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8078

Impasse in Zambia

The Economics and Politics of Reform

Ravi Gulhati

EDI DEVELOPMENT POLICY CASE SERIES
Analytical Case Studies • Number 2

Public Disclosure Authorized

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The World Bank
Washington, D.C.

Manufactured in the United States of America
First printing July 1989

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Library of Congress Cataloging-in-Publication Data

Gulhati, Ravi.
Impasse in Zambia : the economics and politics of reform / Ravi Gulhati.
p. cm. -- (EDI development policy case series. Analytical case studies ; no. 2)
Bibliography: p.
ISBN 0-8213-1241-3
1. Zambia--Economic policy. 2. Zambia--Politics and government--1964- I. Title. II. Series.
HC915.G85 1989 89-9185
338.96894--dc20 CIP

EDI Catalog No. 400/070 ISSN 1013-333X

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Preface

During several visits to Zambia during the last decade, I had a number of opportunities to discuss at length different aspects of its economic problems and possible solutions. The following paper is dedicated to the many Zambian friends who freely gave their time to talk candidly about the issues. I wish it had been possible for some Zambian officials, who had had an "insider's" view of the unfolding economic policy process, to write down their insights. It is my firm belief that no one analysis of the policy process can capture it in all its key dimensions. A number of contributions from different vantage points, therefore, would have been enriching.

A parallel study of Malawi is also being published in this series, and one on Mauritius is expected to be issued soon. All three are part of a book-length treatment of economic policy change in Sub-Saharan Africa to be published in the near future. The entire project is an effort on my part to reflect on events in which I played a little part as the former chief economist of the Eastern and Southern Africa Region, as it was then called, of the World Bank. I am very grateful to Christopher Willoughby of EDI for providing generous support for this project. My former associates in the operational part of the World Bank have cooperated fully. A substantial part of the analysis is taken from their work.

Notwithstanding all these connections with the World Bank, the project should be regarded as my own initiative. I have chosen to write about the impact of politics on economic policy; a sensitive area on which the Bank has no official views. My effort to deal with this difficult topic is an experiment and should be regarded in that light. Scholars in this field often disagree, and I have reported on some controversies. Judgments made in this paper are personal ones, and I alone carry responsibility for them.

I am grateful to Raj Nallari, who painstakingly assembled the research materials and who participated in the analytical work. Sofia Mendoza also assisted in many ways too numerous to spell out. Without the valuable contribution of these two colleagues, producing this paper would not have been possible.

Finally, a special word of thanks to many readers in Washington, D.C., and elsewhere who helped greatly during the long journey from first draft to final manuscript.

Ravi Gulhati
January 1989

Introduction

The aim of this paper is to learn from the policy experience of Zambia. The metaphor of being "boxed in" is an appropriate description of the situation in that country today. The Zambian government's intensive policy efforts during the 1980s, in collaboration with the International Monetary Fund (IMF) and the World Bank, were aimed at economic recovery. President Kaunda abandoned these efforts in May 1987, and the downward spiral in which Zambia was trapped seemed to continue. Zambia was in an impasse.

This is not the place to spell out the detailed characteristics of the Zambian economy or the history of its economic development. Please refer for such information to ILO (1981) and to appendix tables A-1 and A-2, which summarize quantitative information on social and economic indicators. Much of the data presented in this study is summarized in a series of graphs. The figures underlying these graphs, as well as definitions and sources, are presented in the tables in the appendix.

Zambia is a landlocked country with a relatively small, but rapidly growing, population. In the past, copper mines generated a very large part of the Gross Domestic Product (GDP). Their relative contribution declined sharply during the last 20 years, but copper remained a strategic sector generating the vast bulk of foreign exchange and a sizeable part of public revenues. Traditional agriculture absorbed much of the labor force at very low levels of productivity and income. The production structure was highly dualistic, and the income distribution was very uneven. Although Zambia was one of the most urbanized countries in Sub-Saharan Africa, considerable untapped agricultural potential existed. At independence, Zambia's per capita income of US$540 (1980 prices) was among the highest in the region, and capital accumulation was taking place rapidly. The economy declined dramatically, however, and per capita income, as well as the rate of investment, fell sharply in the late 1970s and the 1980s. Despite this protracted decline, Zambia has managed to raise sharply school enrollment ratios at the primary and secondary levels. Life expectancy has increased but remains low compared to other developing countries.

Chapter 1 diagnoses Zambia's economic problems, that is, the exogenous shocks and the policy distortions that occurred during the post-independence period. Readers who are familiar with this material should turn to chapter 2. To comprehend the extraordinary transformation in economic policies that took place in the post-independence period, chapter 2 reviews trends in Zambian politics and public administration. Against this background, chapter 3 analyzes the government's response during the 1980s, in terms both of policy decisions and the pattern of implementation. Finally, chapter 4 draws some conclusions about policy processes and the substance of policy.

A brief remark about the eclectic methodology of this paper is in order. The section on diagnosis is cast very much in the framework of development economics, while the following section on politics and public administration uses a broader (and perhaps a less rigorous) analytical scheme. Justice cannot be done to the policy theme of the paper without following such a multidisciplinary approach.

1
Diagnosis

In the mid-1980s, per capita GNP in real terms was one-third less than in 1964 when Zambia became independent. The rate of inflation was about 15 percent per annum during the late 1970s, but picked up momentum and reached 50 percent in 1986. The balance of payments had been strained since the price of copper fell in the mid-1970s, but the pressure mounted over time. The foreign debt increased considerably and the government has not been able to service it fully for a number of years. Arrears in payments have mounted, including payments to the IMF and the World Bank. Table 1 presents average annual growth rates for the eight years following independence and for 1973-80.

Table 1. Zambia: Average Annual Growth Rates
(constant prices)

Category	*1965-73*	*1973-80*
Gross domestic product	2.4	0.3
Agriculture	2.0	1.6
Mining	2.7	-0.3
Manufacturing	9.8	0.5
Services	2.3	0.4

Source: World Bank data files.

Zambia has suffered from a variety of exogenous shocks: deterioration in the terms of trade, harvest failures caused by drought, transport dislocations in the wake of Rhodesia's Unilateral Declaration of Independence, and military activities related to Zimbabwe's freedom struggle. Assessing the quantitative significance of all of these disturbances is not possible, but the impact of adverse terms of trade movements can be calculated.

The Loss in Terms of Trade

Zambia is almost unique in having one commodity, copper, play an overwhelming role in its exports. It supplies 85 to 90 percent of foreign exchange earnings, and Zambia is extremely vulnerable to the instability in world copper prices and to their recent very low level. On the import side, Zambia is typical of many oil-importing, low-income countries.[1] The unit value of imports rose very sharply after 1973 and then again in 1979 as a result of the hike in energy prices. This index was also affected by the unprecedented inflation in OECD countries in the 1970s, and by the fact that exporters to Zambia charged increasing mark-ups on prices in anticipation of delays in obtaining payments. All these factors

culminated in a disastrous deterioration in Zambia's terms of trade (see graph 1) during 1974-78. Using 1974 as the base, Zambia's loss owing to adverse changes in terms of trade was substantial (table 2).[2]

Table 2. Loss Owing to Changes in Terms of Trade
(1974=100)

	1975-79	*1980-86*
A. Percentage decline in terms of trade over 1974[a]	45.8	63.8
B. Share of exports (gnfs) in GDP in 1974	50.0	50.0
Loss of income as percentage of GDP	22.9	31.9

a. Terms of trade index (1974=100) is from national accounts.

Source: World Bank data files.

Policy Distortions

Egregious policy failures in managing aggregate demand and in securing a sensible allocation of resources compounded the devastating impact of exogenous shocks. The framework of incentives was distorted by the emergence of large gaps between "efficiency" and prevailing prices, many of which were under government control. Many of these government interventions and the establishment of numerous parastatals, aimed at achieving well-meaning objectives, generated very serious adverse side-effects and led to large misallocation of resources.

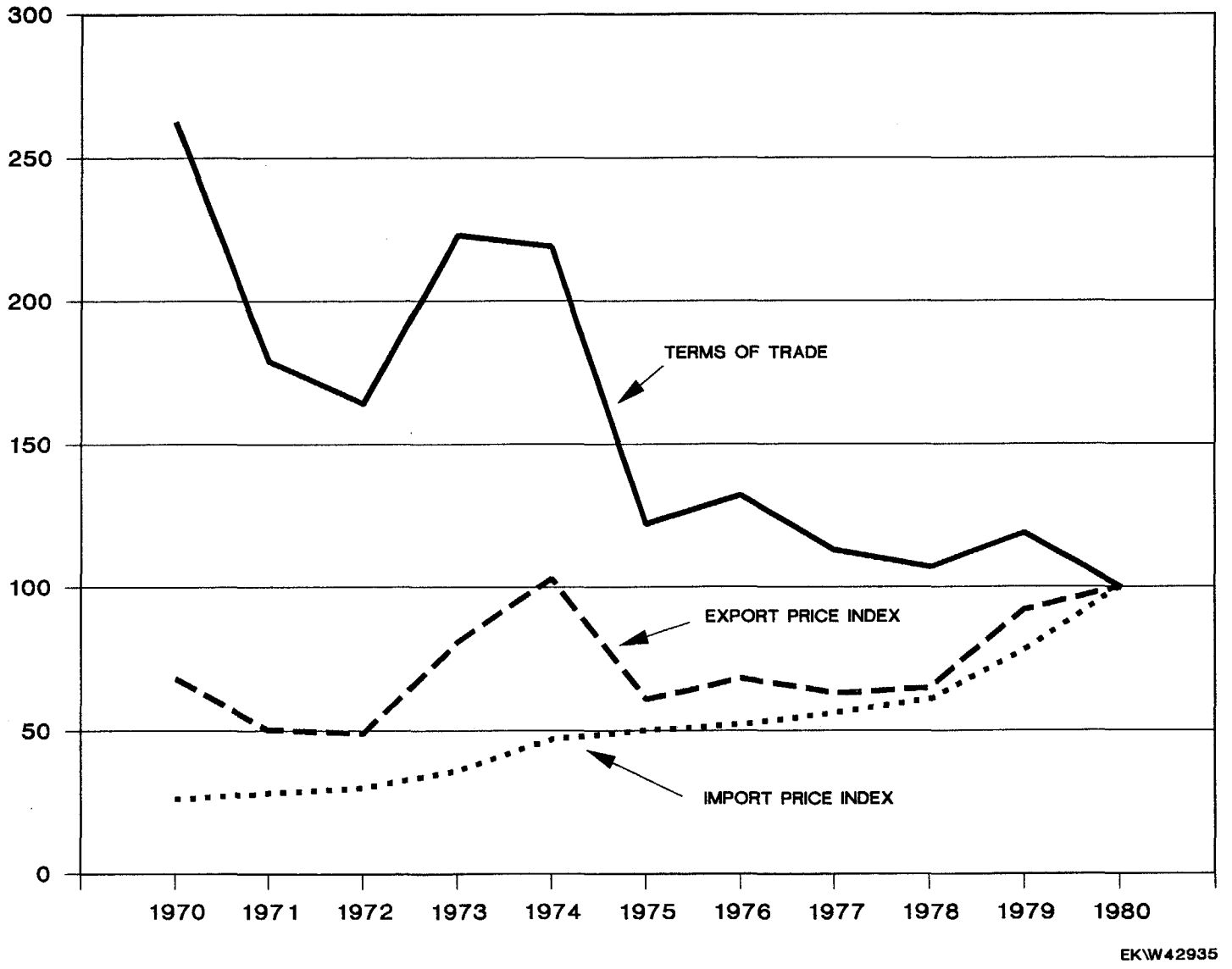
Mismanaged Aggregate Demand

Graph 2 provides a historical perspective of the management of aggregate demand. Political independence witnessed a massive increase in both consumption and investment. These expansions did not create any financial imbalances since GDY (total production adjusted for the terms of trade) exceeded GDE (consumption plus investment) up to 1970. The following year saw a major deterioration in copper prices. The surplus on the current account of the balance of payments was eliminated. Terms of trade losses beginning in 1975 (see graph 1), which persisted throughout the rest of the decade, created a very difficult policy problem.

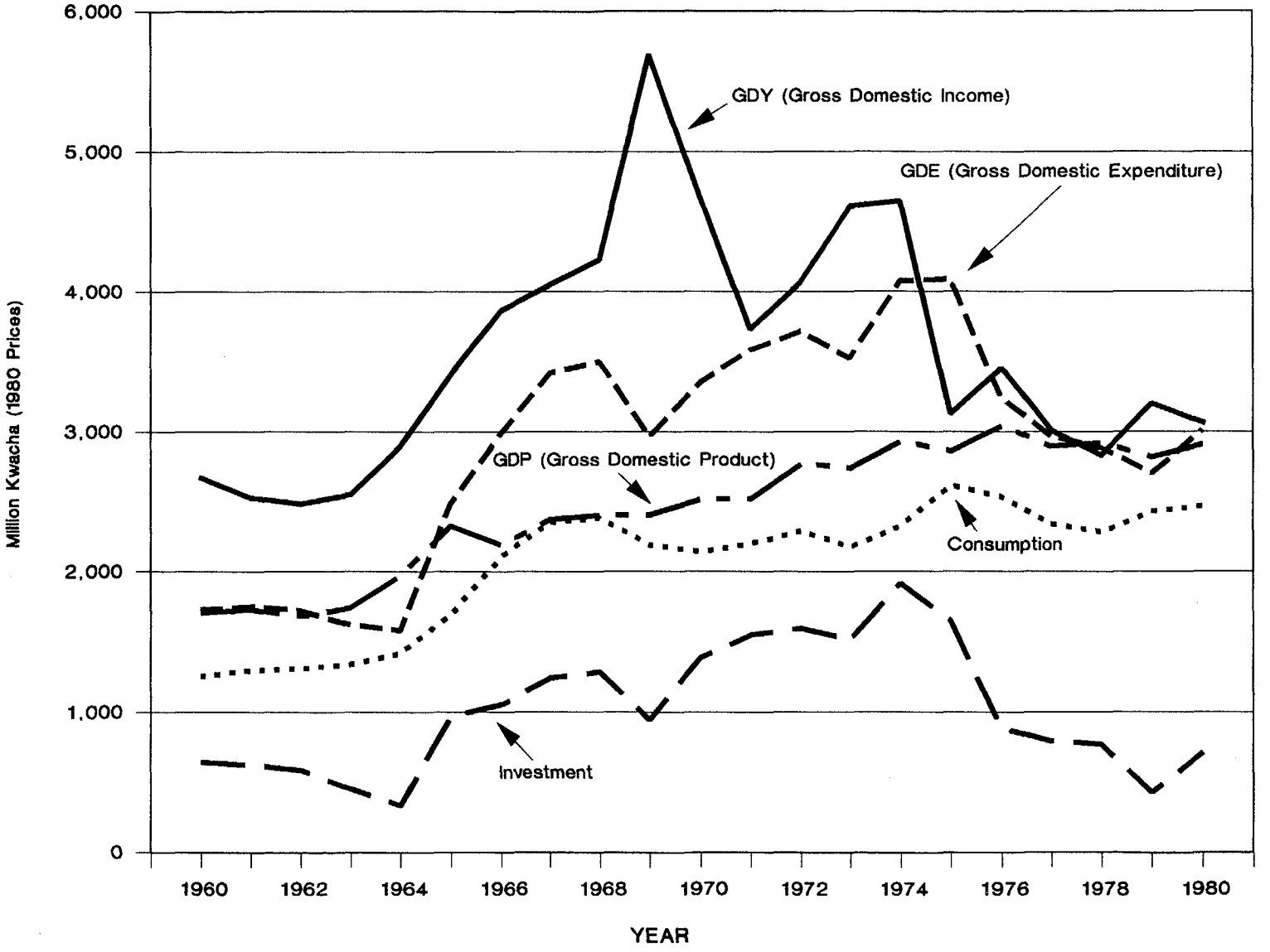
The government had to make a strategic choice between restoring financial balance by curtailing aggregate demand or maintaining the level of demand by resorting to extraordinary sources of finance. GDE was reduced significnatly, mainly by curtailing capital formation. This did not restore financial balance, however. Zambia had to borrow on hard terms from foreign commercial banks and supplier's credit agencies (see graph 3 line labeled net capital). It also had to draw on the IMF.

