World Bank has impacted greatly on the promotion of both foreign and local investment that lead to poverty reduction.

Table 18: IDA & IBRD Operations (Credits, Grants and Guarantees) 1953-2007

OPERATION	PERIOD	COMMITTED (US$ million)	Disbursed (US$ million)	SECTOR
Closed				
116 closed operations1953-2007	1953-2007	32,505	30,971	**-**
Active				
Regional Trade Facilitation Project (Cr.3493)	2001-2011	14	7	**Finance**
TEVET (Cr.3521)	2001-2008	25	23.6	**Education**
ZANARA HIV/AIDS (Grant H0170)	2002-2008	42	50.1	**Health**
Copperbelt Environment (Cr.3741)	2003-2008	19	6.3	**Energy-Mining**
Copperbelt Environment (Grant H0260)	2003-2008	21	0	**Energy-Mining**
Road Rehabilitation Maintenance Project (Cr.3866)	2004-2008	75	42.3	**Transport**
Support for Economic Expansion and Diversification (Cr.3966)	2004-2009	28.2	14.8	**Mining -Industry**
Malaria Health Booster (Cr.4126)	2005-2010	20	16.2	**Health**
Water Sector Performance (Cr.4233)	2006-2010	23	3.6	**Water -Sanitation**
Public Service Management Programme Support (Cr.4140)	2006-2010	30	16.9	**Public Administration**
Agriculture Development Support Programme (Grant H2200)	2006-2012	37	5.9	**Agriculture**
Increased Access to Electricity Service Project (Cr.44460)	2008-2014	37.5	-	**Agriculture**
Economic Management and Growth Credit	2008-2008	10	-	**PREM**
Total		**381,7**	**186.7**	

Source: World Bank Group Publication-The World Bank Group in Zambia

As stated in this thesis, the World Bank Group had used different menu to facilitate or promote foreign direct and local investment. Table 19 below illustrates how IDA (World Bank) used the IDA's credit and grants from the Global Environment Facility in Zambia to facilitate economic and social development. This illustrates that the World Bank has greatly contributed towards poverty reduction through the promotion of foreign and local investment and in the management of the Zambian economy with lessons learnt for further improvement in the macroeconomic management in developing countries. The Bank was able to disburse various funds committed to projects and activities and lessons learnt for not disbursing committed funds.

Table 19: IDA's **Credit & Grants from the Global** Environment Facility in Zambia 1999-2009

OPERATION	**PERIOD (1999-2009)**	**COMMITTED (US$ million)**	**DISBURSED (US$ million)**	**SECTOR**
Securing the Environment for Economic Development (SEED)		4.2	2	Biodiversity
Promotion of Renewable Energy to increase Access to Electricity		4.7	2	Energy
Sustainable land Management in the Zambian Miombo Ecosystem		0.7	0.5	Rural
TOTAL		9.6	4.5	
Regional				
Climate ,Water and Agriculture: Impacts on and Adaptation of Agro-Ecological Systems in Africa		0.7	0.7	
TOTAL		0.7	0.7	

Source: World Bank Group Publication-The World Bank Group in Zambia

3.3 IDA'S Financial Support to the Zambian Government Budget

The World Bank was one of the first cooperating partners that provided direct budget and financial support to the Zambian Government Budget. Budget support contributed towards the funding of Government's Poverty Reduction Strategy as reflected in the Fifth National Development Plan. Since 2005, the World Bank provided two support credits worth US$50 million. Under the first budget support credit, the World Bank supported the government reforms in the following areas:

a. Preparation of the Financial Sector Development Plan
b. The sale of the Zambia National Commercial Bank and
c. Reform programmes in the civil service pension system.

Under the second budget support credit, the World Bank supported the government in the areas of public sector reform, pension reform and macroeconomic management, particularly the creation of a credit reference bureau. The World Bank also helped in the preparation of legislation on agricultural marketing, strengthening government capacity and reducing the cost of doing business. The World Bank's financial and technical to Government budget support loans totalled US$9.61 million in 2009 as illustrated below in table 20.

Table 20: IDA's Government Budget Support Loans in US$ (Millions)

DONOR	2006 ACTUAL	2007 ACTUAL	2008 ACTUAL	2009 ACTUAL
African Development Bank	8.8	00	31.8	23.5
World Bank*	**00**	**00**	**00**	**9.61**
Sub Total	8.796	00	31.75	33.064

SOURCE: Ministry of Finance and National Planning

The Word Bank through IDA had consistently funded various projects among them was under the concept of IDA's Sector wider Approaches Support (SWAPS). This included funding to education sector as illustrated below in table 21 below. The World Bank contributed $30 million dollars in 2009 to the educational sector. Such a contribution increased enrolment in schools and increased the recruitment of teachers hence contributing to employment creation. These activities lead to poverty reduction as people become educated and are able to earn an income and contribute to economic activities.

Table 21: IDA's Sector Wider Approaches (SWAPS) Support to Education (US$ million)

DONOR	2006 (Actual)	2007 (Actual)	2008 (Actual)	2009 (Actual)
Denmark	2.0	10.5	6.5	9.1
Fast Track Initiative (World Bank)	**0.0**	**0.0**	**0.0**	**30.0**
German(kfw)	0.0	0.0	0.0	10.3
Ireland	7.1	15.5	22.1	20.1
Netherlands	13.1	23.1	35.3	22.0
USAID	1.3	1.0	0.0	1.0
DFID	11.2	2.3	0.0	0.0
Norway	16.1	16.6	1.2	0.0
European Union	0.0	3.1	1.3	0.0
UNICEF	11.0	10.8	0.0	0.0
Sub Total	**61.8**	**82.9**	**65.9**	**92.5**
Kwacha Equivalent				

Source: Ministry of Finance and National Planning.

The World Bank continued supporting various projects and activities and the health sector benefited significantly. The World Bank's contribution to the health sector in 2009 amounted to US$3 million as illustrated in table 22 below. Other investments had already been done in the health sector. This was just a further contribution in the management of the health sector. This can also be seen as a means of promoting foreign and local investment since a health human resource increases productivity and eventually growth in the economy.

Table 22: IDA's Sector Wide Approaches (SWAPs) Support to Health (US$ M) 2006-2009

DONOR	2006 Actual	2007 Actual	2008 Actual	2009 Actual
Canada	0.0	12.8	5.2	4.5
Netherlands	15.1	17.8	19.1	5.6
Sweden-SIDA	0.0	0.0	14.6	5.4
World Bank	**0.0**	**0.0**	**0.0**	**3.0**
Global Funds-MoH	3.2	26.0	38.8	6.8
Sub Total	**15.1**	**30.1**	**77.7**	**18.5**
Kwacha Equivalent				

Source: Ministry of Finance and National Planning

The World Bank's IDA projects grants to GRZ and GRZ agencies continued during the period 2006-2009. The bank consistently increased its contribution until the amount fell to US$7.7 in 2009. Some of the actual projects have already been referred to in this thesis for reference. The amounts committed to the GRZ and GRZ agencies are shown in table 23 below during the said period in comparison with other donors.

Table 23: IDA's Project Grants to GRZ and GRZ Agencies (US$ M) 2006-2009

DONOR	2006 Actual	2007 Actual	2008 Actual	2009 Actual
Canada	**3.1**	**2.4**	**2.7**	**3.0**
China	**4.3**	**3.5**	**3.0**	**4.5**
Denmark	**20.0**	**20.0**	**20.0**	**27.0**
DFID (UK)	**7.0**	**6.3**	**7.1**	**4.4**
Finland	**5.8**	**10.3**	**12.0**	**6.0**
France	**0.0**	**0.0**	**0.0**	**0.0**
German	**23.0**	**23.5**	**24.6**	**25.3**
Ireland	**11.5**	**3.6**	**6.0**	**4.8**
Italy	**0.0**	**0.0**	**0.0**	**0.0**
Japan	**23.3**	**9.0**	**19.6**	**24.3**
Netherlands	**15.1**	**27.0**	**33.8**	**22.1**
Norway	**9.0**	**9.0**	**8.9**	**8.4**
Sweden	**9.2**	**0.0**	**14.5**	**11.3**
European Commission (EC)	**25.6**	**15.5**	**36.3**	**57.5**
European Investment Bank	**0.0**	**0.0**	**0.0**	**0.0**
African Development Bank	**0.2**	**0.3**	**0.5**	**2.1**
United Nations	**4.0**	**3.0**	**6.3**	**4.5**
World Bank*	**2.5**	**3.7**	**10.5**	**7.7**
Global Funds –MoH grants channelled through-UNDP	**0.0**	**0.0**	**0.0**	**0.0**
USAID	**4.0**	**4.5**	**4.0**	**3.0**
Sub Total	**167.6**	**141.6**	**209.7**	**216.0**
Adjusted due to Road Concerns	**167.6**	**141.6**	**209.7**	**216.0**
Kwacha Equivalent				

Source: Ministry of Finance and National Planning

3.4 IDA's Investment in Zambia's Road Sector

All infrastructure development relating to road network in Zambia is channelled through the National Road Fund Agency. Various donors put their contributions for road development into the National Road Fund Agency including the World Bank Group to promote foreign direct investment. National Road Fund Agency (NRFA) is a private –public partnership institution that manages and administers the Road Fund on commercial basis in accordance with the Road Fund Act No.13 of 2002. The World Bank invested significantly in improving the road network in Zambia. During the past decade, total investments in the roads sector amounted to US$120 million through RoadSIP 1 of 1997-2004 and RoadSIP 2 of 2004-2013. This financing resulted in the construction of the Lusaka –Kafue Bridge road, the Siavonga road, the Chingola-Kasumbalesa road, the Luanshya -Kafulafuta road and the once dreaded Lusaka-Chirundu mountain road. In addition, the World Bank supported the upgrading of feeder roads in Luapula and in the North Western Provinces. Improved access to the economic centre of Chibombo, Mpongwe, Sinazongwe, Zambezi and Kalabo was possible due to the World Bank's investment in rehabilitating numerous community roads in these areas. These roads have significantly reduced commuting times and have made it possible for rural communities to access markets, thereby improving competitiveness and contributing to improved livelihoods.

Under the Support to Economic Expansion and Diversification Project (SEED), the World Bank also supported the rehabilitation of road infrastructure in Livingstone and the rehabilitation of road and bridge infrastructure in Kafue National Park in order to increase areas accessible to tourist visiting the Victoria Falls. The World Bank also further supported the formulation and treatment of the Public Road Act of 2002, which resulted in the establishment of the Road Development Agency, the National Road Fund Agency, and the Road Transport and Safety Agency, there laying a solid institutional foundation for the future development of roads sector in Zambia. The following projects and activities were some of the ways in which the World Bank promoted FDI and local investment in Zambia in the road sector as at 31 December, 2009 and 2008 respectively as shown in table 24.

Table 24: Disbursement of IDA Credit Funded Road Projects and Activities 2008

Road Project	Contractor/Consultant	Province	Km	Disbursement: 1st January- 30th September, 2008 (USD)/ZMK
Rehabilitation of 34.7 Km of Kafue - Chirundu Road (Escarpment Section)	China Henan International Cooperation Group Limited	Southern	34.7	$1 099 269
Supervision of rehabilitation of 34.7 Km of Kafue - Chirundu Road (Escarpment Section)	Africon/BCHOD	Southern	n/a	$217 698
Payment of mail box rental	Zamnet	Lusaka	n/a	$228
Staff training in road sector Agencies	NRFA, RDA & RTSA	Lusaka	n/a	$11 269
World Bank Special Account audit fees	MT Ncube and Auditor General	Lusaka	n/a	$1 622
Bank charges	Special Account	Lusaka	n/a	$4 460
Payment of salary	RAMP Coordinator	Lusaka	n/a	$6 000
Reconstruction of Selected Priority River Crossings in Region I:Eastern, Northern and Luapula Provinces	GRONTMIJ / CARL BRO AS	Eastern, Northern & Luapula	n/a	EUR 261 160
Reconstruction of Selected Priority River Crossings in Luapula Province	Sable Transport	Luapula	n/a	ZMK 5 825 209 520
Reconstruction of Selected Priority River Crossings in Northern Province	Sable Transport	Northern	n/a	ZMK 7 076 067 635
Consultancy Services for Detailed Assessment, Prioritisation and Engineering Designs for Reinstating/Construction of Damaged and Washed away Crossings in Region II: National Parks (Lusaka & Southern) Copperbelt and North Western Provinces of Zambia	SNC-Lavalin / ASCO	Lusaka, Southern, Copperbelt and North Western	n/a	ZMK 617 818 533 $350 999
Consultancy for ROADSIP II Mid Term Review	Sheladia Associates Inc./ JD Mwila-V&V	Lusaka	n/a	$32 035 - EUR 109 759 $36 967
Consultancy for CTI Baseline Study for Community infrastructure improvement and ownership	IT Transport	Lusaka, Southern and Western	n/a	ZMK 69 618 000 GBP 4 505
HIV/AIDS Consultancy Phase II	CEMB	Lusaka	n/a	$15 442
Reconstruction of Selected Priority River Crossings	Sable Transport	Luapula	n/a	ZMK 1 835 698 020
Reconstruction of Selected Priority River Crossings	Sable Transport	Northern	n/a	ZMK 2 532 482 935
Consultancy services for detailed engineering design and preparation of tender documents for the construction of a bridge at Chiawa Crossing on the Kafue River	Sheladia Associates Inc.	Lusaka	n/a	$59 820
Total				**ZMK 18, 217 ,112, 951**

Source: National Road Fund Agency-Zambia

3.5 IDA's Investment in the Energy Sector

The World Bank's engagement in the energy sector in Zambia began with its investment in the Kariba Dam, which remains the principal source of electricity in Zambia. Since that time, the World Bank has been an important partner that has supported government's efforts to rehabilitate and upgrade Zambia's major hydropower facilities at Victoria Falls, Kafue George, and the Kariba North Bank through the Power Rehabilitation Project (1999-2005).In addition, the World Bank had financed the rehabilitation and upgrading of the transmission network, supporting a 330kv132/33 kV substation in Lusaka West and the line of the distribution systems in Lusaka, Kitwe and Ndola. Furthermore, through the International Finance Corporation, the World Bank supported government in addressing the power shortage by preparing the Kafue Gorge Lower Project**.** The World Bank recently approved a five-year, US$75 million access expansion programme aimed at providing electricity services to 65,000 new customers, including households, schools, clinics and farm blocks**,** a project that was projected to benefit 550,000 Zambians. The World Bank also provided more than US$400 million to the Southern Africa Power Pool, of which Zambia is a member.

3.6 IDA's Investment in Safe Drinking Water and Sanitation

Since 1995, the World Bank provided over US$90 million to improve water and sanitation services in Zambia and has thus contributed to improving the health of Zambians and especially the welfare of women and children by releasing them from the burden of fetching water from unsafe sources. Under the Urban Restructuring and Water Supply Project (URWSP), 1.2 million Zambians benefited directly from investments in rehabilitation and expansion extension of water and sanitation facilities in nine towns across the country. At least 71,000 people resided in previously not served peri-urban areas, resulted in the creation of commercial water utilities. Under the Water Sector Performance Improvement Project, the World Bank supported the Government by financing the Lusaka Water and Sewerage Company to improve service delivery to the 2 million residents of Lusaka and the 130 residents of urban Chongwe, Kafue and Luangwa Districts.

3.7 The World Bank's Facilitation of Private Sector Development in Zambia

Over the last twelve years, the World Bank providedUS$113 million to help Government to improve the business environment, thereby encouraging new business formation, growth and job creation. In the 1990s, the World Bank's projects focused on supporting Government's economic reform programme, supporting businesses and revitalizing the mining sector. Government's efforts, coupled with the increased copper ore increased from 300,000 in 1999 to 523,000 in 2007 and jobs grew from 30,000 to 49,000 over that period. During this period, the World Bank undertook studies that helped Government to identify and dismantle constraints to business that deterred investment and growth. Drawing on this analysis, Government launched the Private Sector Development Reform Programme (PSDRP) to make it easier to start and grow a business. With the support of consortium of other cooperating partners, the PSDRP had achieved milestones such as shortening the time taken to register a business (seven to three days), developing a policy for public- private partnerships and establishing a small claims court to resolve commercial disputes. During this same period, the Government sought to diversify the economy so that it became less dependent on copper, and the World Bank supported this effort. The Support for Economic Expansion and Diversification Project (SEED) provided US$ 28 million to improve the business environment for the tourism and gemstone sectors, including the small businesses that comprise them. Together with the European Union (EU), SEED had funded a computerized mining cadaster that streamlined the process of securing a mining license and provided a range of facilities to improve the productivity of small scale miners in Mapatizya and Ndola.

In the tourism sector, SEED funded a "one stop shop" to license businesses in Livingstone, refurbishing roads, museums and historical buildings and providing training and improved market access for small lodge operators and curio sellers. In partnership with Norway, SEED helped to improve the management of Kafue National Park so as to protect natural resources, encourage tourism and make the park self-sustaining. SEED also rehabilitated 200km of roads and airstrips in Kafue National Park and instituted patrols for wild life protection including supporting the development of a sustainable business plan. To help private firms reduce costs, a Regional Trade Facilitation project by the World Bank successfully established a credible insurance mechanism against losses caused by political risks. This type of insurance was not available from the private market.

3.8 IDA's Investment in Improving the Environment for People and Development

Zambia faces a number of environmental challenges. These range from high deforestation, loss of biodiversity as well as air, water and soil pollution in urban and mining areas. The loss of ecosystem services linked to this degradation creates liability for investors and presents serious health, food security and energy risks to citizens. It also erodes the foundation for tourism development. Furthermore, global climate variability may act as catalyst to further weaken the country's resilience to environmental degradation. The World Bank adopted strict environment safeguard applicable to all projects. Once Zambia adopted a National Environment Action Plan (NEAP), the World Bank assisted its implementation with an Environment Support Project (ESP).This project enabled Zambia to develop its initial instruments to monitor environmental issues and help the country build its legislative framework and capacity for environment safeguarding.

In 2004, the Copperbelt Environment Project was launched to help Zambia mitigate the environmental liabilities of soil and ground water pollution in the mining areas. Under the Mines Townships Project for example, the World Bank provided investment for rehabilitation and extension of water and sanitation facilities in five mine townships on the Copperbelt. These resulted in increased water production capacity and environment improvement.

The World Bank also helped Zambia to seek stronger compliance with environmental legislation, particularly in the extractive industries. In addition, the World Bank and Norway joined hands to support Government's effort to rehabilitate Zambia's national park management systems and biodiversity through the IDA credit and grants from the Global Environment Facility (GEF).In 2004, the World Bank commenced engagement in the wildlife and tourism sector and this involvement showed positive results. Better infrastructure and the improvement in wildlife population in Kafue National Park attracted new investors, augmenting the number of available beds from 104 to 286. This had led to a 37 per cent increase in visitors and a 50 per cent increase in revenue. The World Bank also partnered with other cooperating partners to broaden its support to biodiversity conservation in several protected areas such as Lavushi Manda in the Northern Province and Nyika Trans-frontier.