The same problem of financial imbalance in the context of the government budget is portrayed in graph 4. In 1975, budget deficits started becoming very

GRAPH 1
ZAMBIA: TERMS OF TRADE INDEX, 1970-1980



GRAPH 2
ZAMBIA: NATIONAL ACCOUNT INDICATORS,1960 - 1980
Million Kwacha (1980 Prices)



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large. The government borrowed heavily from the domestic banking system in 1977 and 1978. Such borrowings averaged 10 percent of GDP in 1975-79, compared to 3 percent in 1970-74. Correspondingly, inflation, measured by the cost of living index, rose at a rate of 16.5 percent per annum during 1975-79, compared to 5.6 percent per annum in the earlier period.

By the late 1970s, this pattern of adjustment and financing had left Zambia with an onerous legacy of overindebtedness and rapid inflation. Clearly, the government had mismanaged demand. It had made judgments about economic prospects, particularly about the recovery of copper prices, that had turned out to be wrong. The strong preference for reducing investment rather than consumption had left in its wake a host of problems in the real economy, namely, delays in replacing old assets and postponement of needed new projects.

Managing aggregate demand in an environment of instability was not easy. Zambia's exports, for example, fluctuated on average by 13 percent per annum from trend during 1965-79.[3] Furthermore, since policymakers' predictions could not be accurate, calculating the trend line *ex-ante* was extremely difficult. For example, World Bank projections of international copper prices turned out to have sizeable errors.[4]

These difficulties, notwithstanding, Zambian policymakers had to choose between contra-cyclical reserve management and a stance of letting the terms of trade dictate the state of the economy. The evidence is that they did not (or could not) insulate the economy from the marked fluctuations in export revenues. During 1966-81, the simple correlation coefficient between exports and imports was 0.65 and that between exports and reserves was 0.08. Windfall gains in the years of export boom were not used to augment reserves; instead they spilled over into extra imports. Simulations suggest that import instability caused partly by export fluctuations could have been reduced by 50 percent if policymakers had managed reserves contra-cyclically using the simple extrapolation method of determining export trends.

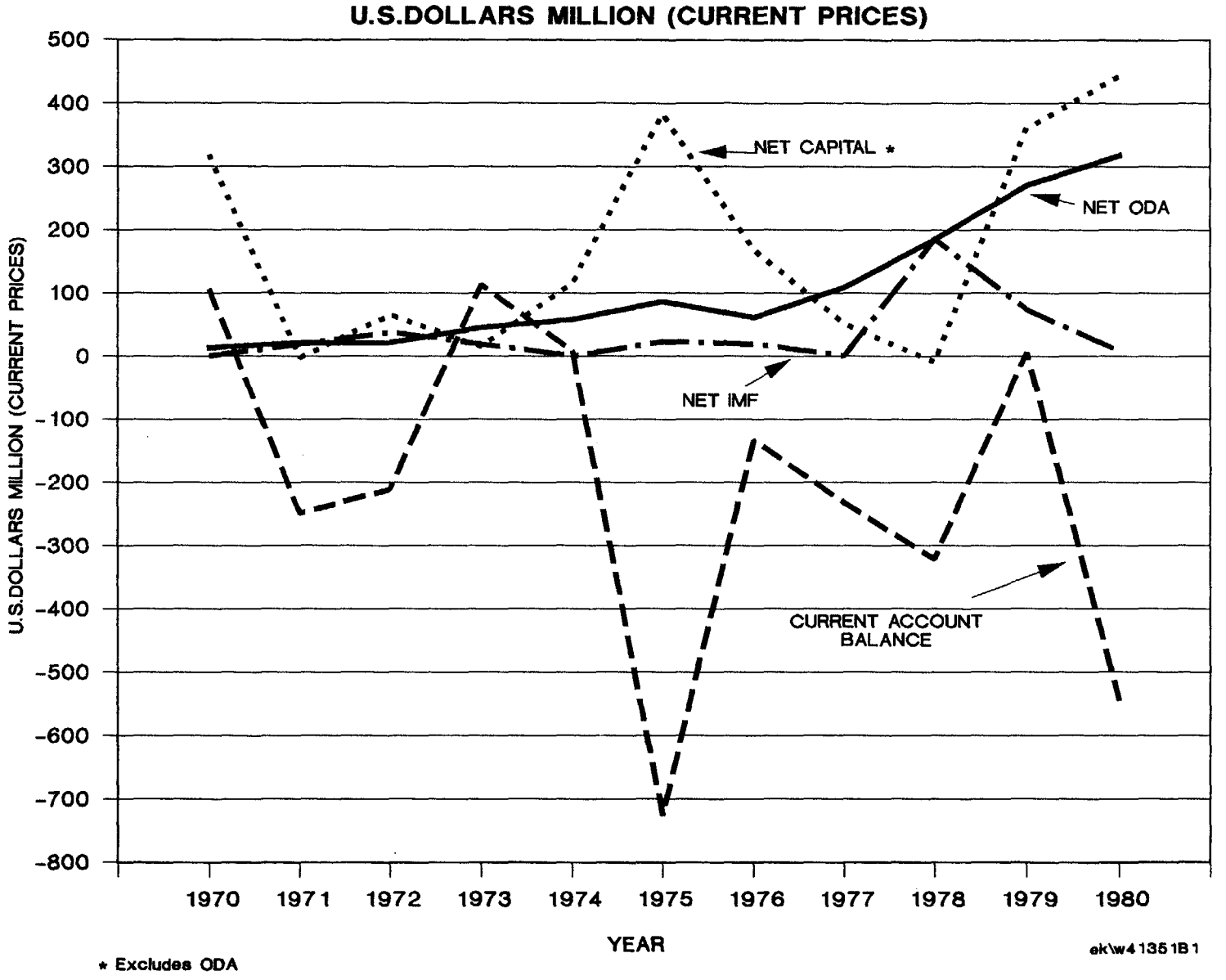
Distorted Prices

The government displayed a strong preference for administrative controls, as against price policy instruments, both in managing aggregate demand and in allocating resources. This section will focus on factor prices for foreign exchange, capital and labor. Later sections will discuss prices for some key commodities.

Throughout the 1960s and the 1970s, Zambia had a passive exchange rate policy. The kwacha was pegged first to the U.K. pound and then in 1971 to the U.S. dollar. In 1976, the currency was devalued by 20 percent and pegged to the SDR. Another devaluation of 10 percent followed in 1978. These moves brought about a depreciation of the real effective exchange rate by about 20 percent during the 1970s (see graph 5). Despite this depreciation, the government had to rely more and more on import bans, quantitative restrictions administered by the Ministry of Commerce and Industry, and administrative allocation of foreign exchange by the Bank of Zambia. These arrangements proved to be time consuming and contributed significantly to the misallocation of resources. The problem of rationing foreign exchange became even more difficult in the early 1980s when the kwacha appreciated in real terms.

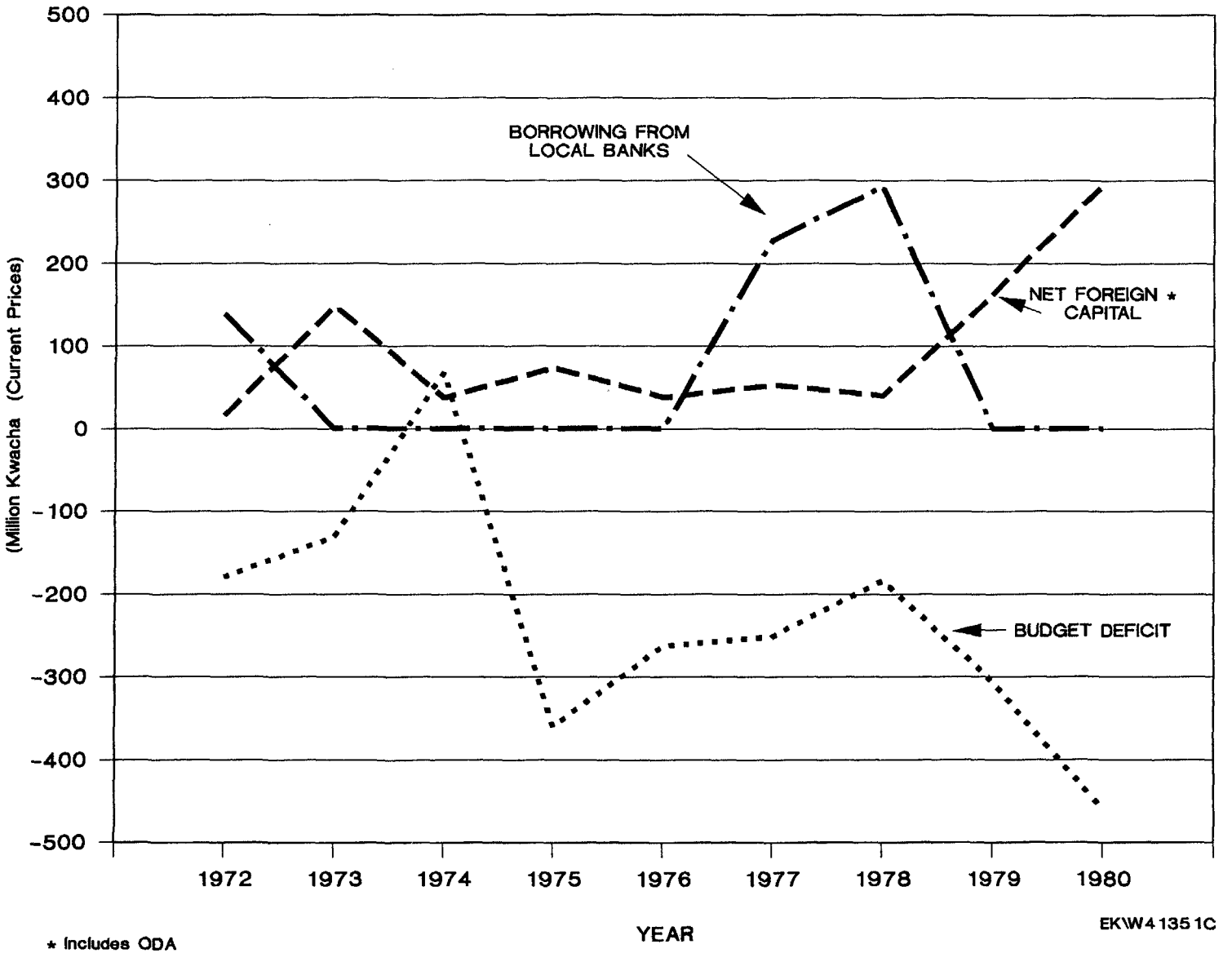
The entire structure of interest rates was controlled by the Bank of Zambia and changes were infrequent. Deposit rates, for example, remained in the 3 to 5 percent range up to 1975, and then moved up slowly to 7 percent by 1980 (graph 6).

GRAPH 3
ZAMBIA: BALANCE OF PAYMENT INDICATORS, 1970 - 1980



* Excludes ODA

GRAPH 4
ZAMBIA: BUDGET DEFICIT AND ITS FINANCING, 1972 - 1980
Million Kwacha (Current Prices)



* Includes ODA

In real terms (that is, after deflation by the consumer price index), interest rates were actually negative in many years, thereby penalizing savers.[5] Interest rates had very little impact on the allocation of credit. After the government's financial position deteriorated sharply following the decline in the price of copper, the Bank of Zambia had to accommodate government needs and restrict credit to the private sector. Monetary policy became hostage to the budget deficit.

The index of average real earnings of African workers in the formal sector rose sharply by 33 percent in 1967 and by a further 15 percent in the period up to 1973 (graph 7). These trends were greatly influenced by the relatively high copper prices that prevailed during that period and by government policy. A critical aim was realized when the Brown Commission in 1966 unified the pay scales of African and non-African workers. This was done by raising the wages of Africans rather than by reducing the pay of non-Africans. The process of determining wages in the government, parastatals, and private sectors tended to be interdependent (Meesok et al., 1986). Government salary commissions took account of pay scales in the parastatal and private sectors in making recommendations for changes in civil service salaries. Correspondingly, private firms and parastatals were greatly influenced by civil service compensation levels.