3.9 IDA's Investment in Public Service and Economic Management in Zambia

The World Bank, together with a consortium of cooperating partners, provided assistance to Government to strengthen institutional capacity and improve Government effectiveness. Central to this effort was the on-going Public Expenditure Management and Financial accountability (PEMFA) Programme, whose aim was to improve government capacity to effectively and efficiently mobilize and use public resources and strengthen financial accountability. The programme had supported government's efforts to improve the credibility of budget management through the introduction of improvements in the medium term expenditure framework (MTEF) and Activity Based Budgeting (ABB) framework. Financial reporting had also been enhanced through the improvements made to the Financial Management System (FMS).Implementation of the Integrated Financial Management Information System (IFMIS) was under way to further improve the timeliness, comprehensiveness and credibility of financial reporting. The programme was supporting procurement reforms through the revision of the procurement law and development of staff capacity. The programme was also supporting reforms in the Office of the Auditor General (OAG), especially the support given for the decentralization of the office of the OAG to five provinces thus increasing audit coverage.

Linked to the PEMFA programme, was the support that the World Bank provided for institutional reforms in the public service through the Public Service Management (PSM) programme. The programme assisted Government to enhance effective management of people employed in the public service in order to improve their performance and that of the ministries and institutions for which they worked. Activities supported under the PSM programme included the development of a comprehensive pay policy for the public service, especially targeting managerial, professional and technical staff and development of service charters and service standards by sectors. Included in the PSM programme was support to reforms that directly resulted in improvements in service delivery.

The following were some of the projects that were supported and provided improved access to justice through the provision of mobile courts, improved outcomes for science and technology in rural schools through provision of mobile laboratories and improved maternal and child health through training and provision of equipment and supplies to traditional birth attendants in rural areas. So far the World Bank had contributed US$30 million to make the programme possible.

3.10 IDA's Investment in the Health Sector

The World Bank was the first cooperating partner to invest in HIV/AIDS by providing Zambia with a grant of US$42 million and the project was effective on 8th July 2003.The Government of the Republic of Zambia (GRZ) contribution was US$4 million. This was done through the Zambia National Response to HIV/AIDS (ZANARA) project that supported community response to HIV and AIDS (CRAIDS) and funded 1080 community based initiatives. In addition, the project supported forty-one Ministries and government departments, which now have HIV workplace policies in place and are implementing successful programmes. The project also supported capacity building in the National AIDS Council (NAC) which is now able to effectively execute, its mandate of programme coordination, monitoring and evaluation. The project had four components namely:

a. Support for the Community Response to HIV/AIDS (CRAIDS) US $14.70 million
b. Support to National AIDS Council (NAC) and its Secretariat US$2.50 million
c. Support to Line Ministries US$21.30million, C1 was support to all line ministries except Ministry of Health-US$9.60 million and C2 support to the Ministry of Health-US$ 11.70 million
d. Support to Programme Management and Administration Unit –US$3.50million

As a result of this and other initiatives implemented by the Government, a transparent mechanism for funding HIV/AIDS community response was established, including strengthening of the HIV/AIDS taskforces at the district level. There were signs of positive behaviour change among the youth. The media age of first sex increased among the 15-24 years age group by 2 years from 16.6 to 18.5.There had been a decline in HIV prevalence among pregnant women aged 15-19 years attending antenatal clinics from 13 per cent in 2002 to 8.7 per cent in 2007.While still very high, the national HIV prevalence rate had been reduced by about 2 per cent points from 16 per cent in 2002 to 14.3 per cent in 2007. The other investment had been in malaria which is a leading cause of morbidity and the second highest cause of mortality in Zambia, particularly for women and children. The disease accounts for 50,000 deaths a year and almost half of all out- and in -patient hospitals visits. The World Bank supported the government in implementing the Zambia National Malaria Booster Project**.** The activities of the Zambia National Malaria Booster Project included the scale-up of the Indoor Residential Spraying (IRS) campaign, mass distribution of long lasting bed nets, strengthening of the community response to malaria and improved monitoring and evaluation of the malaria programme.

These interventions, also supported by other cooperating partners, had resulted in increased utilization of bed nets by pregnant women from 7.8 per cent in 2008 to 32 per cent in 2007; improved coverage of sprayed houses to 87 per cent of all eligible households and increased use of antimalarial during pregnancy from 35.8 per cent in 2001 to 86.5 per cent in 2007.These interventions had resulted in a remarkable reduction of malaria cases in Zambia. Analyses of Zambia's national Hospital Management Information System (HMIS) Data, which covers all hospitals and clinics, showed a decline of 29 per cent in malaria cases for children under the age of five and a decline of 33 per cent in malaria related under five deaths. The corresponding percentage declines for all age groups were 31 per cent in malaria cases and 37 per cent in malaria related deaths. Through its contribution to the Social Development Fund, the World Bank financed the construction of 88 new rural health centres, providing 1,445 beds, benefiting 647,959 patients.

3.11 IDA's Investment in the Education Sector

The World Bank invested US$ 95 million in the education sector in Zambia, as a result of which 2,024 new classrooms and 1,945 teachers' houses had been built and 2,992 classrooms and 1,366 teachers' houses rehabilitated.67 per cent of this activity had taken place in rural areas. In addition World Bank funds financed 6,004,135 copies of textbooks and teacher guides between 2000 and 2006. Furthermore, the World Bank's contribution to the Social Investment Fund resulted in the construction of 748 classrooms for 52,435 pupils and the provision of 28,550 desks benefiting 114,576 pupils. This had contributed to significant gains in enrolment, with the gross enrolment ratio reaching 119% by 2005 and significant progress in achieving gender parity in education. Substantial challenges remain, however, particularly in terms of quality of education and the World Bank, working closely with other cooperating partners continued assisting the Zambian Government access additional support for the education sector through the Fast Track Initiative.

In addition to supporting Basic Education, the World Bank had supported improvements in technical and vocational training (TEVET) through a US$ 25million credit. The project focused on developing a TEVET system that would improve the skills for both formal sectors of the economy through creation of high quality, sustainable, demand –driven, and equitable training system. The TEVET Qualification Framework was introduced with operational guidelines and standards for all areas of TEVET training. Most TEVET institutions (public and private) received TEVETA funds for training and upgrading training facilities. Selected institutions had received equipment and learning materials and their infrastructure had been improved through a construction and rehabilitation component. However, substantial challenges remain, particularly in the sustainability of TEVETA training fund. The World Bank, together with the other cooperating partners, worked closely with the Government to continue developing skills for the country's labour force.

3.12 IDA's Investment in the Regional Integration Efforts in Zambia

As a landlocked country, Zambia's economic development potential is closely linked to the fate and development of its eight neighbours and other countries in the region. Zambia, through its membership in the Common Market for Eastern and Southern Africa (COMESA) and Southern Africa Development Community (SADC), recognizes the importance of regional integration to the development of the country's economic infrastructure and to boosting intra-regional trade and global competitiveness. Through the Regional Integration Assistance Strategy (RIAS), the World Bank pledged US$ 2 billion in IDA funds to support regional integration efforts in Sub-Saharan Africa, The strategy prioritizes three pillars of support and one cross-cutting theme and these are:

a. Regional infrastructure –development of power, transport, and ICT infrastructure
b. Institutional cooperation for economic integration –increases trade and private sector investment, facilitate intra-regional migration
c. Coordinated interventions to provide regional public goods –improve regional environmental, health and social conditions and development of shared natural resources
d. The cross –cutting theme is to strengthen regional strategic planning and its connections to national development pans.

As can be seen from the findings, the World Bank's contribution in the Zambian economy has been significant. This is mostly in the most priority areas of the economy that lead to poverty reduction. The emphasis in the World Bank's approach in spending there is on facilitation of effective and efficient running of an economy hence leading to poverty reduction. Some figures show that urban poverty has reduced which could be attributed to World Bank's contribution to fighting poverty through the promotion of foreign direct investment as well as local investments. The analysis of poverty figures are found in chapter four and still show that poverty in Zambia is till high especially in the rural areas.

CHAPTER FOUR

THE WORLD BANK'S CONTRIBUTION TO EMPLOYMENT CREATION AND POVERTY REDUCTION IN ZAMBIA

1.0 International Finance Corporation Funded Projects and Activities in Zambia

The promotion of foreign direct investment directly as mentioned earlier is through the International Finance Corporation (IFC) which is the World Bank's private sector arm and had been scaling up its programmes in Zambia in recent years. A key objective is to create an enabling business environment leading to an increase in investment in the economy and especially in small and medium enterprises and sectors other than mining. In November 2006, international Finance Corporation (IFC) committed a US$ 2 million equity investment in one of its first real estate investments in Africa, a regional property development company called Areco. Areco was to invest in middle-income residential projects and related infrastructure, starting in Zambia and expanding into neighbouring countries. IFC is a member of the World Bank Group. It fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing private capital in local and international financial markets and providing advisory and risk mitigation services to businesses and governments.

IFC's vision is to escape poverty and improve peoples' lives. In the financial year 2007 (FY07), IFC committed US$8.2 billion and mobilized an additional US$ 3.9 billion through loan participations and structured finance for 299 investments in 69 developing countries. IFC also provided advisory services in 97 countries Zambia inclusive. The International Finance Corporation facilitated a programme on the Copperbelt known as Copperbelt Small and Medium Enterprise Suppliers Development Programme (CSSDP). The programme was aimed at creating opportunities for local SME's to do business with large and multinational mining firms. (www.ifc.org/zambia).The Copperbelt Small and Medium Enterprise Suppliers Development Programme (CSSDP) was a partnership between IFC and five leading mining multinational corporations in Zambia's Copperbelt. Under a three year advisory services programme, IFC was working with the mining companies to develop and increase local involvement in their supply chains with a particular focus on creating opportunities for small and medium enterprises. Five mining companies had initially signed up to the programme namely:

a. Mopani Copper Mines
b. First Quantum Mining and Operations Limited
c. Kansanshi Mining Plc.
d. Bwana Mkubwa Mines Limited
e. Chambeshi Mining Plc.
f. Luanshya Copper Mines.