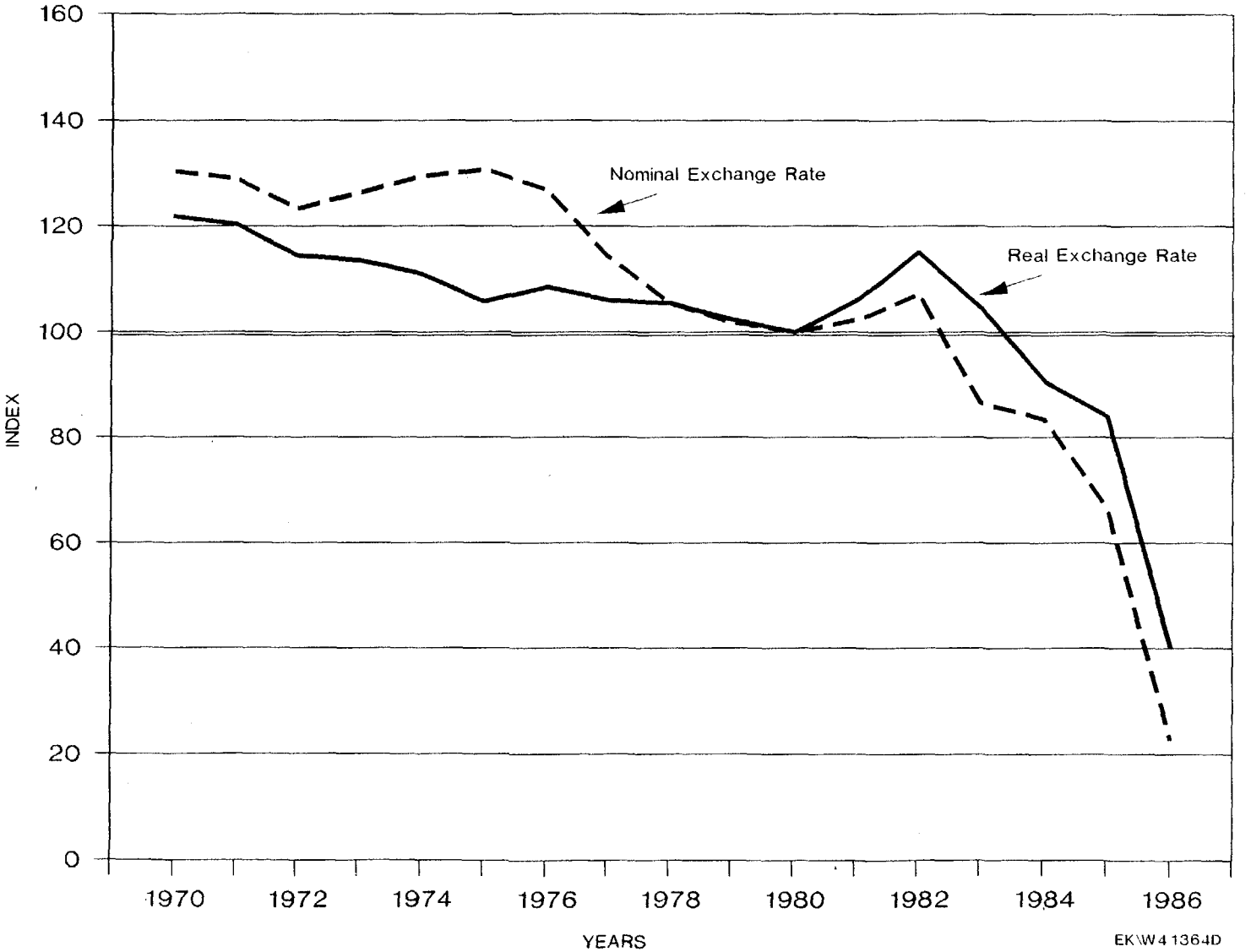
These developments pitched Zambian wage levels (particularly those in the mining sector) at very high levels. The gulf in the standard of living between formal sector workers (roughly one quarter of the labor force) and those working in rural areas widened considerably. Dualism was accentuated and the pattern of income distribution became much more unequal. However, in the face of declining copper prices, the relatively high wage levels in the formal sector could not be maintained. Government wage policy in the second half of the 1970s began to emphasize restraint in the form of ceilings on nominal wage increases or a freeze for specified periods. The government also adopted the objective of narrowing differentials among workers by allowing larger cost of living adjustments to lower paid employees and vice versa. The index of average real earnings of African workers declined by 16 percent during 1973-80, exacerbating the already deteriorating relationship between the government and the trade unions.

The end result was that key prices of foreign exchange, capital, and labor became increasingly distorted. The price of foreign exchange and credit remained too low, necessitating their rationing by administrative means, and the price of labor in the informal urban sector remained less than 50 percent of that in the formal sector. As might have been expected, these misalignments, meant that Zambian economic development tended to be both capital and import intensive.

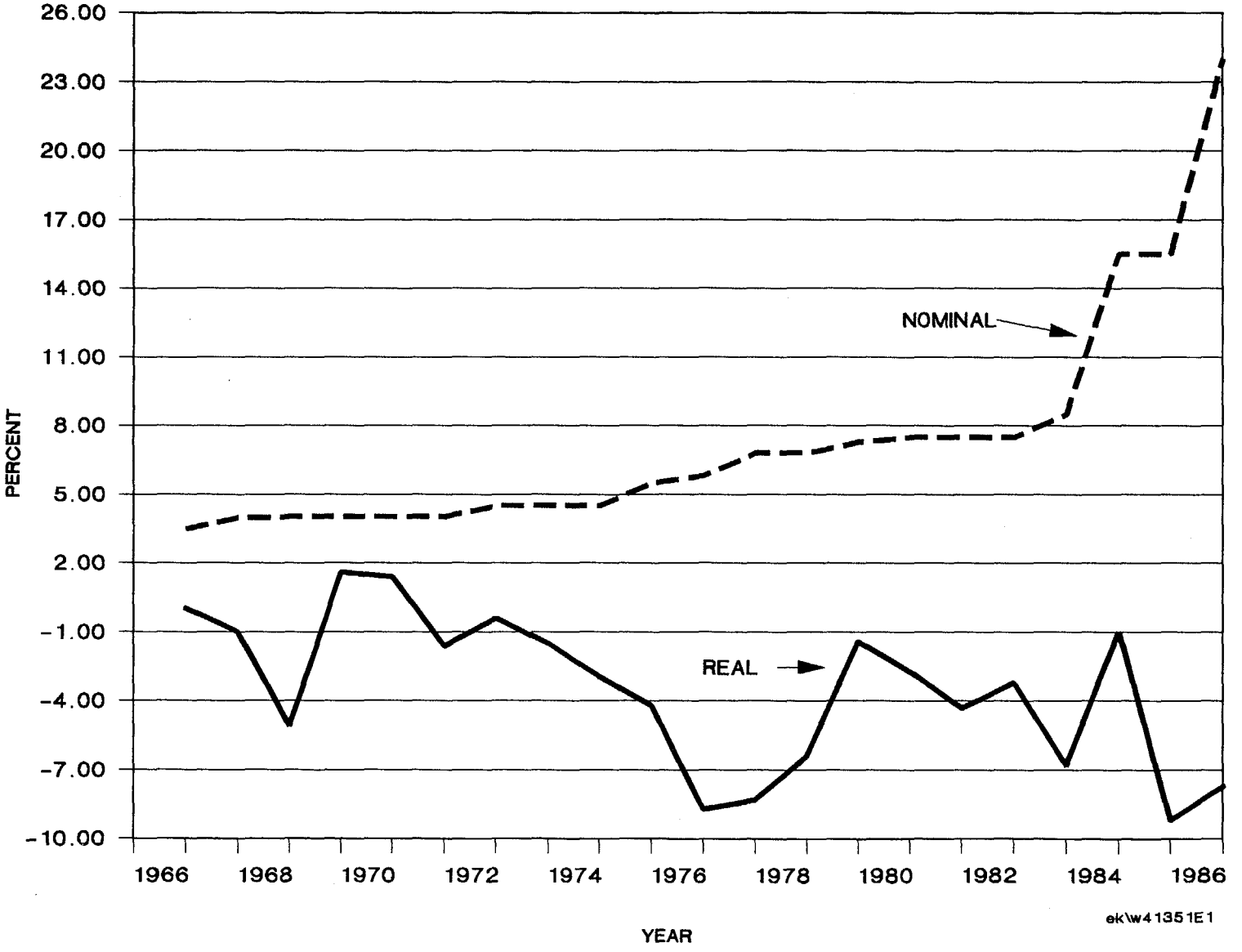
Import intensity had deep historical roots. In the preindependence period, a high level of imports reflected plentiful export earnings, predominantly from copper. In the early 1960s, exports of goods and non-factor services (gnfs) constituted 58 percent of GDP and imports (gnfs) averaged 42 percent. Zambia was a very "open" economy and the very attractive copper prices (in real terms) of that time yielded substantial rents, permitting relatively high levels of imports. More than a quarter of these imports consisted of consumer goods. The remaining imports were divided more or less equally between capital and intermediate goods.

As the balance of payments came under pressure, sustaining these high import levels became increasingly difficult. Sharply raising the price of foreign exchange by engineering a substantial real depreciation of the kwacha would

GRAPH 5
ZAMBIA: NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1970-86
(INDEX 1980 = 100)

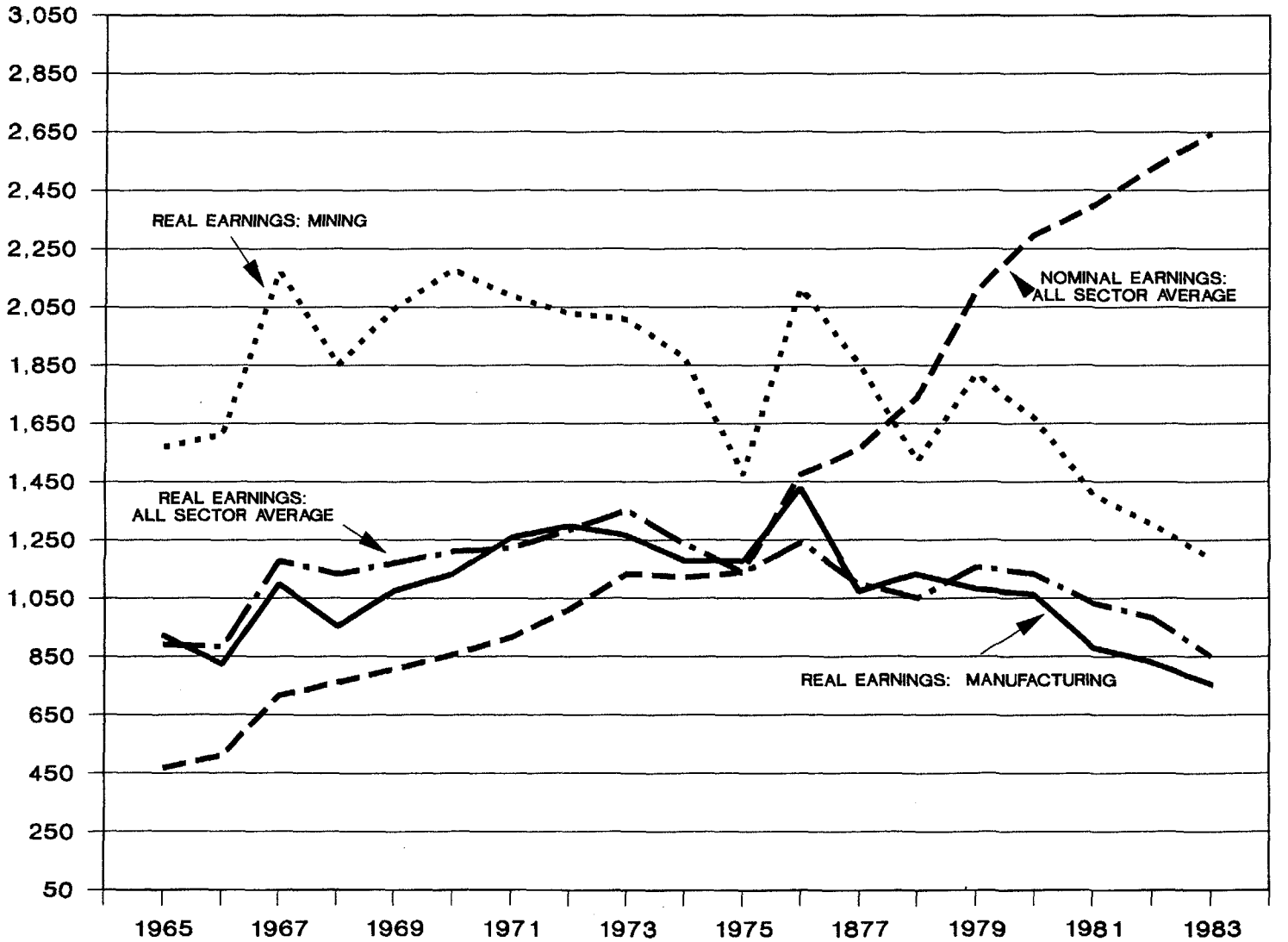


GRAPH 6
ZAMBIA: NOMINAL AND REAL INTEREST RATES ON COMMERCIAL BANK DEPOSITS,1966 - 1986



GRAPH 7
ZAMBIA: AVERAGE ANNUAL EARNING OF ZAMBIANS BY SECTOR, 1965 - 1983

Nominal Earnings in Current Kwacha.
Real Earnings in Kwacha of 1975 Prices.



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have sent a clear, strong signal throughout the economy to economize on imports and to develop new export items. This did not occur. Imports contracted moderately and in a haphazard manner. There was little incentive to diversify the structure of exports and copper exports could not be sustained. The reduction of the import ratio between the early 1960s and 1978-80 was only 3 percent while the export ratio fell by 18 percent. Table 3 shows that the reduction in the import ratio was secured by lowering both the import component of consumption and the rate of investment in the economy. It was not possible to compress the import component of either investment or production.

Table 3. Behavior of Imports

Category	*1965/67*	*1977/79*
Consumer goods imports as percentage of total consumption	13	5
Intermediate goods imports as percentage of GDP	10	12
Capital goods imports as percentage of GFI	36	43
GFI as percentage of GDP	26	20

Source: World Bank data files.

Inefficiency of the Public Sector

The public sector was assigned a leading role in development in independent Zambia. Government expenditure expanded rapidly during the late 1960s and reached 41 percent of GDP by 1970. Disillusionment with foreign private investment led to a wave of nationalizations. Many foreign companies operating in Zambia were subsidiaries of multinationals also operating in Ian Smith's Rhodesia. The number of parastatals expanded rapidly throughout the 1970s, from 14 to 147, reflecting the state's decision to press ahead with development in the face of a chronic shortage of local private entrepreneurs. At the end of the 1970s, parastatals produced 30 percent of GDP, accounted for 60 percent of investment, and employed 37 percent of formal sector jobs.

The government started out immediately after independence with guide-lines for public expenditure that sounded very much like what came to be known in the late 1970s as the Basic Needs Approach.[6] The declared emphasis was on rural development and satisfactory access of the population to education, water, health facilities, and so on. However, the government could not translate this priority into practice, and a recent report concluded that, "... government expenditure, both recurrent and capital, has remained heavily biased towards urban areas, and often to the needs of high income households" (ILO 1981, p. 7).

Capital formation in the public sector succeeded in securing an impressive expansion of the physical and social infrastructure, as well as of industrial assets. However, several of these projects entailed exorbitant costs and the overall incremental capital: output ratio rose from 7:1 in 1967-73 to 24:1 in 1973-79 (Gulhati and Datta 1983).[7] Schools and hospitals tended to be overdesigned, leading to high-unit costs. Many projects were badly prepared and delayed in execution. Too many industrial investments tended to be capital and import intensive and yielded negative valueadded at world prices.

A sizeable proportion of government outlays was on subsidies, mainly on maize and fertilizer, but also on items such as cooking oil, salt, matches, and soap. The fiscal cost of financing these government interventions became onerous over time. Subsidies had a favorable impact from the stand-point of basic goods provision to poor households, but there was a large leakage of benefits to households that were not poor. Furthermore, the impact on the productivity of parastatals was adverse, in so far as they got into the habit of depending on financial support from the budget. Controlled and subsidized prices reduced incentives for supplying essential goods to the relatively remote rural areas, since these prices ignored transport costs, which varied according to the goods' final destination.

Retrenchment of Government Expenditure

The government was compelled to cut back on its expenditure after the fall of copper prices in the mid-1970s, which reduced revenues. Taxes on copper contributed 53 percent of government revenue. Decisions to cut expenditures were made in an *ad hoc* manner without much analysis and in the presence of debilitating interministry competition.[8] A coherent approach was ruled out by the poor collaboration between the Finance Ministry, which was responsible for the current budget, and the National Commission for Development Planning (NCDP), whose mandate was the capital budget. Furthermore, these agencies knew little about the economics and the relative priority of ongoing or new investment projects. Neither did they know the implications for subsequent recurrent costs of these projects. No clear picture of Zambia's external liabilities was available. Even more important, these two core economic agencies did not seem to share a common appreciation of the problems facing Zambia or a common approach regarding a desirable solution of these pressing issues. Finance Ministry staff seemed to be much more aware of the substantial deterioration in the government's cash position and the need to take action to contain the damage. In sharp contrast was the attitude of NCDP professionals, who wished to protect plan targets and the capital budget, which was financed very largely by overseas aid and external borrowing. Many attempts were made to formulate a coherent overall perspective within which policymakers could make wellinformed decisions, but they proved to be abortive.

Expressed in constant prices, government capital and current outlays peaked in 1975, a year after the high point for revenues (graph 8). This contraction of revenues continued until 1979. In the event, government expenditures in real terms were reduced very substantially (table 4). IMF stand-bys were negotiated in 1976 and 1978, and these agreements must have strengthened the hands of theFinance Ministry and the Bank of Zambia in relation to other government agencies. In proportionate terms, capital outlays were squeezed much more than operational outlays, while there were large increments in subsidy and interest payments.

The most irrational aspect (from an economic viewpoint) of the entire fiscal retrenchment was the treatment of recurrent departmental charges (RDCs). This category consists of outlays on materials, such as textbooks for schools or drugs for health clinics, and on transport and other items required for government employees to perform effectively and for orderly maintenance and repair of buildings, roads, and so on. The large-scale curtailment of RDCs meant the undermining of government delivery systems for agricultural extension, education, and health, as well as the physical impairment of government capital

assets. It also meant inadequate matching of funds from the government for donor assisted projects, resulting in the slowing down of projects. No economic logic could have been marshaled to justify these cuts, particularly since the

Table 4. Pattern of Adjustment in Public Expenditure, 1975 and 1980

Category	*1975* *Million K (1975 prices)*	*1975* *Percentage distribution*	*1975 (constant prices 1977=100)*	*1980 (constant prices 1977=100)*
Total Expenditures				
Operational outlays[a]	629	55	136	97
Interest[b]	59	5	89	122
Subsidies	116	10	167	200
Capital outlays[c]	343	30	214	90
Total	1,147	100	151	107
Operational Outlays				
Personal emoluments[d]	213	34	115	90
Recurrent deptal charges[e]	137	22	150	105
Constitutional and statutory[f]	234	37	182	107
Grants and other payments[g]	45	7	83	92
Total	629	100	136	97

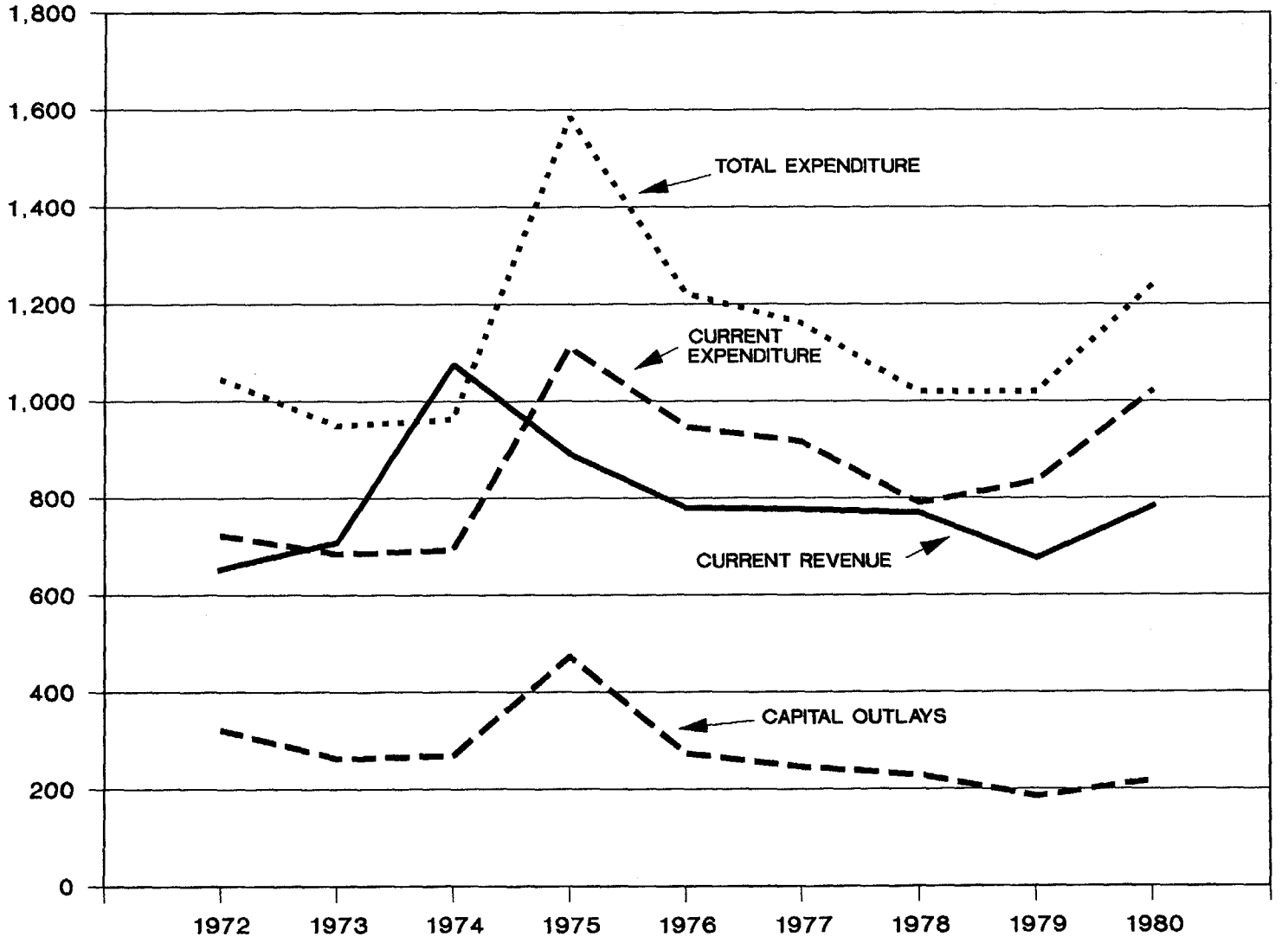
a. Personal emoluments, recurrent departmental charges, constitutional and statutory expenditures, grants, transfers, pensions, and other payments.
b. Includes both domestic and foreign interest on an accrual basis.
c. Includes loans and investments.
d. Salaries, wages, and benefits, not including pension contributions.
e. Direct operating costs for materials, equipment, transport, etc.
f. Residual category, consisting primarily of defense expenditures.
g. Grants, transfers, pensions, and other payments. Grants and transfers mostly finance activities complementary to government services and are therefore included as part of operational expenditures.

Source: World Bank data files.

authorities did not fire government workers on any significant scale. This pattern of adjustment implied a wholesale deterioration in the productivity of the government machine.

Government outlays on personal emoluments were cut substantially and real average earnings per worker fell by 16 percent during 1975-80. Relatively bigger reductions were imposed on staff at upper levels of the civil service, while those at the bottom received cost of living adjustments aimed at fully protecting their real salary levels. The 1980 salary of an undersecretary (a senior official) fell back to 51 percent of its 1967 level in real terms. The impact of this reduction was offset to some extent by housing and transport allowances, but the sharp downward adjustment affected morale adversely and reduced the government's capacity to fill vacancies.

GRAPH 8
ZAMBIA: GOVT.EXPENDITURE AND REVENUE, 1972-1980
(Million Kwacha - Constant Prices)



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Copper: The Sputtering Growth Engine

The role of copper mining had expanded enormously since the 1930s. By 1965, the mining sector (mostly copper) supplied 93 percent of exports, 71 percent of government revenues, and 40 percent of GDP. It was the economy's growth engine and it dominated both the Zambian balance of payments and public finance. Earnings from copper were heavily dependent on the fluctuating world market price, over which Zambian authorities had no control, and on the mining investment and production decisions of the foreign mine owners. During the first few years of independence, the government felt it had no choice but to continue the existing arrangement. Mudenda (1984) described this period as the "classical neo-colonial phase" in which the government adopted a *laissez faire* posture in relation to the multinational companies. This policy ended in 1968 with Kaunda's Mulungushi speech, which reflected considerable disillusionment with the behavior of foreign capital (Bostock 1972, p. 121). Nationalization took place on a large scale, but government still did not feel ready to touch the mining sector.

The switch in mining occurred, somewhat surprisingly, in 1969 when Kaunda announced at Matero the government's decision to acquire "full control" and proceed with mining development that, he alleged, had been blocked by foreign owners. However, in recognition of the government's continued dependence on outside sources for expertise, technology, and market access, the goal of "full control" was whittled down to buying 51 percent of the stock. Foreign minority shareholders were to provide management, marketing, and consultancy services for a fee. The government negotiated a deal in full awareness of its relatively weak bargaining position and the importance of securing full cooperation of its foreign partners (Potter 1971, p. 118). It is doubtful that the Matero decision significantly altered government control over copper mining.

Compensation amounting to US$179 million was to be paid to foreign shareholders in the form of unconditionally guaranteed bonds with an interest rate of 6 percent and a maturity of 12 years. These bonds were to be serviced out of dividends payable to the government by the copper company. In 1973, the government decided to redeem the bonds fully and to terminate all contracts for services with foreign mining companies despite the penalty of US$55 million.[9] The government had to borrow US$150 million from the Eurodollar market to finance these transactions The 1973 decisions reflected once again the government's dissatisfaction with foreign mining companies. According to Burdette (1984), arrangements negotiated in 1969 had become politically odious, and had to be altered without impairing Zambia's good faith or financial reputation. Now the government could participate more actively in decisionmaking than before. Since foreign shareholders were unwilling to proceed with the new investment required for rehabilitation, the government's equity had risen to 60 percent of the total by 1981. Mining operations were rationalized and Zambia Consolidated Copper Mines (ZCCM) was established.

At independence, the mining industry was dependent on expatriates at the technical and managerial levels. In 1971, Zambia Industrial and Mining Corporation (ZIMCO, which later became ZCCM), introduced the Zambianization policy and skilled jobs were fragmented and restructured, leading to cumbersome staffing practices and less clear-cut responsibilities. The government limited the expatriates' foreign exchange remittances and the terms of their job contracts: no expatriates could be contracted for more than three years. Expatriate employment in the copper industry dropped from 16 percent of the total in 1964, to 10 percent in

1971 and 3.5 percent in 1983. This policy led to inefficiencies in all aspects of mine operations: planning, maintenance, and production (World Bank 1977, pp. 46-47), and had to be reversed in April 1982. Under this revised policy, expatriates received compensation comparable to international standards along with a taxfree expatriation allowance. This was designed to attract and retain experienced expatriates to work for ZCCM.

The government was both a shareholder and a tax authority as it could draw resources from the copper sector in the form of both dividends and taxes. Its overall policy in this matter was never defined clearly; coordination between the Finance Ministry, responsible for taxes, and the Mining Ministry, which participated in ZCCM board meetings to determine dividends was poor. The tax regime consisted of royalties, an export tax (beyond a copper price of K600/ton), and the corporate income tax. The total burden ranged between 59 percent of taxable income at relatively low copper prices and as high as 92 percent at very high copper prices. This regime was altered significantly after the government acquired 51 percent of the stock: the royalty and the export tax were dropped, a mineral tax was introduced, and the company remained liable for corporate taxes. The total burden amounted to about 75 percent of taxable income. After tax profits as a percentage of total assets declined from 22 percent in 1974 to 9 percent the following year, after the sharp fall in copper prices. The rate of profit remained rather low throughout the rest of the 1970s and the early 1980s. Losses were incurred in 1982 and 1983.

Zambia seemed to be losing its comparative advantage in copper. Real costs per ton rose at a rate of 2.7 percent per annum during 1972-76. The problems facing the copper mining industry were as follows:

- The steady decline in grade of ore reserves. In 1973, 43 tonnes of ore yielded 1 tonne of finished copper, while in 1983, 53 tonnes of ore were needed to produce the same amount of finished copper. Ore reserves are expected to be sufficient to maintain present levels of copper production for only about 17 years. Production is likely to drop sharply thereafter.
- The rising costs of mining owing to growing physical difficulties (for example, having to mine at greater depths, flooding).
- The mines' inability to deliver a suitable grade of ore, which led to underutilization of concentrators, smelters, refineries, and other metallurgical plants.
- The weakness of management and supervision, which resulted in decreased productivity over the years, from 12.3 tons per worker in 1973 to 11.7 tons in 1977 and 9.7 tons in 1981.

These difficulties in the copper industry constitute an important part of the overall problem confronting the Zambian economy. The government's initial response was to try to maximize gross foreign exchange revenues. It emphasized quantity of exports rather than cost minimization and efficient production. The implicit assumption seemed to be that an extra dollar earned through copper exports was worth having no matter what the cost in terms of imported inputs or domestic resources used in earning that dollar. This posture made it possible to accommodate the demands of the Mineworkers' Union of Zambia (MUZ), which was opposed to closing down unprofitable mines. Nevertheless, mining output declined slowly throughout the 1970s (table 1).

Policy Bias Against Agriculture

Although Zambia had plenty of uncultivated land of reasonable agronomic potential, its production performance had been disappointing (table 1). In 1964-66, Zambia had produced 97 percent of the staple grains it consumed, but by the end of the 1970s, the proportion had fallen to 79 percent and dependence on imports had increased. Export crops had also languished. The production of Virginia tobacco, the largest export crop, stagnated during 1965-74 and fell at a rate of 10 percent per annum during 1975-84.

Although other factors contributed to this situation, it was largely a result of the policy framework. The government's declared intention, repeated on many occasions, was to promote agricultural and rural development, but two facts suggest that this did not happen in practice. First, agriculture received only 6.6 percent of total fixed investment during the First Plan (1966-70). This proportion fell to 5.2 percent in the Second Plan. During 1975-80, only 3 percent of total government expenditure went to this sector. Second, the terms of trade of the rural areas (in relation to urban) deteriorated by 54 percent during 1964-73 and by a further 23 percent since that time (ILO 1981). The government fixed the producer prices of most major crops, and their level remained well below border price equivalents (table 5). Meanwhile, the prices farmers paid for locally manufactured consumer goods reflected the high protection against imports the government had given to the industrial sector.

The government's aim in determining maize prices was national self-sufficiency. The government determined the producer price of maize on the basis of commercial farmers,[10] production costs, including a "reasonable return" to the "average farmer." In the mid-1960s, maize farmers (on the rail line) obtained a price slightly above the border price (table 5). This situation had deteriorated sharply by 1970/71, at which time the government guaranteed producer prices implied a tax of 51 percent. The early 1970s witnessed substantial improvement as nominal producer prices were raised and fertilizer inputs were subsidized. The implied tax rate (net of fertilizer subsidy and based on official exchange rates) was reduced to 6 percent by 1974/75. The only crops that received something approximating border prices in 1974/75 were Virginia tobacco and wheat. Jansen (1988) found that the overall impact of government price policies on crops and inputs (as well as the effect of an over-valued kwacha) was a high and rising rate of taxation of all farmers.

Until 1970/71, government policy was to fix these prices on a differentiated basis for each province, but in that year the government decided to adopt the principle of uniform pan-territorial and pan-temporal (over the season) prices. This switch was made under the rubric of "equity" considerations, and was also aimed at bringing traditional subsistence farmers into the cash economy. The main beneficiary was the Eastern Province, a normally surplus area (Jansen 1977). The government bore the transport cost of shipping the surplus over 600 kilometres to the main consumption centers.