The Copperbelt SME Suppliers Development Programme was established to achieve the following:

a. To improve the ability of local small and medium enterprises to meet mining industry procurement requirements through dedicated training and support in technical, business, production, management and marketing skills
b. To work with the mining industries to develop the local business community by proactively creating supply opportunities through procurement policy adjustments, intensified supervision, monitoring and proactive outreach
c. To improve access to finance for small and medium enterprises supplying to the mining industry
d. To encourage the growth of business support and consultancy services in the Copperbelt area
e. Using CSSDP SMEs as a nucleus, to encourage the growth of a local business association for improved information exchange, lobby support and policy advocacy
f. To diversify the SME market through partnerships with other mining companies and other sectors.

The CSSDP provided a variety of services to the members. CCSDP provided advisory and business support services to the Copperbelt based small and medium enterprises to build capacity to work with the mining industry as suppliers. The services provided in summary included, business diagnostics, business mentoring, business plans, financing proposals, human resource systems, quality management systems, sales and marketing strategies, product development processes, management information systems and accounting system. The study commissioned by

IFC and Zambia's mining industry and conducted by the University of Witwatersrand, South Africa, in June 2005, identified specific sectors with the greatest potential for local supplier development. These included the supply of pumps and valves, protective wear, storage equipment and consumables, as well as companies providing such services as metal fabrication, civil construction and precision engineering. Other sectors were to be selected by the programme based on demand from the mines.

The programme was governed by a steering committee comprising representatives from IFC, participating mining companies, the Ministry of Commerce, Trade and Industry, the Chamber of Mines, Stanbic Bank and the Zambia Chamber of Commerce and Industry. The steering committee provided overall supervision and oversaw the programme implementation in line with the set out objectives and budget. Implementation of the programme activities and the day to day operations was through a programme management unit led by a manager.

Following a successful pilot with Konkola Copper Mines, IFC was expanding the Copperbelt Suppliers Development Programme. This Programme provided customized technical assistance to 150 SMEs that supplied the mining companies. IFC was also providing investment support and technical assistance to a variety of other SMEs in partnership with the Development Bank of Zambia. IFC recently ventured into energy sector in Zambia and Appointed Transaction Advisor for the 750MW Kafue Gorge Lower hydro project.

2.0 IFC's Financial and Technical Assistance between Foreign and Local Investors

As explained earlier, the International Finance Corporation had provided both technical and financial assistance to both foreign and local investors and benefited greatly in the promotion of foreign and local investment through various projects and activities in Zambia during 1972-2000. However, the focus of the study was between 1999 and 2009 as shown in table 25 where various foreign and local companies accessed financial and technical assistance in the various sectors of the Zambian economy as far as from 1972 -2007 covering part of the study period.

Table 25: International Finance Corporation's Operations in Zambia1972-2007

OPERATIONS	APPROVAL DATE	COMMITTED (US$ million)	DISBURSED (US$ million)	SECTOR
CLOSED				
Bata Shoe Zambia	1972/1973	1.14	0.92	Textiles. Apparel & Leather
Century Pack	1975	0.88	0.88	Plastics & Rubber
DBZ	1976	0.54	00.00	Finance & Insurance
ZCCM	1980/1982	50.14	50.14	Mining
Kafue Textiles	1880/1884/1989	11.09	11.09	Textiles
Ethanol Zambia	1982	4.16	3.55	Chemicals
ZHP	1983/1988/1989	7.50	7.50	Accommodation & Tourism Services
Mpongwe	1984	1.96	1.58	Agriculture & Forestry
Gwembe	1987	4.50	3.70	Agriculture and Forestry
Masstock	1988	8.69	6.50	Agriculture and Forestry
AEF Big Five Car	1994	0.58	0.58	Finance and Insurance
AEF Kaila Lodge	1995	0.19	0.19	Accommodation & Tourism Services
AEF Ubizane	1996	1.14	1.14	Agriculture and Forestry
AEF JY Estates	1997	0.89	0.89	Agriculture and Forestry
AEF Pentire	1997	0.67	0.67	Accommodation & Tourism Services
Finance Bank	1997	5.00	5.00	Finance & Insurance
IMDHZ	1997	0.50	0.00	Finance and Insurance
AEF Amaka Cotton	1988	1.30	1.30	Agriculture and Forestry
NICOZAM	1988	0.30	0.00	Finance and Insurance
AEF Esquire*	**1999**	0.46	0.46	**Agriculture and Forestry**
AEF Mpelembe*	**1999**	0.20	0.20	**Oil ,Gas & Mining**
APC L td*	**2000**	2.50	2.50	**Agriculture Forestry**
KCM*	**2000**	30.44	0.00	**Oil ,Gas & Mining**
Marasa Holdings*	**2000**	4.60	4.60	**Accommodation and Tourism**
ACTIVE				
AEF Drilltech	**1988**	0.15	0.15	**Oil, Gas and Mining**
Zamcell*	**1999**	9.09	9.09	**Telecoms**
AEF Chingola Hotel*	**2001**	0.96	0.96	**Accommodation & Tourism Services**
AEF Michelangelo*	**2001**	096	0.96	**Accommodation and tourism services**
Stanbic Bank*	**2001**	11.0	11.0	**Finance and insurance**
TOTAL		**162.56**	**125.68**	

Source: The World Bank Group Publication-The World Bank Group in Zambia

3.0 Employment Trends in Zambia

3.1 Formal Employment, Sector, Industry and Earnings

The Central Statistical Office (CSO) undertakes quarterly employment and earnings, usually referred to as Quarterly Employment and Earnings Inquiries. One of the main objectives of these surveys was to monitor formal sector employment levels on a quarterly basis and ultimately provide employment estimates as well as average earnings for policy-making. The Central Statistical Office through the Employment Inquiry estimated the number of formal sector employees at 498,943 as at January 2006. Personal and community services industry was highest with about 176,110 employees, followed by training industry with 65,012 employees, while the agricultural industry was third highest with a record of 56,139 employees. The energy (electricity and water) and construction industries recorded the lowest employment estimates of about 3 per cent each of the total employees while the rest were from a combination of the local Government and non-government establishments. While the private sector and parastatals sectors accounted for about 65 per cent and 9.8 per cent respectively. The local government (or councils) accounted for only 2 per cent of the formal sector employment in Zambia.

3.2 Employment by Industry

Total formal sector employment in Zambia was estimated at 498,943 as at January 2006. Of these, about 23 per cent or 117,056 employees were in the Central Government. The rest of employees were in local Government and non-Government establishments. According to the International Standard Industrial Classification, the personal and community services recorded the highest employment level of 176,110. It was followed by the Trading industry with 65,012 employees. Agriculture industry had often employed more employees than trading was now at third position with 56,139 employees. This shift in employment estimate for agricultural industry could probably be because of the effects of season as agricultural industry tends to attract more employees during harvest and cultivation periods. The energy (electricity and water) industry and construction recorded lowest employment estimate. These figures are illustrated in in table 26 below.

Table 26: Number and Percentage of Employees by Industry, January 2006

Industry	Per cent (%)	Total Employees
Agriculture	11.3	56,139
Mining	9.2	45,821
Manufacturing	11.2	55,709
Electricity and water	2.5	12,399
Construction	2.9	14,343
Trade	13.0	65,012
Transport	3.9	19,378
Business services	10.8	54,032
Personal and community services	35.3	176,110
Grand Total	**100**	**498,943**

Source: CSO: Formal Sector Employment and Earnings Inquiry Report (2006)

3.3 Employment by Sector

According to sectoral classification, the private sector accounted for the highest proportion about 65 per cent while local Government accounted for the lowest proportion about 2 per cent of the total formal sector employees in Zambia. With the privatization programme and the structural adjustment programme by Government of Zambia in the recent past, the private sector tended to have expanded substantially resulting to narrowing down of the parastatals and local government which accounted for close 10 per cent and 2 per cent respectively. The following table s 27 and 28 show the number and percentage distribution of employees by sector and formal employment by sector respectively.

Table 27: Number and Per cent Distribution of Employees by Sector, January, 2006

Sector	Per cent	Total Employees
Central Government	23.5	117,056
Local Government	1.6	7,771
Parastatals	9.8	49,085
Private	65.1	325,031
Grand Total	**100**	**498,943**

Source: CSO: Formal Sector Employment and Earnings Inquiry Report (2006)

The private sector in table 27 had the highest number of employees which could be also attributed to IFC'S contribution in employment creation. The actual contribution of IFC is seen in its allocation to the companies that benefited in its funding projects as shown already in report. Therefore it can be concluded that IFC had a significant contribution in the private sector which lead to employment creation and eventually poverty reduction. Table 28 below shows the quarterly formal sector employment distribution by sector between 2007 and 2008 that was generated in various sectors.