The main objective of policy was to assure a regular supply of food at low prices for the copperbelt and urban areas. Large-scale commercial farmers and medium to large-scale emergent farmers were the main source of locally produced food for the cities. The much more numerous group of traditional farmers was neglected. The major elements of government policy was as follows:

- The National Agricultural Marketing Board (NAMBOARD) was established in 1969 with a near monopoly in the marketing of maize and

Table 5. Nominal Rates of Protection for Crops, Selected Years
(percent)

Product	*1965/66*	*1970/71*	*1974/75*	*Average 1965/66-1974/75*
Maize (line of rail)	3	-51	-27	-26
Maize (line of rail)[a]	3	-51	-6	-21
Confectionary groundnuts	-51	-17	-26	-32
Oil-expressing groundnuts	-17	-27	-47	-19
Cotton	-24	-17	-13	-24
Sunflower seeds	-48[b]	-26	-31	-37
Soya beans	-43[b]	3	-43	-39
Virginia tobacco	0	17	0[c]	4
Sorghum	-21	-30	-41[c]	-29
Wheat	9	27	7	6
Rice	-59[d]	-26	-23	-28
Weighted average	1	-49	-27	-25

Note: All figures are based on official exchange rates.

a. Net of fertilizer subsidy.
b. 1966/67.
c. 1973/74.
d. 1967/68.

Source: Jansen (1977).

fertilizer. In the later 1970s, government promoted Provincial Cooperative Unions (PCUs), which operated in parallel with NAMBOARD. The PCUs' transport, storage, and other marketing costs were to be borne by the government. These costs were much enhanced by the pan-territorial pricing decision of 1970/71. Rules for financial management of NAMBOARD and the PCUs were not defined, thereby undermining incentives for cost effectiveness and providing ample opportunities for graft.[11] The government viewed these organizations as instruments for achieving the politically important aim of a low-cost maize policy. The government felt it could intervene in their operations even if this undermined the PCUs' autonomy and morale. Kydd (1986, p. 249) concludes that: "The transfer of responsibility to cooperatives swiftly developed into a disaster." "...the cooperatives exhibited worse mismanagement and corruption than had been experienced under NAMBOARD...."

• The government subsidized the consumer price of maize. The maize subsidy[12] was 11 percent in 1967, had climbed to 57 percent by 1971, and had declined to 38 percent by 1980 (Jansen 1988). The focus of government policy was much more on maintaining pan-territorial producer prices and on keeping consumer maize prices low (Kydd 1986, p. 247). Therefore, much of the time the size of the subsidy was a result of these other policies. Later on, the government tried to contain budgetary subsidies by deliberately underestimating marketing

costs, thereby precipitating recurring liquidity crises and breakdowns in marketing operations.

• Subsidies, (particularly on maize and fertilizer), and a variety of high cost settlement schemes and state farms accounted for the bulk of government outlays on the agricultural sector. Very little was left for agricultural research and extension efforts. The amount of subsidies rose from K1 million in 1965 to K205 million in 1980 (Jansen 1988).

The overall impact of these policies has been disastrous, even though the availability of maize to low-income households at subsidized prices may have reduced the incidence of malnutrition. This subsidy also stimulated the displacement of cassava and sorghum by maize in the pattern of consumption. Pan-territorial prices for maize and fertilizer have encouraged a shift in production towards maize at the expense of sorghum, cassava, confectionery groundnuts, and cotton; a shift that is inconsistent with local comparative advantage of various regions in Zambia (Jansen 1988). Pan-temporal prices have discouraged on-farm storage and shifted the burden to NAMBOARD at public expense. Subsidized fertilizer has led to its excessive use, mainly by large-scale and medium emergent farmers. Traditional farmers have not benefited from this subsidy.

Strategy for the Manufacturing Sector

The Zambian White Paper on industrial policy issued in 1964 opted for the capitalist road and placed considerable emphasis on foreign private investment as an instrument for an import substitution strategy. Just four years later, President Kaunda (speaking at Mulungushi) abandoned the reliance on overseas investors, charged them with exploitative behavior, and insisted that Zambia's humanist philosophy demanded group ownership. The Industrial Development Cooperation (INDECO) was established to operate 25 nationalized firms and others that would result from new public investment. During 1968-72, the ownership pattern was transformed from predominantly private to a situation in which the public sector produced more than 50 percent of output. The government played a leading role throughout the 1970s, both through direct investment and by forceful regulation of private firms via an elaborate battery of licenses, controls, taxes, and subsidies.

Another aim of the Mulungushi Reforms was to strengthen domestic entrepreneurs. Domestic trade, road transport, building materials, and government contracts of less than K100,000 were to be confined to "citizens." These measures were progressively tightened during 1968-72. According to Baylies (1982, p. 248) they were not a massive success: most black Zambians with limited resources did not gain much in the near term, but many government bureaucrats took advantage of the opportunities to acquire assets for themselves. These reforms were an example of indigenous businessmen lobbying for state action to further their group interest through the Zambian African Trader's Association. The association's pressure was a factor, but not a decisive one, in precipitating state action to exclude noncitizens from certain economic activities.

Value added in manufacturing rose rapidly till 1973, but then stagnated (table 1). Manufacturing consisted mostly of consumer goods, but metal products and chemicals (largely fertilizer and oil refining) were also prominent. The sector absorbed a large share of investment and imports. Almost all its output was sold in the home market. It, therefore, was, and continues to be, a large net consumer of foreign exchange. Total factor productivity (the efficiency in use of labor and

capital) declined at an average rate of 3.8 percent per annum during 1965-80; the only branches in which productivity increased were (a) leather products and footwear, (b) petroleum and coal products, and (c) rubber products (World Bank 1984c, p. 18).

The petering out of manufacturing activity and the decline in its efficiency are intimately related to the sector's policy framework, as well as to macroeconomic changes in Zambia. Given its general orientation to the domestic market and its heavy dependence on imported inputs and capital goods, one could hardly expect manufacturing to grow during a period when GDP was stagnating and the economy was facing a severe foreign exchange constraint. The inability of Zambia's manufacturers to penetrate foreign markets is the result partly of structural impediments (landlocked economy, shortages of local managerial and technological expertise, small home market), and partly of the incentives generated by the parastatal and trade regimes.

The orientation of parastatals was affected not only by general government policies (such as the exchange rate, foreign exchange licensing, interest rates, price controls, and compensation) but also by several organizational features and management practices peculiar to these firms. First, several new projects were selected without proper technical or economic screening. A good example is the second plant of Nitrogen Chemicals of Zambia (one of the INDECO companies). Construction started in 1975 with foreign financing and the plant became operational in 1982. Severe design and technological deficiencies prevented production from rising above 40 percent of rated capacity (World Bank 1986, p. 21). Other examples of this kind involve battery production, brickworks, sawmills, and automobile assembly. Second, the insistence on rapid Zambianization led to the appointment of people to key positions who did not have the proper qualifications and experience. Third, these managers and professionals were not allowed to stick to their posts for a reasonable time; instead they were shunted around from position to position. Consequently, learning on the job was undermined and the attitude of "milking the company" was widespread. There was no effective training program. Finally, overstaffing is a conspicuous feature of parastatals This became very obvious during 1975-80, when jobs increased twice as fast as the volume of production in the public sector while private firms shed workers more rapidly than their output fell.

The trade regime provided cascading effective protection against competition from imports. Up to 1975 the main instrument used was tariffs. Effective protection in that year was both high and variable (see table 6).

Tariffs on imports became subservient to quantitative restrictions and foreign exchange allocations at the end of the1970s. The hierarchy of protection portrayed in table 6 was not disturbed, but the variance of rates among products was greatly accentuated. An interministerial committee decided on allocation of import licenses to individual firms. These enterprises had a powerful incentive to corner higher allocations of foreign exchange and thereby to raise their profits by using more of their installed capacity. Management focus was on lobbying and other rent seeking activities during this period and not on improving productivity.

Clearly the trade regime was biased against exports of manufactures. High rates of protection made the home market much more profitable than foreign sales and allowed high costs to coexist with satisfactory financial performance. Despite these permissive conditions, financial returns (before depreciation) on net assets for the INDECO group declined from 12 percent in 1969/70-1971/72 to sizeable losses at the end of the decade.

Table 6. Effective Rates of Tariff Protection, 1975
(percent)

Category	*Unweighted average*	*Range*	
		Minimum	*Maximum*
Consumer goods			
—Food products	67.35	-21.65	240.17
—Other, nonfood	342.45	-1.06	1,251.10
—Durables	472.87	116.79	1,018.48
Light intermediates	182.49	-1.18	505.52
Heavy intermediates	29.77	-7.84	85.29
Capital goods	59.71	-11.78	407.03
All goods	160.90	-21.65	1,251.10

Source: World Bank data files.

Zambia's organizational climate and incentive structure has produced a set of manufacturing activities that vary considerably in terms of international competitiveness. Some food items, wood and wood products, textiles, and metal products are competitive. Other large segments of manufacturing operate at low levels of efficiency, and some activities are so crippled by design problems that they cannot expect to become competitive (World Bank 1984c, p. 41-45).

2

Impact of Politics and Public Administration on Economic Policy in Zambia

The discussion starts by outlining the main political trends. The implications of these trends for the making of economic policy and its implementation, are examined. The chapter ends by focusing on how politics has influenced the content of economic policy.

Political Trends

Zambia was extremely ill-equipped, both politically and administratively, when independence arrived in 1964. According to Molteno (1974, p. 81), the liberation struggle had been dominated by the "color" issue, which submerged all other divisions between people who lived within the boundaries of the new state. However, the development of copper mining since the 1930s had created massive economic differences among different parts of the country, and these sectional interests and allegiances surfaced and created political divisiveness in the postindependence period.[13] The colonial legacy also meant that Zambia embarked on independence with only about 100 university graduates.

The constitutional structure inherited at independence was based on the multiparty model, even though President Kaunda was said to have seen the establishment of parties other than the United National Independence Party (UNIP) as a "failure" (Tordoff 1974, p. 367). During the First Zambian Republic (1964-72), elections were held, supervised by judicial commissions, with credible results. According to some scholars, the state used patronage as an instrument for promoting UNIP and discriminating against opposition parties.[14] The Second Zambian Republic was established in 1972 and UNIP became the only legal political party. The new party constitution asserted the supremacy of the party over the government. Election of members of parliament continued to be keenly contested in the Second Republic. Members of the Central Committee, however, were elected by a selected group of 6,000 party members at the district and branch level rather than by primary voters. No one opposed Kaunda in the presidential elections.

During the early years of the First Republic, President Kaunda coped with sectional conflict by practicing the "politics of accommodation."[15] These conflicts were reflected in interparty competition, as well as in schisms within UNIP. A trend toward presidentialism had already started in the late 1960s, and became stronger after the Second Republic came into being. Jackson and Rosberg (1982) classify Zambia as a "princely" state within the broader rubric of "personal rule."

The Policy Decisionmaking Process

Economic policy decisions in the early years after independence were made by the president after consultation with cabinet and party colleagues, including key civil servants. The politicians who were part of the policy circle tended to represent sectional and ideological interests in the UNIP. Right from the start, President Kaunda took the initiative on policy matters. He was the author of the critical nationalization reforms of the late 1960s, which were not discussed in the cabinet[16] (Gertzel et al. 1984, p. 13). His capacity to intervene forcefully and get the government apparatus to carry out his will was at an all time high immediately after independence. He was the hero of the liberation struggle and he commanded universal respect, and even awe. According to Hatch (1976, p. xiii):

> Kenneth Kaunda and Julius Nyerere will be measured by historians alongside Gandhi and Nehru, Kenyatta and Nkrumah, Senghor, Houphouet-Boigny, and Toure, Castro, Bustamante, Manley and Williams, Mao and Lee Kuan Yew. They are mid-twentieth-century nationalist leaders who have won their fight against colonial rule and then taken responsibility for pioneering their new states' governments. Their names will rank high in the anti-imperialistic honors, each contributing his unique strategy to the battle against colonialism; but Kaunda and Nyerere will be judged more significantly as statesmen offering original policies on the national and international scenes.

The policy circle diminished in size as the trend toward presidentialism acquired momentum.[17] Kaunda assembled around him a coterie of influential advisers in State House and made major decisions outside the normal civil service machine. He resorted to frequent reshuffles of people in key government and party positions. He would give support sometimes to "national politicians" who had been his associates during the liberation struggle, and at other times to Western-educated "technocrats" (Burdette 1984). On occasion he would back individuals whose ideological orientation was socialistic and Moscow-oriented, but soon he would switch sides and support other factions who had a relatively pragmatic, or Western business-oriented, outlook.

Economic policy was determined much more by historical, ideological, and political factors than by systematic economic analysis. First, was the ideology of the freedom struggle and nationalism. Historically, the blacks had been at the bottom of both the political and economic hierarchy while the whites had been the dominant group. Political independence was seen as the opportunity to change the economic stratification and power relationships (Tordoff 1974). Next, President Kaunda defined his strategic vision for Zambia in the form of the philosophy of humanism in 1967 (Hatch 1976, pp. 214, 215, 233). He wanted to transform the society and make it "man- centered." This involved (a) reducing the gap between urban and rural standards of living, (b) ensuring that gaps in wealth and income between foreigners and citizens were reduced, and (c) redistributing economic power among Zambians in favor of the "poor and the weak."

There was an acute scarcity of Zambian professional economists throughout the 1970s. Expatriates were employed on relatively short contracts, mostly in the NCDP. In 1975, for example, the ratio of expatriates (mostly macroeconomists) to locals (mostly at very junior levels) was 21:4 (Giles 1979, p. 229). Almost the only function of these NCDP economists was to prepare a series of Five-Year Development Plans, which had very little real impact on actual government

programs and policies. There was no common economic service and little cross-fertilization among economists from different ministries. Although the government attached a great deal of emphasis to the preparation of formal plans that aimed at defining a coherent development strategy, little coordination in economic policy was achieved in practice.

Zambian authorities had access to a series of macroeconomic and sectoral economic analyses performed by the Bretton Woods institutions throughout the 1970s. Although these reports and the dialogue prompted by them must have had some impact on Zambian policymakers, the voices of the IMF and the World Bank clearly did not command much attention on a number of key issues. As early as 1972, the Bank had urged the government (in the context of the First Program Loan) to reverse the sharp deterioration in the terms of trade of rural areas by (a) restraining urban wages, (b) eliminating subsidies on agricultural products that benefited urban dwellers, and (c) adjusting the structure of incentives to diversify production and exports. The government announced substantial consumer price increases in November 1974, but it was forced to roll them back because of political pressure from the trade unions. The government also started restraining the wages of miners and civil servants, but in 1975 it had to alter course as a result of political pressures. The government made moderate increases in agricultural producer prices, but these fell far short of what was required.