Table 28: Formal Sector Employment Distribution by Sector 2007 and 2008

	2007		**2007**		**2007**		**2007**		**2008**		**2008**	
	1st QTR		2nd QTR		3rd QTR		4th QTR		1st QTR		2nd QTR	
Industry	**Employed persons**	%	**Employed persons**	%	**Employed Persons**	%	**Employed persons**	%	**Employed persons**	%	**Employed persons**	%
Agriculture, fishery & Cooperatives	60,063	12.2	59,030	11.8	61,937	12.0	62,123	11.8	72,246	13.3	60,265	11.1
Mining & quarrying	41,463	8.4	48,318	9.7	57,293	11.1	53,156	10.1	53,610	9.9	47,910	8.8
Manufacturing	50,300	10.2	53,152	10.6	53,524	10.4	52,978	10.1	46,884	8.7	45,287	8.3
Electricity, gas and water	9,159	1.9	9,895	2.0	12,273	2.4	14,532	2.8	11,410	2.1	11,054	2.0
Construction	16,448	3.3	14,731	2.9	9,147	1.8	14,536	2.8	12,842	2.4	14,075	2.6
Trade, wool,reta,bars,rest & hotels	63,623	12.9	63,901	12.8	63,205	12.3	76,809	14.6	83,534	15.4	87,296	16.0
Transport & communication	20,047	4.1	21,646	4.3	19,792	3.8	24,838	4.7	22,442	4.1	28,098	5.2
Business & financial services	49,438	10.0	51,202	10.2	55,873	10.8	54,833	10.4	54,918	10.1	52,550	9.7
Personal & community services	182,198	37.0	178,747	35.7	182,240	35.4	173,064	32.8	183,664	33.9	1997,804	36.3
Total	**492,739**	**100**	**500,616**	**100**	**515,284**	**100**	**526,869**	**100**	**541,550**	**100**	**544,339**	**100**

Source: CSO (2008), Quarterly Employment and Earnings Inquiry Report

Furthermore, average earnings by industry for 2006 in kwacha are shown in table 29. What is interesting is whether these earnings are below or above the poverty levels. These figures become more clear when a full analysis of changes in poverty levels from 1999-2009 is taken into account.

Table 29: Average Earnings by Industry, January, 2006

Industry	**Average Earnings (Kwacha)**
Agriculture	382,473
Mining	2,936,374
Manufacturing	1,440,032
Electricity and water	5,644,892
Construction	862,331
Trade	692,847
Transport	1,580,453
Business services	3,160,290
Personal and community services	962,535
Grand Total	**1,472,191**

Source: CSO: Formal Sector Employment and Earnings Inquiry Report (2006)

Table 30 further shows average monthly earnings by sector as from 2006 in the selected sectors. These average earnings could be attributed also to the various levels of investment by the World Bank Group as already demonstrated in the various projects and activities funded by IDA and IFC as wings of the World Bank Group for investment.

Table 30: Average Monthly Earnings by Sector 2006

Sector	Average Earnings (Kwacha)
Central Government	923,234
Local Government	997,606
Parastatals	3,999,764
Private	1,366,202
Grand Total	**1,472,191**

Source: CSO: Formal Sector Employment and Earnings Inquiry Report (2006)

4.0 Analysis of Changes in Poverty Levels from 1999 -2009

4.1 Analysis of Poverty Trends in Zambia from 1999-2009

Poverty is the lack of basic necessities that all human beings must have. As earlier pointed out, this includes food, shelter, education, medical care, security, etc. Poverty is also seen as a multi-dimensional problem and exceeds all social, economic and political boundaries. As such efforts to alleviate poverty must include a variety of different factors. Poverty is further defined as the deprivation, lack of access to food, shelter and safe drinking water. While some define poverty primarily in economic terms, others consider social and political factors to be intrinsic. The ongoing debates around the causes, effects and best ways to measure poverty directly influence the design and implementation of poverty reduction programmes and are therefore relevant to the fields of international development and public administration. Therefore, there is need to analyse the trends of poverty in Zambia and provide interventions that reduce it. It is with this background that the World Bank has contributed significantly in reducing poverty in Zambia based on the definitions given and the multidimensional definition which included allocation of technical and financial assistance to shelter, education, health, water and sanitation, energy and road development to mention a few. This is evident in the project and activities the World Bank funded in Zambia during the period 1999-2009.

Civil Society for Poverty Reduction (CSPR) publication entitled the *Millennium Development Goals and Zambia* revealed some worrisome statistics on poverty in Zambia during this period as listed below. There is need to find solutions to this extreme poverty through the promotion of foreign direct investment and local investment encouraging citizens to participate economically in the various sectors of the Zambian economy. The poverty figures revealed by the civil society organisations included the following:

a. About 63.8 per cent of Zambians living below the poverty line of US$1 per day
b. About 87.2 per cent of Zambians living below the poverty line of US$2 per day
c. About 46 per cent of Zambians are undernourished
d. About 192 per 1,000 live births of poorest 20% of Zambian children die before age of 5 years
e. Life expectancy at birth in years is 39 yet in 1975 it was 50 years
f. Adult illiteracy rate is 35 per cent.

In 2004, the poverty level in Zambia was 68 per cent with 53 per cent of the population being extremely poor. Extreme poverty is more prevalent among female-headed households than male headed households. The rural population of Zambia is predominantly poor with overall poverty level at 78 per cent as compared to their urban counterparts at 53 per cent. Incidence of extreme poverty is also high in rural areas two thirds are extremely poor in comparison to one third in urban areas (CSO, 2006). In 2006, overall poverty in Zambia was 64 per cent thereby registering a reduction of 6.3 per cent between 2004 and 2006. However, poverty in rural areas increased by 2.5 per cent while in urban areas reduced by 55.9% during the same period as seen in table 31 below.

This could be attributed to the growing economic activities in the urban areas such as mining, construction and tourism.

Table 31: Percentage Change in Poverty between 2004 and 2006

Location	**2004**	**2006**	
	Incidence of poverty	**Incidence of poverty**	**Percentage change**
Zambia	68	64	-6.3
Residence			
Rural	78	80	2.5
Urban	53	34	-55.9
Province			
Central	76	72	-5.5
Copperbelt	56	42	-33.3
Eastern	70	79	11.4
Luapula	79	73	-8.2
Lusaka	48	29	-65.5
Northern	74	78	5.1
North-western	76	72	-5.5
Southern	69	63	-9.5
Western	83	84	1.2

Environment Council of Zambia, (2008, P5), Zambia Environment Outlook Report

As seen from the above figures and definition of poverty, there is a widespread consensus that poverty is a severe problem in Zambia, a view that is both shaped and supported by recent empirical studies. In the period 1991-2004 there had been six estimates of poverty in Zambia based on national household surveys. The poverty headcount ratio estimates from the five surveys that used a comparable methodology were highlighted. All the five surveys showed high level of consumption or income poverty, with between two thirds and three-quarters of the population below the poverty line. The poverty lines are developed internally in Zambia and are typically less than US$1.00 per day in nominal terms. There is considerable inter-provincial variability in poverty levels as well as significant differences in poverty between rural and urban areas. Urban poverty indices are consistently lower than rural poverty estimates, although even half of the urban population is typically below the poverty line. In contrast, rural poverty, headcount ratio estimates are generally around 75 per cent to 90 per cent (CSO, 2007). Related to this poverty is consistently lower in the more urbanized provinces, Lusaka province being the least poor province, followed by the Copperbelt.

4.2 Living Conditions Monitoring Survey 2002-2003

The 2002-2003 Living Conditions Monitoring Survey in table 32 below was an integrated household survey, similar in design to the World Bank's Living Standard Measurement Study (LCMS) surveys. The 2002-2000 Living Conditions Monitoring Survey covered a range of topics that included demographics, migration, mortality, characteristics of orphans, expenditure, income, health, education, economic activities and employment, non-farm enterprises, nutrition, dwelling conditions, access to facilities, assets, household food production and self-assessed poverty status. In addition to the household questionnaire, the survey included a community price questionnaire. The 2002-2003 LCMS was the third survey to be carried out in Zambia, following surveys undertaken in 1996 and 1998.

Table 32: Poverty Estimates from Living Conditions Survey (LCMS) 2002-2003

Residence /Province	Headcount Ratio (P0)	Poverty Gap Ratio (P1)	Squared Poverty Gap Ratio (P2)
All Zambia	0.665	0.271	0.139
Rural/Urban			
Rural	0.743	0.313	0.165
Urban	0.522	0.192	0.093
Province			
Central	0.691	0.295	0.155
Copperbelt	0.588	0.231	0.116
Eastern	0.707	0.282	0.141
Luapula	0.704	0.290	0.152
Lusaka	0.563	0.216	0.109
Northern	0.805	0.377	0.211
North-Western	0.719	0.300	0.155
Southern	0.629	0.236	0.115
Western	0.654	0.240	0.117

Source: Central Statistical Office (2007) Micro-Level Estimates of Poverty in Zambia

4.3 Poverty Headcount Ratio

This is the simplest of poverty measures and the poverty headcount ratio shows the proportion of population whose consumption per adult equivalent is less than the poverty line. The poverty headcount ratio is the most well-known poverty measure and the popularity of its use can be attributed to the ease of interpretation. The proportion of population below the poverty line is an exceedingly simple concept to grasp but unfortunately, the poverty headcount is also an extremely insensitive and incomplete measure of poverty. In particular, it gives no indication of how far below the poverty line the poor are. The data shows that for Zambia, the poverty headcount levels have marginally decreased since 1991 from 0.70 to 0.68 as seen in table 33 below.

Table 33: Poverty Headcount Estimates 1991-2004

Residence /Province	1991	1993	1996	1998	2004
All Zambia	0.70	0.74	0.69	0.73	**0.68**
Rural/Urban					
Rural	0.88	0.92	0.82	0.83	**0.78**
Urban	0.49	0.45	0.46	0.56	**0.53**
Province					
Central	0.70	0.81	0.74	0.77	**0.76**
Copperbelt	0.61	0.49	0.56	0.65	**0.56**
Eastern	0.85	0.91	0.82	0.79	**0.70**
Luapula	0.84	0.88	0.78	0.82	**0.79**
Lusaka	0.31	0.39	0.38	0.53	**0.48**
Northern	0.84	0.86	0.84	0.81	**0.74**
North-Western	0.75	0.88	0.80	0.77	**0.76**
Southern	0.79	0.87	0.76	0.75	**0.69**
Western	0.84	0.91	0.84	0.89	**0.83**

Source: Central Statistical Office (2007), Micro –Level Estimates of Poverty in Zambia

4.4. Spatial Distribution of Poverty

The spatial distribution of poverty shows the poverty levels in different provinces as shown in table 34 below. It does not provide information on where the majority of poor households can be found and depends on the population size of each province. This kind of analysis would help to select areas of concentration for development especially in the most affected areas.