Again in 1976, the Bank pressed a number of policy proposals on Zambia in the context of a second program loan. These were (a) strengthening of key agricultural institutions, (b) assuring adequate levels of agricultural producer prices, (c) curbing recurrent government outlays (except for agriculture) and funding them exclusively from nonmineral revenues, and (d) establishing a development equalization account in the Bank of Zambia aimed at stabilizing government capital expenditures. All these measures aimed at securing diversification in the structure of production, and thereby decreasing the economy's instability. Diversification was to be achieved by adopting a two-pronged strategy for rural development spelled out in a Bank report, *Agricultural and Rural Development Survey*. Increases in farm output were to be secured in the short run though price adjustments and in the long run through a transformation of traditional farmers. The government responded by raising agricultural producer prices, but the magnitudes were insufficient. The government also succeeded in reorienting the ministry dealing with agriculture, but failed to strengthen its staffing. The aim of decentralization could not be achieved and the government found raising recurrent outlays for the agriculture sector impossible. It did not establish the development equalization account.

The Policy Implementation Process

Zambia has made impressive progress in many development fields relative to the starting point at independence. Many of the goals set by the government have been frustrated, however. Kaunda's philosophy of humanism can be regarded as policy doctrine at an abstract level. The quantitative targets of a series of five-year national development plans drawn up by the government constitute more specific sets of policy decisions. The record of implementation, compared against these policy yardsticks, is not a reassuring one. The shortfalls are the result of first, adopting ambitious targets that frequently were not internally consistent or commensurate with available resources. Second, although policy decisions were

formally adopted, they did not embody a critical minimum consensus required for implementation. Third, the public administration system suffered a drastic deterioration, thereby reducing the government's capacity to implement policies.

The point about lack of consensus can be illustrated by considering the attempt to promote rural development. This was a prominent component of Kaunda's humanism and a recurring objective of Zambia's development plans. Rural development programs came to naught because of the ascendancy of urban interest groups, namely, local business groups, civil servants, and formal sector workers. It is ironic that Kaunda's philosophy denies the existence of classes. Indeed, others have also argued that owing to the prevalence of extended family arrangements and notable social mobility in Zambia in the mid-1960s, class was not relevant in explaining political behavior (Molteno 1974). This thesis, it seems, is no longer valid. A new urban middle class has emerged since independence (Gertzel et al. 1984). It is not well organized politically, and it contains a number of subgroups with partly conflicting economic interests, but despite these differences, this new middle class has prevented a forceful policy of rural development.

Another illustration can be drawn from wages and incomes policy. The unification of pay scales of black and white workers was part of the ideology of the liberation struggle. Strong bonds had developed between the Mineworkers' Union of Zambia (MUZ) and the UNIP during this struggle. Brown Commission recommendations enabled UNIP and the government to fulfill a promise to the MUZ by raising wages. (The Brown Commission was a government body set up to report on incomes policy.) The government's posture was also influenced by the prevailing competitive multiparty system and by the strength of MUZ as an effective organization working in an activity of strategic importance to the economy (Gertzel 1975, p. 292). Although the government allowed this wage hike, it was trying unsuccessfully to control trade unions, not only in the interest of national economic development, but also to avoid the emergence of a competing power center. It passed legislation in 1965 and 1971 aimed at increasing control over industrial relations and union leadership. The government tried to educate the workers and to co-opt union leaders. This approach succeeded in developing closer relationships than before between headquarters officials of the unions and the government, but at the cost of growing alienation between branch level and headquarter's officials of the unions.[18]

After the collapse of copper prices, government policy aimed at wage restraint and the reduction of consumer subsidies. In 1974, the Zambia Congress of Trade Unions organized vigorous demonstrations along the copperbelt and in Lusaka opposing increases in the prices of bread, cooking oil, and other items. As a result, the government revoked these increases (Gertzel et al. 1984, pp. 90-91). Nevertheless, real wages declined in the late 1970s, exacerbating differences between UNIP and the trade unions. A number of wild cat strikes took place toward the end of the decade, forcing the government to detain union leaders (Meyns 1984). Although Zambian workers as a whole were not a well-organized pressure group, copper miners were a relatively homogenous subcategory that had the capacity to disrupt or delay the implementation of government economic policies that they perceived as a threat to their interests.[19]

Zambia's public administration system at independence was much more underdeveloped than in other former British colonies (Lungu 1980). Ghana, for example, had Africans in 60 percent of senior civil service posts at independence, compared to 4 percent in Zambia. Furthermore, Zambia had no university and a

shortage of training facilities for civil servants. Despite this severe handicap, the government pursued a policy of very rapid Zambianization and an extraordinary expansion of the entire government personnel establishment. The latter increased at a rate of 18 percent per annum during 1964-69. Also, by 1969 most senior posts were staffed by Zambians. During 1964-74, the civil service increased six-fold and became almost fully Zambianized (Bwalya 1986). These policies lowered very sharply the standards of the civil service. For example, 67 percent of mid-level civil servants did not even have secondary school qualifications in 1969. Building up the stock of human capital and upgrading the formal educational qualifications of civil servants took many years. Zambia continued to suffer, nevertheless, from a serious shortage of high quality professionals and managers throughout the 1970s (Bwalya 1986). A survey concluded that 38 percent of those in supervisory posts lacked sufficient qualifications, and that such deficiency was even greater at higher levels of management (Zambia, UNDP, and ILO 1977).

During the First Republic (1964-72), Zambia aimed at maintaining a civil service based on the principles of merit and impartiality. Government employees were barred from participating in politics. An independent public service commission was established to recruit, promote, transfer, and dismiss. Nevertheless, exceptions began to be made to these principles and the trend acquired momentum over time (Lungu 1983, p. 367). By 1972 most senior positions in the civil service had been declared "political" and excluded from the purview of the public service commission. The new constitution of the Second Republic allowed civil servants to participate in politics. Most of the responsibilities of the commission were transferred to the president (Lungu 1983, p. 367).[20]

Many observers have drawn attention to the weakness of Zambian public administration. The Commission of Enquiry into Zambian Railways, which reported in 1978, confirmed the prevalence of tribalism, corruption, and nepotism. (Although some observers claim that these conclusions of the commission were irresponsible.) The Committee on Parastatals, appointed in 1978, failed to get documents such as audit reports and annual reports, thereby highlighting the lack of administrative responsibility in the public sector (Woldring 1984). (Again, some Zambian authorities question the working methods and conclusions of this committee.) According to Mudenda (1984), national aspirations were sacrificed on the altar of personal enrichment and careerism. According to Lungu (1983, p. 370): "Basic standards of probity in the public service have slipped. There is much corruption and illicit dealings."[21]

The history of the Zambian cooperative movement was instructive in this context (Scott 1980). Soon after independence, President Kaunda assigned a key role to cooperatives in promoting rural development. In the first five years, the government spent a great deal on cooperatives by historical standards, and the number of such societies increased five-fold. However, this policy turned out to be a dramatic failure, and by 1973 the government had acknowledged this outcome. The president's idealistic views about how cooperatives could be an instrument for realizing traditional values and for containing class conflict seemed to have mutated during the implementation process. Many politicians saw cooperatives as a "device for retaining local level political support" (Scott 1980, p. 231). Party officials "... emphasized the personal financial benefits that might be obtained from forming cooperatives and suggested that these benefits were a consequence of the role UNIP officials had played in winning independence" (Scott, 1980, pp. 232-233). Furthermore, the failure of cooperatives to achieve Kaunda's original aims also reflected the scarcity of professional and administrative skills.

The Impact of Political Parameters on Policy Content

Zambia's economic policy profile was transformed during the 15 years following independence. Many factors contributed to this outcome, including the dramatic change in the country's international economic environment, particularly the collapse in the world copper price.

The momentum of nationalism acquired during the independence struggle, including the salience of the color issue, was a powerful political parameter. Its impact was reflected in (a) nationalization of foreign (white) firms, (b) rapid Zambianization of government and parastatals posts, and (c) exclusion of noncitizens from several economic activities. Considerations of static economic efficiency did not receive much attention in decisions to make these moves. There was a great deal of confidence that efficiency losses in the short run would be offset before long as Zambians acquired experience and familiarity with their new jobs. In any event, political independence was expected to be a prelude to Zambians acquiring economic power. The state was regarded as an instrument for helping citizens to secure higher incomes and the associated status.

The emergence of an urban middle class has already been noted. Only 24 percent of the total population was urban in 1964, but it was this group that led the national liberation struggle. Besides, mining workers were already well organized even before independence. It is this political reality that helps explain the centerpiece of agricultural policy—to assure cheap maize meal to the cities—and the pursuit of industrialization based on protection against imports for the domestic market. The urban middle class was the main beneficiary and the terms of trade of rural areas deteriorated enormously. Traditional farmers scattered over the countryside, fragmented by language and ethnic barriers, found it difficult to organize to protect their collective interest. Members of parliament tended to be elitist and showed little interest in mobilizing the rural population (Gertzel et al. 1984, pp. 11-12). Faced with deterioration in economic conditions and with neglect by politicians, many rural workers migrated to the cities.[22] By 1980, 48 percent of the population was urban.

Kaunda wished to transform the Zambian body-politic saddled with sectional conflicts into a humanist society, but he had to compromise. The political need to assuage various client groups led the state to expand public expenditures very rapidly in the immediate post- independence period. Given the orientation of the political leaders and the civil service, it was no surprise that these outlays showed a marked urban bias, and in many cases financed projects that were economically not viable. These political realities also help in comprehending why it was much easier to expand outlays when the terms of trade were good than it was to cut back when international conditions deteriorated. The soft option of running down reserves and borrowing externally commended itself to policymakers, thereby postponing the politically costly alternative of retrenching public expenditures.

3

Policy Response in the 1980s

Given the context described, understanding why Zambia found it impossible to respond quickly and effectively to economic and financial difficulties is easy.[23] Efforts were made to stabilize the economy in May 1973, July 1976, and April 1978 by negotiating IMF stand-bys. World Bank program loans were also undertaken in 1973 and 1976. In May 1981, an IMF Extended Fund Facility was negotiated for three years, but the agreement broke down in July 1982. None of these operations succeeded in getting to grips with the fundamentals. Meanwhile, the crisis deepened, Zambia's indebtedness rose sharply, and the situation became desperate.

A decisive change in the policy climate took place in October 1983 following the general and presidential elections.[24] Luke Mwananshiku was appointed finance minister. Earlier he had served as governor of the Bank of Zambia, but had to resign in the midst of controversy about economic policy. The mandate of the Finance Ministry was expanded to include the functions of the NCDP, thereby resolving the long-standing friction between these two core economic agencies (see section on Inefficiency of the Public Sector). Mwananshiku acquired an enhanced status in the cabinet. A number of other changes were made, but the president did *not* prepare for radical reforms by a wholesale change in the cast of policy actors in the central committee, cabinet, and civil service. He did, however, lead a campaign to prepare public opinion for the policy changes and to build a national consensus. Week long meetings were held in each provincial capital to listen to complaints and to hear suggestions for improving the economy's performance.

The government recognized the need to carry out a wide-ranging reexamination of economic policies and institutions at the macro and sector levels. It invited the World Bank, the Netherlands government, and the ILO to conduct studies on a variety of key issues so that a series of policy packages could be formulated over a number of years. The government realized that it did not have the capacity to design and implement an economywide, comprehensive package, and therefore adopted a piecemeal, sequential approach. Against the background of a series of stabilization programs negotiated with the IMF (and agreements with donors and creditors), the Zambian government worked out policy packages with the World Bank, first for mining, then agriculture, and finally manufacturing. The following sections examine these reforms and attempts to assess the extent to which lapses in implementation were the result of (a) technical weaknesses in the design of policy packages, (b) lack of sufficient support from donors and creditors, and (c) absence of firm commitment from political leaders and the bureaucracy. The IMF and the World Bank played a major role by defining the agenda, doing much of the preparatory analytical work, and setting the parameters of the discussions. A chronology of policy agreements follows.

April 1983:	IMF stand-by agreement (12 months)
May 1983:	Paris Club agreement on debt restructuring
March 1984:	World Bank export rehabilitation (copper) and diversification loan
May 1984:	Consultative Group agreement on external aid
July 1984:	IMF stand-by agreement (21 months)
July 1984:	Paris Club agreement on debt rescheduling
December 1984:	London Club Commercial Bank debt restructuring
January 1985:	IDA/World Bank agricultural rehabilitation project
June 1985:	Consultative Group agreement on external aid
October 1985:	Government announcement of foreign exchange auction and import liberalization
December 1985:	Consultative Group agreement on external aid
October 1985:	IDA industrial reorientation credit
February 1986:	IMF stand-by agreement (24 months)
March 1986:	Paris Club agreement on debt restructuring
June 1986:	IDA Recovery Credit
December 1986:	Consultative Group agreement on external aid

The Search for Stabilization

The main thrust of the 1983-86 reforms was to regain financial balance by curtailing aggregate demand, particularly government outlays. Three stand-bys were negotiated. Not even one was wholly successful. Long periods separated the breakdown of one agreement and the putting into place of the next one, largely due to disagreement on exchange rate policy. Finally, a courageous policy experiment in the auctioning of foreign exchange was launched, but could not be sustained for reasons spelled out later. The international actors—the IMF, the donors, and the creditors—did not behave in a concerted manner, and the government's attempt to involve the trade unions failed.

The major targets and actual results of the April 1983 IMF stand-by were as follows:

- The current account deficit on the balance of payments was to be reduced by 10 percent in current prices, involving a 13 percent contraction of imports and a 14 percent expansion of exports. External commercial payment arrears were to be reduced by SDR30 million and arrears on rescheduled debt service payments were to be avoided. The kwacha was to be devalued by 20 percent and a flexible exchange rate policy instituted. The program visualized no increase in real GDP.

- The kwacha was actually depreciated by 35 percent. It was devalued by 20 percent against the SDR in January 1983 and in July it was delinked from the SDR. In the following period it was depreciated gradually against a basket of six currencies. Exports rose by less than 2 percent in 1984, both because copper prices fell and because of volume shortfalls. Imports declined by 26 percent. External payment arrears could not be reduced and there were shortfalls in meeting rescheduled debt service.

- Targets related to public finance included reductions in government expenditure (particularly subsidies) and the imposition of new taxes. There was to be no general wage increase and no net increase in employment. All these goals were met.

- There was to be a 10 percent wage ceiling, which provoked a protest from trade union leaders (Lungu 1986, p. 402). The government decided to persuade these leaders and involve them in the negotiations, and invited four union leaders to join the ZIMCO board. Finally, these leaders accepted the wage ceiling while the government agreed not to cut back mining jobs, even though the mines had been running at a loss (Legum 1985, p. B872).

Zambia fulfilled most of the trigger conditions of the 1983 stand- by and qualified to draw from the IMF. However, owing to the nonfulfillment of targets relating to the retirement of arrears, the government did not qualify for drawing down the final tranche.

Another standby was negotiated in July 1984, and once again Zambia failed to comply with all its provisions despite serious efforts to do so. The budget deficit was to be reduced from 6.9 percent of GDP in 1983 to 5.2 percent in 1984. The government succeeded in keeping expenditure within agreed limits. Maize and fertilizer prices were doubled and budget subsidies reduced correspondingly. The target was to raise budget revenues by 15 percent, but significant delay in implementing agreed measures led to a sizeable shortfall: revenues only rose by 9 percent and the budget deficit turned out to be 7.3 percent

The story on the balance of payments was somewhat different. The aim was to let the current account deficit rise somewhat since the terms of trade were expected to deteriorate by 12 percent and copper production was also expected to decline. The IMF and the government recognized that commercial payment arrears could not be reduced, but arrears under debt rescheduling agreements were programmed to be reduced, including SDR20 million through cash payments. Actually, the terms of trade deteriorated by 13 percent. Even so the current account deficit, as a proportion of GDP, fell short of the target largely because of a shortage of finance with which to bring in the programmed volume of imports. Despite efforts made to mobilize external support through the Consultative Group, the response from several bilateral donors was less than adequate. Also, the Paris Club required Zambia to pay much more in debt service than had been visualized in the financial program presented to the Consultative Group (Jaycox et al. 1986). Under these circumstances, arrears could not be reduced as agreed in the stand-by; instead new arrears began to accumulate vis-a-vis bilateral and multilateral creditors.

The stand-by program was for 22 months, but it was suspended in April 1985. The precariousness of the foreign exchange situation had persisted throughout 1984, and the situation became desperate when the line of credit from commercial banks for the import of oil was endangered. The government was committed to allocate US$350 million to the ZCCM for its import needs, but was under pressure to divert foreign exchange to other uses. Furthermore, a wage award of 18 percent to unionized African workers in April 1985 (retroactive to November 1984) exacerbated the situation. Relations with trade unions had remained tense despite the reconciliation that took place in 1983, and at the end of 1984, sharp increases in the prices of essential goods caused a major rift (Legum 1985).

The year 1985 was a year of both deprivation and disappointment, as well as a year in which the reform process got into top gear. Both the credit and foreign exchange markets were liberalized, radically changing the entire framework of macroeconomic policy. In addition, the government made important decisions to reform industrial and agricultural policies (see last two sections in this chapter). Commercial bank interest rates on deposits and loans were decontrolled in September 1985. This deregulation was a prelude to the establishment of the foreign

September 1985. This deregulation was a prelude to the establishment of the foreign exchange auction. The nominal lending rate had stood at 9.5 percent untill 1982, and had been raised to 14.5 percent by 1984 in a series of policy moves. After being deregulated it rose to 24.4 percent in the last quarter of 1985. The idea was to operate monetary policy through the treasury bill market and floating interest rates. However, concern about the adverse impact of high interest rates on agricultural production led the government not to use the treasury bill market in the first half of 1986. This market was reactivated later and commercial bank lending rates edged up to about 35 percent in the third quarter.

Experience with the Auctioning of Foreign Exchange

The move to a market determined exchange rate in October 1985 was a bold one. It followed a number of steps as already described, each of which had proved to be very controversial and had led on a number of occasions to a breakdown of negotiations with the IMF. The government felt that one major advantage of the auction would be to "depoliticize" the issue. There was very little experience with such regimes, particularly in Africa. The Zambians launched this experiment with a great deal of concern about how it would affect different sectors and various interest groups. In particular, it was feared that some very influential elements would lose in the process of dismantling foreign exchange rationing, and that the Asian community would get increased access to the scarce foreign exchange. The auction proved to be short-lived and had a tortuous history.

The exchange rate jumped from K2.20 to K5.01 to the U.S. dollar at the very first auction. It averaged K6.04 during October and November and then appreciated to K5.74 in December. Throughout the first half of 1986, the kwacha depreciated untill it reached an average of K7.37 in June. The next quarter saw some appreciation. Toward the end of 1986, the kwacha resumed its depreciating trend reaching the level of K15 per U.S. dollar in December 1986. It touched a peak of K21 per dollar in 1987. The auction was suspended in February 1987, revived for a brief interval, and then abandoned in May.

To understand these movements, we must search for factors that determined the supply of foreign exchange for the auction, as well as those governing demand. The government had intended to allocate about US$5 million for each weekly auction, but the actual amount allocated was fairly erratic (Ncube et al. 1987, Appendix VIII) reflecting the exigencies of the overall balance of payments situation and the technical weakness of the Bank of Zambia. When the government decided in February 1986 to extend the scope of the auction to include oil imports and some other foreign exchange payments, it planned to raise weekly allocations for the auction to US$9 million. However, actual allocations fell far short of this level in most weeks, which helps explain the depreciation during the first half of 1986. Also important in this context was the build up of liquidity in the economy, which fueled demand for foreign exchange. Importers feared that (a) the auction would not survive, (b) tariff duties on consumer goods would be raised, and (c) geopolitical developments in Southern Africa would impede the smooth flow of goods. These fears caused them to stock up on imports while the going was good.

Meanwhile, Zambians who were skeptical about the auction contended that inessential imported goods were coming in and large bidders (foreign enterprises) were cornering the limited foreign exchange.[25] They alleged that many of these large bidders could not prove that they had paid their taxes or that

they had brought in genuine goods from verifiable sources. In August, the government introduced a "Dutch auction" system (where successful bidders paid the rates they had quoted in their bids instead of the marginal rate at each auction). The government also increased the reserve ratios of commercial banks and required that importers deposit 20 percent of their bid in kwacha.

To some extent, the kwacha appreciation in July to September 1986 was caused by the new rules of the game, which reduced demand for foreign exchange. This appreciation was also the result of the government's decision (which is very difficult to understand) to announce that extra foreign exchange would be pumped into the auction. As much as US$21 million was going to be allocated to the 43rd auction, US$10 million in the following week, US$14 million in the 48th week and US$10 million again in the following week. In reality, the government was unable to honor these allocations and buyers had to queue up and wait for the Bank of Zambia to authorize the use of foreign exchange long after they had purchased it.

The manufacturing sector was in a much better position to benefit from the auction than agriculture. (Allocations to the ZCCM were made administratively at the auction determined exchange rate.) One study showed that the manufacturing sector bought US$134 million worth of imports during the first year of the auction, mostly for intermediate goods, spare parts, and replacements for worn out machinery (Ncube et al. 1987, Appendix VII). Since manufacturers prices had been decontrolled, they could pass on the rising costs of foreign exchange to their customers. Private firms did considerably better than parastatals, many of which had difficulty securing kwacha loans from the banks. Within the private manufacturing sector, multinational firms or joint ventures between foreign and domestic parties did relatively better in obtaining the kwacha funds required to buy foreign exchange than small Zambian-owned enterprises, according to some observers. By contrast with manufacturing, the agricultural sector did poorly. It only obtained US$19 million of imports during the first year. Its capacity to purchase imports was limited by the scarcity of kwacha funds arising from controlled producer prices and by other factors. These intersectoral differences could have been anticipated in determining the technical design of the auction.[26]

Zambia negotiated yet another standby in February 1986, but since it did not survive very long, its provisions need not be spelled out. Suffice it to say that many of the performance criteria of the stand-by had already been breached by March 1986. Domestic demand pressures intensified as monetary policy acquired an accommodating stance. Credit expanded by 52 percent, compared to the stand-by target of 15 percent. The budget deficit climbed to 35 percent of GDP and consumer prices rose by 50 percent. Acute foreign exchange difficulties led to external borrowing on commercial terms in violation of the stand-by and new arrears accumulated. Remember that these acute financial pressures coexisted with a declining real economy.

Aid Mobilization and Debt Relief

The World Bank and IMF made strenuous efforts during 1983-86 to make their own funds available to Zambia and to mobilize aid and debt relief from others to support the intensive reform process. The World Bank Group responded to the policy turnaround in Zambia by raising the share of IDA in the IBRD-IDA blend of loans and by increasing the amount of loan commitments (table 7).

However, it took a number of years for disbursement to catch up with service payments on outstanding debt. In addition to raising commitment levels, the Bank Group convened meetings of the Consultative Group of donors in May 1984, June 1985, December 1985, and December 1986.

Table 7. Zambia: Gross Commitments, Net Resource Transfers, and Volume of Imports, 1980-86
(US$ Millions)

Source	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*
			Gross Commitments				
World Bank Group	40	26	61	20	97	129	70
IMF	90	424	38	186	151	0	122
Bilateral: ODA	291	277	271	120	213	240	307
Bilateral: other	28	6	33	9	13	0	18
Commercial banks	156	76	176	37	43	23	12
Suppliers credits	209	72	10	9	13	0	0
Total (all sources)	*897*	*992*	*709*	*509*	*576*	*434*	*529*
			Net Resource Transfers				
World Bank Group	-18	-23	-17	-20	-15	63	62
IMF	7	337	-109	10	21	-49	-22
Bilateral: ODA	379	263	289	230	237	252	349
Bilateral: other	2	-5	-17	-11	-8	0	42
Commercial banks	-30	-68	30	65	54	38	3
Suppliers credits	119	51	10	-22	-17	0	-6
Total (all sources)	*512*	*602*	*206*	*257*	*332*	*312*	*428*
			Volume of Imports (1980=100)				
Index Number	100	99	80	70	61	70	63

Source: World Bank data files.

Bilateral ODA commitments failed to respond adequately, and were actually lower during 1983-85 than in 1980-81. They did increase in 1986. Nevertheless, net resources transferred to Zambia declined sharply during the reform period owing to the steep drop in commercial flows. These trends contributed to the persistence of acute foreign exchange scarcity and tended to undermine the beneficial impact of policy improvement on both production and exports. There was not enough foreign exchange even to enable the ZCCM to import spare parts and other items required for copper production.

The Paris Club rescheduled Zambia's debt on three occasions on fairly generous terms. Short-term debt was included in the rescheduling of 1983, which was unusual. The grace period was five years and maturity in ten years. Six

creditors insisted on charging interest rates on rescheduled amounts that varied with LIBOR or an equivalent rate. The average interest rate on the rescheduled debt was very high. Zambia was not able to adhere to the altered schedule of debt service payments and arrears emerged fairly quickly after each rescheduling operation. The commercial bank rescheduling (London Club) involved varying grace and maturity periods. The interest rate was 2-1/4 percent over LIBOR; among the highest margins on recent reschedulings. Zambia did not adhere to the negotiated debt service schedule.

Zambia's overall debt at the end of 1986 was US$5.7 billion or US$840 per capita (Brazil's debt is US$785 per capita). Preferred creditors accounted for 32 percent of debt and 45 percent of debt service. Almost half of the debt to preferred creditors was to the IMF. Scheduled debt service, excluding arrears, was US$899 million in 1987, compared to actual payments of US$86 million in 1985. The massive growth in debt and debt service stand in the way of economic reform.

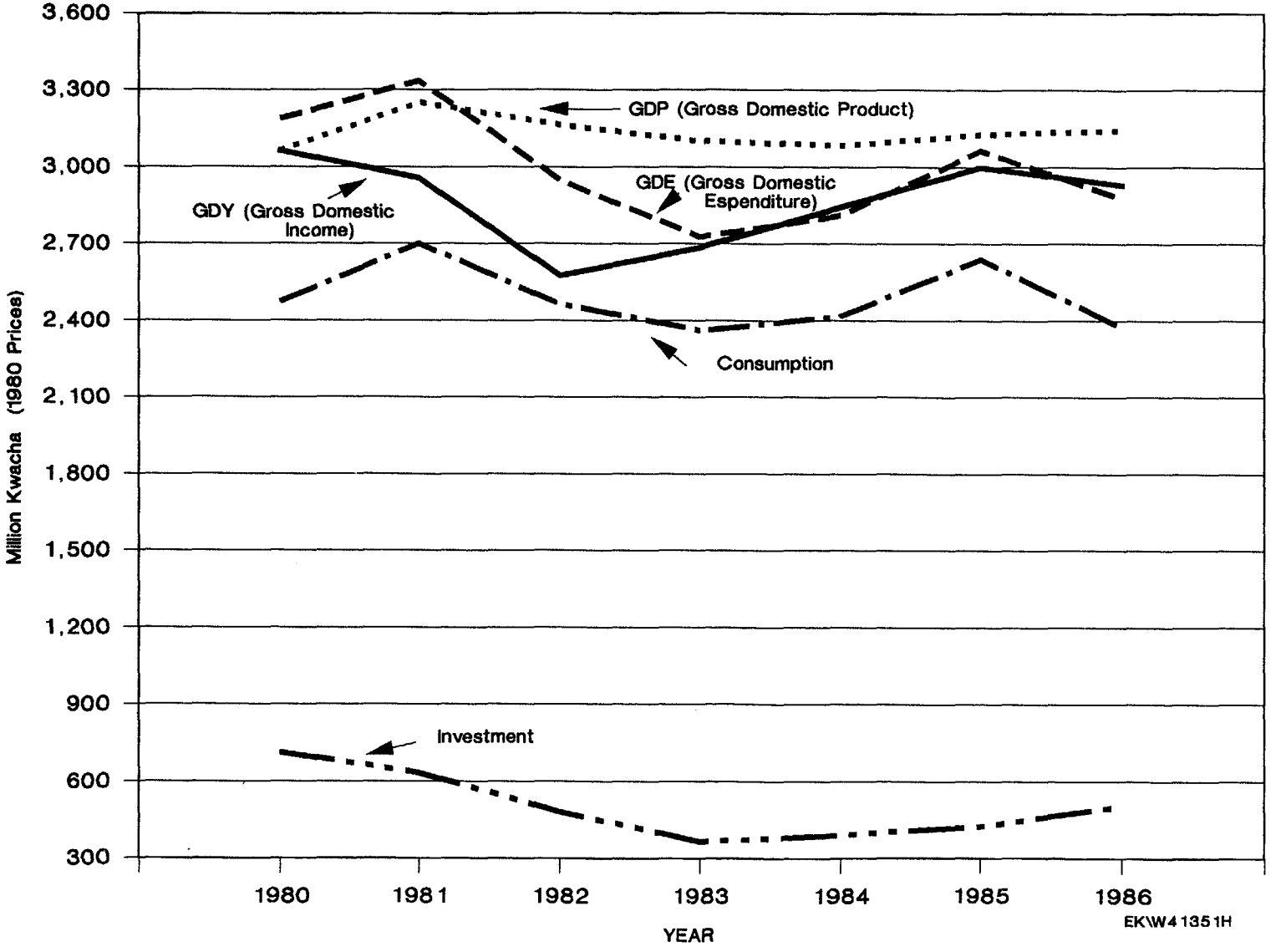
To summarize, the search for stabilization did not succeed during the period studied (see graphs 9-11). The financial indices (the budget deficit, external payment arrears, inflation) did not improve and many deteriorated. Aggregate demand, (measured by GDE at constant prices) during 1983-86 was maintained at a substantially lower level than in the preceding four years and about 23 percent below the level during 1970-73. GDP stagnated in some years and declined in others. All told, Zambia continued to be plagued by a very bleak macroeconomic picture.