Table 34: Spatial Distribution of Household Consumption 2006

	Total	Food	Non-Food	Food Square	Households Number	Percentage (%)
All Zambia	**666,887**	293,924	377,267	44.1	2,283,109	**100.0**
Rural	**383,604**	226,410	157,477	59.0	1,484,722	**65.0**
Urban	**1,193,695**	419,476	786,000	35.1	798,387	**35.0**
Province						
Central	**557,687**	287,089	267,724	51.5	224,100	**9.8**
Copperbelt	**1,092,260**	424,737	665,058	38.9	337,786	**14.8**
Eastern	**402,883**	227,256	175,308	56.4	322,074	**14.1**
Luapula	**411,832**	242,249	169,608	58.8	180,085	**7.9**
Lusaka	**1,281,336**	406,194	913,071	31.7	332,808	**14.6**
Northern	**412,636**	244,068	168,723	59.1	296,011	**13.0**
North-Western	**480,045**	268,081	213,083	55.8	130,610	**5.7**
Southern	**558,954**	256,625	297,056	45.9	283,956	**12.4**
Western	**311,496**	177,136	134,842	56.9	175,680	**7.7**

Source: Central Statistical Office –Poverty Trends Report 1996-2006 (Note: Monthly Averages at a Household level in Kwacha)

4.5 Changes in Poverty 1996-2006

According to the Central Statistical Office (CSO), during the 10 years from 1996 to 2006, the poverty headcount ratio fell by 8.8 percentage points. Nonetheless, poverty in 2006 remained at high level of 59.3 per cent. Despite the general trend towards a lower incidence of poverty in Zambia; progress against poverty had not been equal throughout the ten years. The strongest decline in poverty rates occurred between 1998 and 2004, when poverty fell from 66.8 per cent to 58.4 per cent while poverty increased slightly thereafter. Poverty in Zambia continues to be particularly pronounced in rural areas. During the ten years period, the poverty headcount fell by mere 7.4 per cent points, from 84.2 per cent to 76.8 per cent, for rural Zambia. Thus, three out of four people in rural areas still lived below the poverty line in 2006. In the same period, urban areas had experienced higher economic growth, which led to a decrease in the poverty headcount ratio from 40.5 per cent (1996) to 26.7 per cent (2006) having a total reduction by 13.8 per cent points. As a result, the gap between rural and urban areas had increased significantly .While rural poverty in 1996 was about twice as high as urban poverty; it had become three times as much in 2006 as shown in table 35 below.

Table 35: Poverty Trends 1996-2006

	1996	1996	1996	**1998**	1998	1998	**2004**	2004	2004	**2006**	2006	2006
Total Poverty	**P0**	P1	P2	**P0**	P1	P2	**P0**	P1	P2	**P0**	P1	P2
Zambia	**68.1**	33.6	20.4	**66.8**	33.3	20.4	**58.4**	28.2	16.9	**59.3**	28.5	17.0
Rural	**84.2**	45.2	28.5	**83.0**	44.5	28.2	**77.3**	39.8	24.6	**76.8**	38.8	23.8
Urban	**40.5**	13.9	6.7	**39.5**	14.5	7.4	**29.1**	10.3	5.0	**26.7**	9.4	4.5
Central	**70.7**	32.2	18.2	**64.9**	33.1	20.9	**67.2**	33.2	19.8	**67.4**	31.2	17.7
Copperbelt	**54.0**	20.3	10.4	**55.7**	24.9	14.4	**38.6**	14.9	7.7	**34.0**	13.2	6.9
Eastern	**81.7**	45.8	30.1	**82.3**	43.7	27.0	**68.5**	33.1	19.3	**74.1**	36.8	22.3
Luapula	**87.8**	48.5	31.0	**73.0**	36.2	21.8	**76.7**	39.0	23.8	**72.9**	36.4	21.8
Lusaka	**29.0**	9.8	4.7	**32.8**	12.4	6.3	**21.9**	7.7	3.9	**22.0**	7.8	3.7
Northern	**86.0**	46.0	28.7	**81.3**	41.9	26.2	**74.7**	38.8	24.4	**74.2**	38.6	23.9
North-Western	**79.5**	41.7	25.8	**78.8**	38.6	23.0	**66.4**	31.9	19.9	**68.6**	32.2	18.8
Southern	**75.3**	36.6	22.0	**73.3**	37.6	23.7	**58.9**	27.4	16.2	**65.6**	30.2	17.6
Western	**85.6**	49.5	32.8	**86.4**	49.0	32.3	**81.1**	46.6	30.9	**83.6**	48.5	32.7

Source: Central Statistical Office-Poverty Trends Report 1996-2006

As seen from the poverty figures, the World Bank's contribution to fighting poverty through the promotion of foreign direct investment from 1999 to 2009 has been demonstrated directly and indirectly through the various projects and activities that have been funded with the technical and financial support. This support included projects on shelter, education, health, water and sanitation, road development, energy development through creation of hydro power stations, budget support and facilitating an enabling investment climate. However, more needs to be done in the promotion of foreign direct investment. The International Finance Corporation is perceived as new and lacks publicity in its operations.

CHAPTER FIVE

CONCLUSION AND RECOMMEDATIONS

1.0 Summary

This study provided a critical analysis of the World Bank's contribution to fighting poverty in Zambia through the promotion of foreign direct investment (FDI) either indirectly or directly from 1999 to 2009 through its specialized institutions. The discussion mainly focused on the projects and activities that were funded by the International Development Association (IDA) and the International Finance Corporation (IFC. Although the World Bank does not directly promote foreign direct investment (FDI), it provides the foundation to ensure that foreign direct investment happens and facilitates an enabling business environment to reduce the cost of doing business. It also helps the macroeconomic stability which is the basis and essence of promoting foreign direct investment as seen through the various funded projects in the economy. Therefore, the promotion of foreign direct investment is either direct or indirect through various specialised institutions of the World Bank by giving grants, credits, loans and technical assistance. The World Bank's country assistance strategy (CA) recommended a multisectoral programme of assistance organised around four inter-related areas in order to enhance enabling business environment in Zambia. These included macroeconomic and expenditure management, infrastructure development, institutional capacity enhancement and social sector development.

The key findings in the study generally were that the International Development Association (IDA) contributed significantly towards the promotion of foreign direct investment indirectly as a means of fighting poverty as evidenced by the number of projects and activities implemented during the period 1999 to 2009. This is evidenced by the direct support to the various sectors of the economy in road construction, energy, health, public service management, sanitation, education and many others to mention a few. These projects helped in job creation hence contributing to poverty reduction. The World Bank had since 1955, financed 250 projects through concessional International Development Association (IDA) credits (no interest loans) and grants, with a total value of US$4.6 billion in Zambia. As of June 30, 2008, there were 11 active projects in the

Bank's portfolio with a total net committed of US$372 million. Infrastructure accounted for 39 percent, the social sectors for 23 percent, with the remaining portfolio comprising initiatives aimed at improving the investment climate, environment and supporting administration. The human development accounted for 23 percent, agriculture 10 percent, financial and private sector development 9 percent, environment 11 percent and public sector 8 percent.

The International Finance Corporation is a World Bank's private sector arm and had been scaling up its programmes in Zambia in recent years. A key objective is to create an enabling business environment leading to an increase in investment in the economy and especially in small and medium enterprises and sectors other than mining. In November, 2006, International Finance Corporation (IFC) committed a US$2 million equity investment in one of its first real estate investments in Africa, a regional property development company called Areco. Areco was to invest in middle-income residential projects and related infrastructure, starting in Zambia and expanding into neighbouring countries. The International Finance Corporation fosters sustainable economic growth in developing countries by financing private sector investment, mobilising private capital in local and international financial markets and providing advisory and risk mitigation services to business and governments. IFC's vision is to escape poverty and improve people's lives. In the financial year 2007, IFC committed US$8.2 billion and mobilised an additional US$3.9 billion through loan participations and structured finance for 299 investments in 69 developing countries. IFC also provided advisory services in 97 countries, Zambia inclusive. The international Finance Corporation also facilitated a programme on the Copperbelt known as Small and Medium Enterprise Suppliers Development Programme. The Programme was aimed at creating opportunities for local SMEs to do business with large and multinational mining firms.

Despite large foreign direct investment inflows in Zambia being consistent with the global trends which surged to US$1,323.9 million in 2007 from US$615.8 million as recorded in 2006 and aid to Zambia by the World Bank, poverty levels still remained high especially in rural areas. Most of the rural areas lacked access to infrastructure, roads, energy, clean water, education facilities, health, markets, etc. The environment Council of Zambia Outlook Report (2008) revealed that incidence of poverty in 2006 was at 64 percent in Zambia. Urban poverty was at 34 percent while the rural poverty was at 80 percent. Deliberate policies to invest in rural areas are needed to bring about equity between urban and rural areas.

However, foreign direct investment can lead to poverty reduction through economic growth. It can further transfer new technology, knowledge and other intangible assets. The transfer of new technology can lead to increase of local skills and more productive employment opportunities as well as high level of productivity. The government also through foreign direct investment collects taxes from foreign firms. In this way the taxes collected from foreign direct investment oriented firms can have a positive effect on poverty reduction which can be used to fund various social development programmes, including productive improvement and development of labour-intensive economic activities or poverty alleviation oriented projects.

2.0 Conclusion

In conclusion, it can be said that in order to defeat poverty, the subject matter should be understood from a broader perspective as a multidimensional problem. Poverty should not be seen only to include lack of food, shelter, financial resources etc. but to embrace a number of issues that affect people on a day to day basis such as lack of access to health facilities, lack of freedom, lack of education, lack of communication facilities, lack of markets etc. Such a broader understanding would help policy makers to invest financial resources in the various priority sectors of the Zambian economy. There is need to have a deliberate policy to attract foreign direct investment and local investment in priority sectors especially in rural areas where poverty levels are quite high. Moyo (2009) reported that, "more than US$ 2 trillion of foreign aid has been transferred from rich countries to poor countries over the past fifty years, Africa the biggest recipient by far. Yet regardless of the motivation for aid giving, economic, political or moral, aid has failed to deliver the promise of sustainable economic growth and poverty reduction. Aid has not lived up to expectations. It remains at the heart of the development agenda". Therefore, Zambia needs a strong integrated national monitoring and evaluation mechanism working with various relevant stakeholders and donors in the priority areas of the economy. The Zambian government should promote pro-poor foreign direct investment and local investment as a way to reduce the inequality that has existed in Zambia over the years. There must be deliberate economic policies to improve the rural areas and individual income levels so that the families concerned can have access to basic needs of life such as shelter, education, health and access to credit with ability to pay back.

It is evident from the above analysis that Zambia adopted most of the "Washington Consensus" prescriptions. As result some of the programmes adopted by the government during the said period were harsh and led to loss of employment in the mines due to privatization which was hurriedly done. However, lessons have been learnt and the World Bank should continue to employ country ownership strategy in project identification that leads to poverty reduction. Furthermore, as "post-Washington Consensus" is more focused on pro-poor investment, therefore, foreign direct investment should be focused on local people in terms of employment generation, access to health facilities, education, shelter, water and sanitation and energy generation, access to good roads as well as access to good markets including food security. This approach will reduce unnecessary criticism of the "Washington Consensus" which has been widely applied in the world global economy with failures and successes. The principles "Washington Consensus" and "Post-Washington Consensus" should not be applied as a universal blue print as countries are at different levels of development.

3.0 Recommendations

There was a good response in data collection both secondary and primary from the key informants in particular the government ministries, statutory bodies and the World Bank Group office in Zambia. However, certain institutions were not easily accessed and it was difficulty to get information or even make an appointment for an interview. As a result of these challenges, the following institutions did not provide adequate primary data on the study as key informants. These included Citizens Economic Empowerment, Road Development Agency, Bankers Association of Zambia and Chamber of Mines.

However, from the research findings it was seen that poverty is still high in Zambia especially in rural areas despite huge amount of inflows of foreign and local investment in the Zambian economy. During the period 1999-2009, there were also a number of challenges that affected policy direction and implementation of various funded projects in the Zambian economy. The challenges included key issues such as Local currency vs. US dollar variations affecting the daily business transactions, Local currency vs. US dollar lending affecting the business community, lack of jobs or employment creation leading to massive poverty amongst the local people especially in rural areas, capital flight which impacted on foreign exchange or economic management, difficulties in the administration of investment incentives, privatization process was implemented too quickly and resulted into closures of many companies and loss of employment, small and medium enterprises had no support from the big players during the privatization process, lack of harmonization of legal framework among regulators, high costs of doing business, global crisis impacted on critical sectors, bureaucratic procedures in the business licensing, the small and medium enterprises lacked capacity to conduct any business competitively, etc.

Promoting foreign direct investment and local investment could be a solution to reduction of high levels of poverty in Zambia especially in rural areas. This should include deliberate investment in rural areas and investing in small and medium organizations to ensure that there is equitable distribution of resources. The International Finance Corporation should invest more in the private sector embracing the small and medium enterprises which are the backbone of any developing economy. The World Bank must continue facilitating or promoting the development agenda for both foreign and local investment in Zambia in critical sectors such as road development, support to health, education, energy generation, water and sanitation, macroeconomic management and systems to enhance efficiency and effectiveness. It is further recommended that the following should be taken into account in the management of the Zambian economy to maintain a steady economic growth leading to poverty reduction:

a. Equity investment with broader implications on employment levels
b. Rural based investment
c. Gender sensitive based investment involving women in the process
d. Investment with linkages to small and medium enterprises
e. Promotion of foreign direct investment with positive impact on poverty reduction
f. Development of good government policies and laws to protect foreign investment while ensuring that the investment trickled down to the poorest of the poor
g. Local people to be given priority in job creation or employment generated by foreign investment
h. Clear deliberate policy to create linkages between foreign investment and local industries
i. Continued making of good investment climate by the Zambian government
j. Lowering of bank rates on lending but increasing the deposit rates
k. Investment financed from domestically generated revenues rather than borrowing from multilateral organizations
l. Creation of macroeconomic stability accompanied with high real growth domestic product
m. Maintaining low interest rates

n. Government investment in physical assets such as infrastructure, socio and economic development
o. Creation of an enabling investment climate for both foreign and local investors
p. Providing tax incentives in priority sectors such as those in agro processing, tourism, education, and health and in rural investment
q. Multilateral organizations should move away from traditional methods of financing and embrace financing of green field investments through home grown mechanisms

It is further recommended that a strong independent national monitoring and evaluation mechanism at the national level having its presence at the point of delivery is required to ensure that foreign aid achieved the intended purpose of poverty reduction as a development agenda. This approach would help to monitor and evaluate the World Bank Group funded projects as opposed to a post-evaluation of projects and activities as lessons learnt. What is required is tracking of projects and activities from the start to their completion. This process would provide checks and balances and such a monitoring mechanism should be composed of relevant stakeholders from the public and private sectors to ensure transparency, accountability and employing best practices in financial management and accountability of such foreign aid. The government must be highly accountable in the management of foreign aid as a development agenda in the priority areas of the Zambian economy especially in the rural areas where poverty levels are very high.

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ANNEXES

Annex 1: Interview Guide 2010

Section A

The World Bank Group in Zambia

1 The International Development Association-IDA

2 The International Finance Corporation -IFC

Section B

Government Ministries and Statutory Bodies and

Section C

Private Sector Institutions from the Zambia Business Forum -ZBF

SECTION A

THE WORLD BANK GROUP

1. What were the main projects and activities of the World Bank in the promotion of both foreign and local investment leading to poverty reduction in Zambia during the period 1999-2009?

2. During the period 1999 - 2009, was the International Finance Corporation involved in any activities that aimed at promoting foreign direct investment in Zambia?

3. If, yes, give some examples of these cases and how successful were these projects.

4. During the period 1999 - 2009, did the International Finance Corporation make any financial or technical assistance aimed at promoting local investors?

5. If yes, which local investors received the financial or technical assistance and how much was given?

6. What was the purpose of the financial or technical assistance given to the local investors during the period 1999 - 2009?

7. Was the International Finance Corporation satisfied with the impact of the financial or technical assistance given to the local investors?

8. What were the limitations or challenges that the Bank faced during the period 1999 - 2009 in its efforts to promote foreign direct investment and what were your expectations from local investors?

9. What conditions are attached to the financial or technical assistance given to both the governments and business in support of local or foreign investors?

10. Has the Bank got a monitoring mechanism to ensure that the financial and technical assistance given to governments and businesses for promoting local and foreign investment is used according to the conditions set by the Bank?

11. To what extent would you say the financial or technical assistance given by the Bank to government and businesses had contributed to poverty reduction in Zambia during the period 1999 - 2009?

12. In what projects, financial, technical assistance or activities was the bank involved with in the promotion of foreign direct investment in the period 1999 - 2009 as means of fighting poverty?

13. What programmes did the Bank do during the period 1999 - 2009 in order to contribute to reduction of poverty in Zambia?

14. How significant was the financial and technical assistance given to the Zambian Government, local and foreign investors in order to facilitate foreign direct investment?

15. In view of the projects that the International Finance Corporation gave financial or technical assistance, what were the major conditions of the assistance given to the Zambian government, local investors or foreign investors to facilitate the promotion of foreign direct investment during the period 1999 - 2009?

16. What was the impact of such programmes during the period 1999 - 2009?

17. How does the International Finance Corporation (IFC) intend to address the challenges faced during the period 1999 - 2009 in Zambia?

18. What were your priority sectors in terms of financial and technical assistance?

19. What was the rationale for targeting these sectors?

20. According to your assessment, did the International Finance Corporation achieve its objectives?

21. What were the serious challenges that the International Finance Corporation faced in Zambia during the period 1999 - 2009 in terms of meeting its objectives and implementation of its programmes?

22. To what extent were these challenges addressed?

23. Do you think that the promotion of foreign direct investment by the International Finance Corporation during the period 1999 - 2009 contributed significantly to the reduction of poverty in Zambia?

24. How best do you think the promotion of foreign direct investment can still be a vehicle for poverty reduction?

SECTION B

GOVERNMENT MINISTRIES AND STATUTORY BODIES

25. Did your ministry/organization receive any financial or technical assistance from the International Finance Corporation of the World Bank Group during the period 1999-2009?

26. How significant was the assistance?

27. In which project areas was the assistance channelled?

28. Do you think the projects that were implemented were in priority areas of need for poverty reduction in Zambia?

29. If yes, what was the contribution of these projects to the reduction of poverty?

30. Was the assistance received from the International Finance Corporation in line with the Zambia's investment policy and overall macroeconomic policy?

31. Was your institution satisfied with the conditions attached to the financial or technical assistance received from the International Finance Corporation during the period 1999-2009 aimed at promoting foreign direct investment?

32. What kind of conditions were you not satisfied with?

33. What were some of the major achievements from the financial or technical assistance received from the International Finance Corporation during the period 1999-2009?

34. Did the foreign investors that received financial or technical assistance from the International Finance Corporation re-invest some of their profits in the Zambian economy during the period 1999-2009?

35. If yes, how much was re-invested in the Zambian economy from foreign investors that received assistance from the International Finance Corporation during the period 1999-2009?

36. If no, what do you think could be done to ensure that profits are re-invested in the country?

37. Do you think the International Finance Corporation is on the right path in the promotion of foreign direct investment in Zambia?

38. If yes, why do you think it is on the right path?

39. If no, what do you suggest should be done?

40. Did the International Finance Corporation fulfil its pledges on the promotion of foreign direct investment in Zambia during the period 1999-2009?

41. If no, what were the major problems that led to non-fulfilment of the pledges during the period 1999-2009?

42. Do you think the International Finance Corporation of the World Bank Group met its objectives of promoting foreign direct investment in Zambia during the period 1999-2009 as a means of reducing poverty levels?

43. If yes, which project areas were given financial or technical assistance by the International Finance Corporation for promotion of foreign direct investment during the period 1999-2009?

44. Do you think poverty levels worsened during the period 1999-2009?

45. If yes, what do you think were the contributing factors to the worsening of poverty situation in Zambia?

46. Did the investors that received financial or technical assistance from the International Finance Corporation during the period 1999-2009 meet their obligations of paying taxes?

47. Were any of the investors that received financial and technical assistance from the International Finance Corporation during the period 1999-2009 granted any tax concessions?

48. In view of the investment policy that was put in place to facilitate foreign direct investment, what were the major challenges that you faced during the implementation period from 1999-2009?

49. How were the challenges referred above dealt with?

50. What mechanism is there for harmonizing government foreign investment policy objectives with those of the International Finance Corporation programme objectives?

51. How do you intend to facilitate an investment climate to attract pro-poor foreign and local investment in Zambia?

52. How many companies or foreign investors were assisted by the International Finance Corporation during the period 1999-2009 in the facilitation of foreign direct investment as means of reducing poverty levels in Zambia?

53. For future operations or engagement with the International Finance Corporation of the World Bank Group, what conditions do you think are pro-poor to be incorporated in the promotion of foreign direct investment as a vehicle of fighting poverty Zambia?

SECTION C

PRIVATE SECTOR INSTITUTIONS FROM ZAMBIA BUSINESS FORUM:

54. Did your association or members receive any financial or technical assistance from the International Finance Corporation during the period 1999 - 2009 as a means of promoting foreign direct investment?

55. If yes, how much was received and which projects were identified for the financial or technical assistance during the period 1999 - 2009?

56. Were you satisfied with the conditions attached to the financial or technical assistance during the period 1999 - 2009?

57. If no, what conditions were not satisfied with?

58. Do you think the International Finance Corporation fulfilled its mission and objectives in the promotion foreign direct investment as a way of fighting poverty in Zambia during the period 1999 - 2009?

59. If no, suggest ways in which the International Finance Corporation should promote foreign direct investment as a means of fighting poverty in its future operations and engagement with the private sector.

60. Do you think the local investors received similar attention as foreign investors from the International Finance Corporation during the period 1999 - 2009?

61. Do you think that the financial or technical assistance your organization received from the International Finance Corporation was worthwhile during the period 1999 - 2009?

62. If yes, how much was it and what were your major areas of achievements during the period 1999 - 2009 as a result of financial or technical assistance received from the International Finance Corporation during the period 1999 to 2009?

63. If no, why was it not worthwhile?

64. How many people were employed by member organisations or companies that received financial or technical assistance from the International Finance Corporation compared to local investors during the period 1999 - 2009?

65. Do you think the International Finance Corporation fulfilled its objectives of promoting foreign direct investment as a means of reducing poverty levels in Zambia during the period 1999 - 2009?

66. If yes, what were the major achievements of the International Finance Corporation during the period 1999 - 2009?

67. If no, suggest areas in which the International Finance Corporation should double its efforts in the promotion of foreign direct investment as a means of reducing poverty levels in Zambia for its future operations and engagement with the government and businesses.

68. Do you think the World Bank in general lived up to its mission of fighting poverty through the promotion of foreign direct investment in Zambia during the period 1999 - 2009?

69. If yes, in which areas do you think generally the Bank contributed significantly in reducing poverty levels in Zambia during the period 1999 - 2009?

70. If no, Suggest ways in general how the World Bank should discharge its mandate in order to reduce poverty as a fulfilment of its mission through the promotion of foreign direct investment in Zambia.

Annex 2: The World Bank Funded Road Projects and Activities- 2008

The World Bank (IDA Credit) Funded Road Projects and Activities- 2008

Road Project	**Contractor/Consultant**	**Province**	**Length (Km)**
Rehabilitation of 34.7 Km of Kafue - Chirundu Road (Escarpment Section)	China Henan International Cooperation Group Limited	Southern	34.7
Rehabilitation of 7 Km of Kafulafuta - Luanshya Road	China Henan International Cooperation Group Limited	Copper Belt	n/a
Rehabilitation of Chingola - Kasumbalesa Road	China Henan International Cooperation Group Limited	Copper Belt	43.0
Consultancy services to undertake an assessment of the existing private sector capacity to carry out motor vehicle testing in line with the developed standards on behalf of the RTSA	Consia Consultants in association with Zulu Burrow Ltd	All	n/a
Construction of selected priority community transport infrastructure (CTI) under Rural Accessibility and Mobility Programme (RAMP) in Mpongwe District, Lot 2	Paumwaka Agencies	Copper Belt	4.7
Construction of selected priority community transport infrastructure (CTI) under Rural Accessibility and Mobility Programme (RAMP) in Chibombo District Lot 1	Bric Tech Construction	Central	9.0
Construction of selected priority community transport infrastructure (CTI) under Rural Accessibility and Mobility Programme (RAMP) in Sinazongwe District Lot 3	Tawanda Investments	Southern	3.6
Construction of selected priority community transport infrastructure (CTI) under Rural Accessibility and Mobility Programme (RAMP) in Kalabo District Lot 4	Jexmak Enterprises Ltd	Western	1.6
Construction of selected priority community transport infrastructure (CTI) under Rural Accessibility and Mobility Programme (RAMP) in Zambezi District Lot 5	PUSH Development	North Western	5.0
Feasibility Study of Mufuchani Bridge/ Environmental Project Brief	Environmental Council of Zambia	Copper Belt	n/a
Purchase of office furniture for RDA for ADSP Management	RDA	Lusaka	n/a
ADSP Social economic study	RDA	Lusaka	n/a
Detailed Engineering Design and Preparation of tender documents for a Bridge at Mufuchani	Arab Consulting Engineers	Copper Belt	n/a
Consultancy to prepare terms of reference for institutional performance review of road sector agencies	Willie Victor	All	n/a
Staff training in road sector Agencies	NRFA, RDA, NCC, RTSA & Ministries	Lusaka	n/a
OPRC Package 1 contract under ADSP in Choma District	Jiangxi Zhongmei Engineering Construction Co. Limited	Southern	239.5
OPRC Package 3 contract under ADSP in Katete and Chipata Districts	Jiangxi Hua Chang Infrastructure Engineering Limited	Eastern	172.0
World Bank Special Account audit fees	MT Ncube and Auditor General	All	n/a
Purchase of Office Furniture Bridge Unit in RDA	Printech Ltd-Furniture-RDA	All	n/a
Zamnet -web host, mail box for NRFA	ZAMNET	All	n/a
Purchase of four (4) Motor vehicles for RTSA	RTSA	All	n/a
TA to RDA: Bridge Expert	Dr. Michael N Mulenga	All	n/a

Road Project	Contractor/Consultant	Province	Length (Km)
Reconstruction of Selected Priority River Crossings in Four National Parks	China Jiangxi Corporation for International Economic and Technical Cooperation	Lusaka & Southern	n/a
ROADSIP II Mid Term Review	Sheladia Associates / JD Mwila	All	n/a
Bank Charges	Special Account	All	n/a
Payment of salary and operational costs for RAMP Activities	RAMP Coordination	Lusaka	n/a
Supervision of Reconstruction of Selected Priority River Crossings in Region I:Eastern, Northern and Luapula Provinces	GRONTMIJ / CARL BRO	Eastern, Northern & Luapula	n/a
Consulting Services for Identification of indicators and collection of associated baseline data to measure the social economic impact of OPRC contracts on Rural Roads under the ADSP	Independent Management Consulting Services (IMCS)	Eastern, Lusaka & Southern	n/a
Supervision of OPRC in Choma and Chongwe under ADSP	Ngandu UWP	Lusaka & Southern	n/a
Supervision of OPRC in Katete, Chipata and Lundazi Districts under ADSP	ASCO	Eastern	n/a
Monitoring of OPRC Contracts in all 3 provinces (Eastern, Lusaka and Southern) under ADSP	RDA/Ministry of Agriculture	Eastern, Lusaka & Southern	n/a
Reconstruction of Selected Priority River Crossings in Luapula Province	Sable Transport	Luapula	n/a
Reconstruction of Selected Priority River Crossings in Northern Province	Sable Transport	Northern	n/a
Consultancy Services for Detailed Assessment, Prioritisation and Engineering Designs for Reinstating/Construction of Damaged and Washed away Crossings in Region II: National Parks (Lusaka & Southern) Copperbelt and North Western Provinces of Zambia	SNC-Lavalin / ASCO	Lusaka, Southern, Copperbelt and North Western	n/a
Consultancy for CTI Detailed Design and Construction Supervision of Selected Priority Community infrastructure	IT Transport	Lusaka, Southern and Western	n/a
Consultancy for CTI Baseline Study for Community infrastructure improvement and ownership	IT Transport	Lusaka, Southern and Western	n/a
HIV/AIDS Consultancy Phase II	CEMB	Lusaka	n/a
Consultancy services for detailed engineering design and preparation of tender documents for the construction of a bridge at Chiawa Crossing on the Kafue River	Sheladia Associates Inc.	Lusaka	n/a

Source: National Road Fund Agency