The Budget and the Real Economy

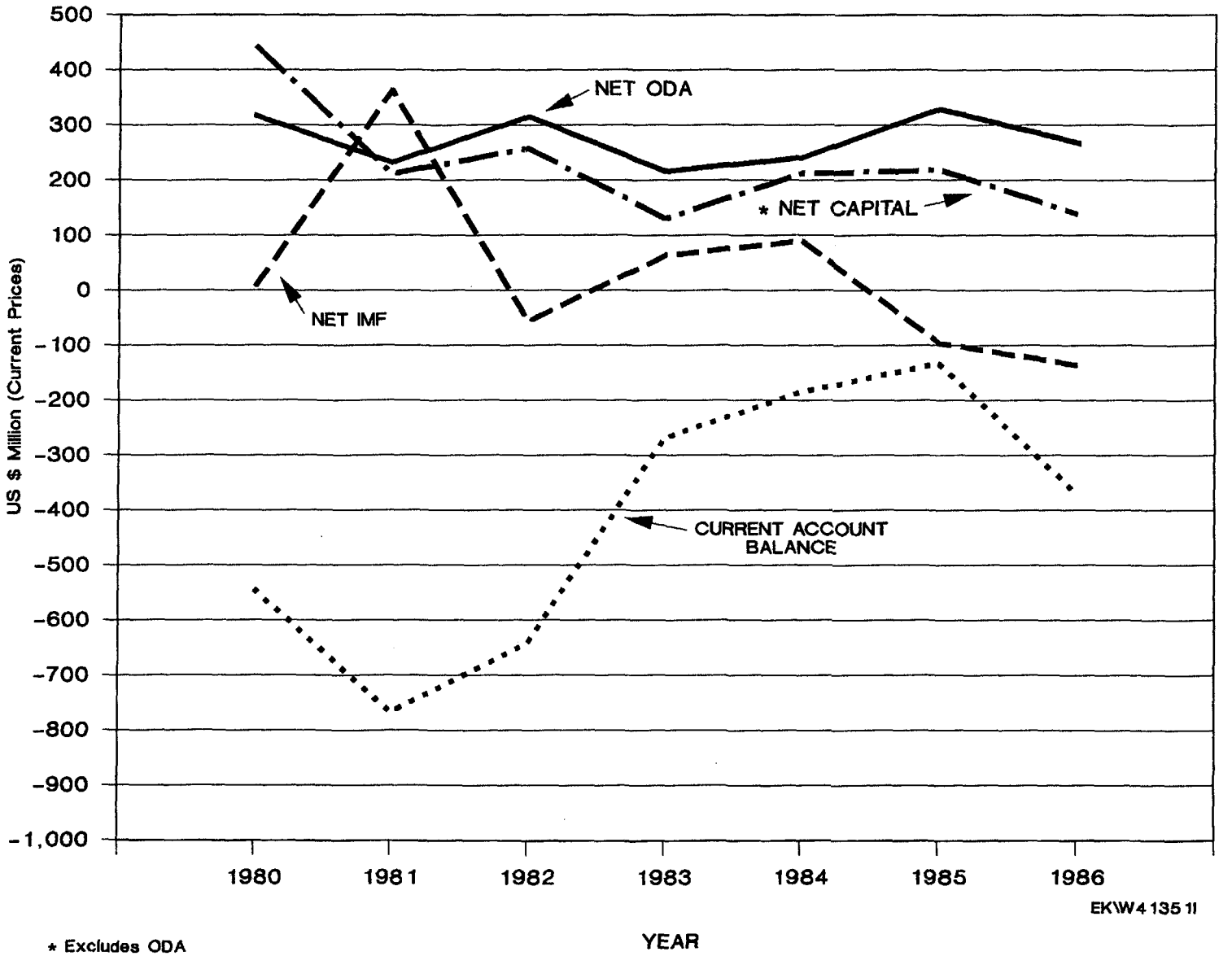
Unsatisfactory experience during the 1970s and early 1980s in reducing public expenditure led the government to try to approach this matter more systematically. To reduce bureaucratic in-fighting, the NCDP was merged with the Finance Ministry. The government decided to prepare a three-year public expenditure program and to integrate the preparation of capital and current budgets. These organizational and procedural changes set the stage for dealing with a number of complex issues in a climate of continued fiscal austerity. The troublesome outcome of these efforts in terms of stabilization aims has already been discussed. This section focuses on how budget decisions affected resource allocation and the real economy.

Graph 11 shows that government expenditure peaked in 1982 and then declined in real terms untill 1984. The recovery in the following two years was based partly on growing budget deficits. Further analysis reveals, however, that the fastest growing category of expenditure was interest payments, reflecting the government's growing indebtedness, the devaluation of the kwacha, and the new policy of deregulated interest rates. The share of interest in total expenditures rose from 5 percent in 1975 to 15 percent in 1984 and 31 percent in 1985. The estimated budget figure for 1986 was 41 percent. This explosive increase in contractually fixed outlays crowded out other expenditure categories and greatly reduced the scope for discretionary changes in government programs. Deregulation of interest rates before securing budgetary balance is a double-edged weapon: it improves the structure of incentives, but it also complicates the task of managing the budget.

GRAPH 9
ZAMBIA: NATIONAL ACCOUNT INDICATORS, 1980 - 1986
Million Kwacha (1980 Prices)

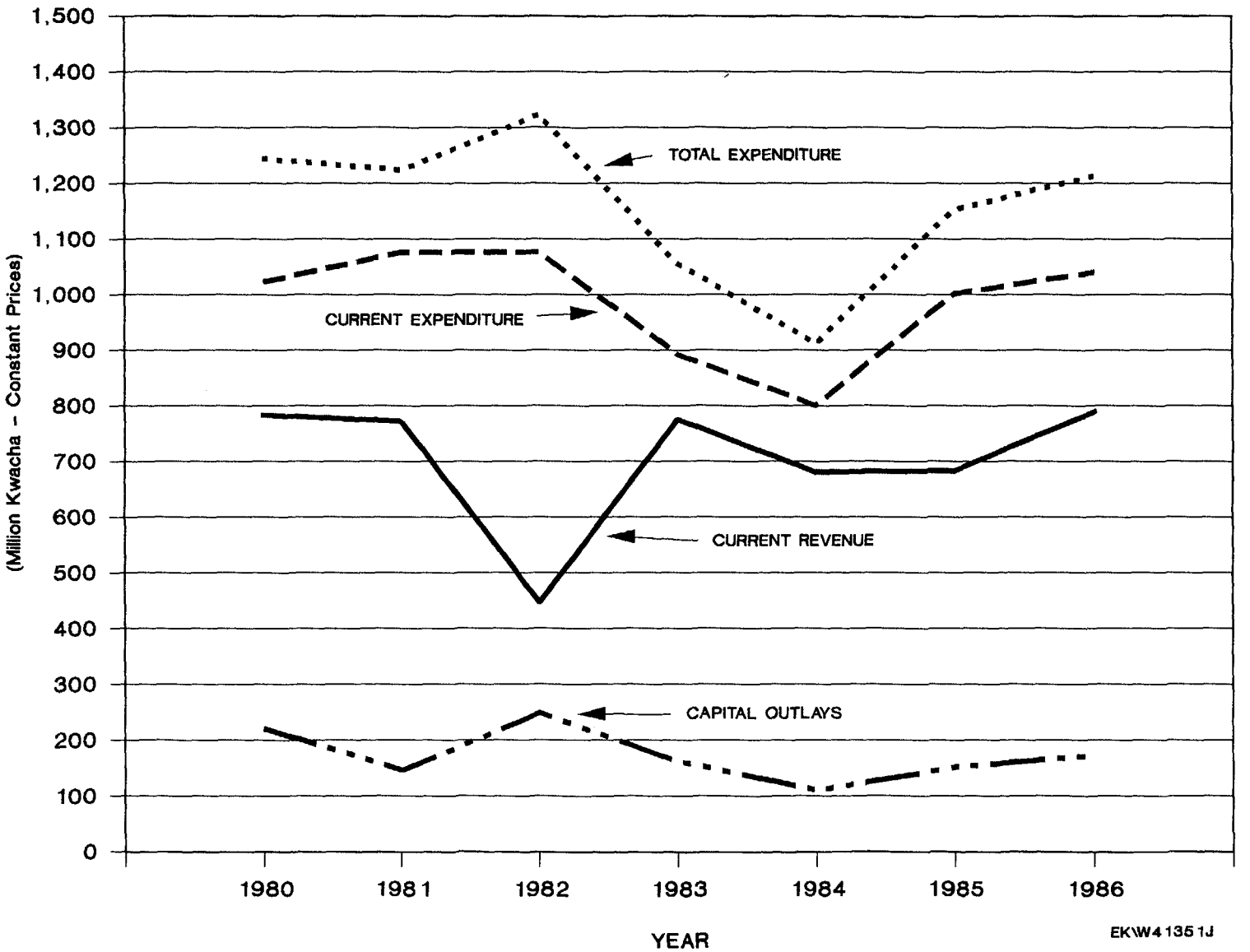


GRAPH 10
ZAMBIA: BALANCE OF PAYMENT INDICATORS, 1980 - 1986
US $ Million (Current Prices)



* Excludes ODA

GRAPH 11
ZAMBIA: GOVT. EXPENDITURE AND REVENUE, 1980 - 1986
(Million Kwacha - Constant Prices)



The government was committed to exercising restraint in raising salaries and in hiring additional workers. Expenditures on personal emoluments declined by 26 percent in real terms during 1975-85. This decline was largely the result of restrictive government wage policy. Controls on hiring new employees were much weaker, particularly for "classified daily employees." Although intended for temporary workers, this category had been misused by various sectoral ministries to evade controls on hiring. Many daily employees had worked more or less continuously for long periods. They had even received the same pay increases as regular civil servants in the bottom grades.

The government was also committed to raising allocations for recurrent departmental charges (RDCs), particularly in priority areas such as agriculture and highway maintenance. Outlays under this heading had declined in real terms by 43 percent during 1975-84. From this very low level RDCs were increased by 12 percent in 1985. Preference was given, however, to items such as student bursaries and boarding costs in medical facilities rather than to higher priority items, such as operating funds for educational materials, vehicle operating costs, and medical supplies.

The government intended, in addition, to shift budgetary resources to directly productive sectors such as agriculture, mines, commerce and industry, and tourism. Outlays in these fields had fallen by 49 percent in real terms during 1975-84, thereby limiting the government's capacity to fund programs aimed at raising production and efficiency. The year 1985 saw a substantial reversal of this trend: outlays rose 28 percent and the relative share of these items in total expenditures rose 2 percent. There was a comparable increase in outlays aimed at infrastructure support, but a decline in expenditures on social services.

The conclusion must be that the government succeeded to some extent in restructuring public expenditures, but its ability to do so was constrained heavily by three factors. First, the acute overall budgetary stringency, combined with a substantial rise in interest obligations, left little headroom. Second, bureaucratic resistance to the economically rational goal of restructuring lead to leakages, such as temporary workers, bursaries, and boarding costs. Third, the unavailability of skilled professionals continued to limit the ability of core economic agencies to do the required staff work, and this shortage was accentuated by the government's salary policy.

Rehabilitation of the Copper Industry

A key policy objective was to rehabilitate the copper industry, even though its economic life was limited. Despite its difficulties, ZCCM was the preponderant earner of foreign exchange and would remain in this position untill diversification efforts over at least a decade yielded results in the form of new agricultural or manufactured exports of substantial magnitude. Copper rehabilitation would require not only substantial investment and a sufficient and regular supply of spare parts and intermediate good imports, but also a basic overhaul of government policies and ZCCM management objectives.

ZCCM faced severe difficulties in the early 1980s. Copper production had declined while the total cost per pound of copper produced had risen (see table 8). The company was incurring substantial financial losses. It responded in 1982 by implementing some cost cutting measures, but these fell far short of what was required. The government's decision to devalue the kwacha was partly precipitated by the acute financial condition of the copper industry.

Overwhelming scarcity prevented the government from allocating the promised foreign exchange to ZCCM, and this cutback had a serious adverse impact on production.

Table 8. ZCCM Selected Indicators, Late 1970s and 1982-86

Indicator	*Late 1970s*	*Fiscal years* 1982	1983[a]	1984[a]	1985	1986
Labor force (000s)	59	60	58	59	58	54[a]
Copper production (000 tons)	598	592	575	551	525	463
Production cost per lb. (US¢)	65	95	80	74	63	65[b]
LME[c] price (US¢)	65	76	69	63	64	63
Net profit (loss) after tax (K millions)	34	(174)	(128)	1	1	(31)
Taxes (K millions)	42[d]	n.a.	53	95	192	373
Sales proceeds (US$ millions)	885	856	866	723	760	681
Actual allocation of foreign exchange to ZCCM (US$ millions)	n.a.	250	249	278	236	246
Promised allocation of foreign exchange to ZCCM (US$ millions)	n.a.	n.a.	n.a.	350	346	370

n.a. = not avalible
a. Estimate.
b. The decline since 1982 is the result of falling real wages and economy measures taken by the management.
c. London Metal Exchange.
d. 1980.

Sources: World Bank (1984b, 1987a).

In responce to these problems, the government drew up a full-fledged rehabilitation program for the copper industry leading up to a policy-based foreign loan of US$148 million from the World Bank (US$75 million), the European Economic Community, and the African Development Bank in March 1984. This was the first serious attempt to address ZCCM's problems in a very long time. This program had the following elements:

- The government and ZCCM clarified strategy for the copper industry in February 1984. They recognized that rehabilitation might involve (a) reducing the work force, (b) trimming the compensation package for Zambian workers, (c) closing uneconomic mines. This was a major turnaround considering that President Kaunda had resisted such proposals even as late as 1982, taking into account the well-known opposition of MUZ (Good 1986a, p. 256).

• A five-year production and investment plan was to be prepared for World Bank approval by December 1985 based on a large number of studies carried out by foreign consultants.

• The government and ZCCM were to agree on taxation and dividend policies by December 1984.

• The government agreed to allocate to ZCCM for its own use only the foreign exchange equivalent of US$350 million in 1984. Allocations for future years would be subject to World Bank approval.

ZCCM succeeded in finalizing a comprehensive and detailed production and investment plan that reflected the new corporate strategy, and that secured government and World Bank approval. Three mines, three concentrators, and a smelter were closed. There was retrenchment of about 4,000 workers in 1986. The structure of ZCCM management was streamlined, and control systems, procurement practices, and corporate planning were improved.

Agreement on the fiscal regime was delayed. In 1983, the government introduced a mineral export tax, initially at the rate of 4 percent of the gross value of exports. This was raised to 8 percent in August 1983 and to 10 percent in January 1985. On the eve of introducing the exchange rate auction, the government raised the rate to 20 percent to soak up the windfall gain for ZCCM of the expected depreciation in the kwacha, however, after strong protests from ZCCM's management, the rate was reduced to 13 percent. The government seemed to be pursuing a policy of extracting maximum revenue, leaving ZCCM with scarcely any post-tax net profits to finance rehabilitation investments (table 8).

All told, the copper rehabilitation program started out with a great deal of promise, but its implementation was frustrated by a host of difficulties. The government was unable to provide the promised foreign exchange to ZCCM, thereby undermining the effort to reverse the decline in copper output (table 8). Given the acute budgetary pressures, the government could not resist the temptation of sharply raising ZCCM's tax burden. It failed to draw up a long-term policy for taxes and dividends that would reconcile the competing claims of all relevant parties. Finally, the deep-seated tension between the government and MUZ did not permit as much progress in shedding labor and rationalizing the structure of the copper industry as had been visualized.

The Restructuring of Agriculture

The government recognized that a quick supply response could be obtained from the nontraditional part of the agricultural sector (15,000 commercial farmers and 125,000 emergent farmers) by alleviating marketing and pricing bottlenecks, and by injecting intermediate good imports that had dried up as foreign exchange became scarcer. It also realized that the problems of the 460,000 traditional farmers were much more intractable. The development of this large backward sector would require (a) research into appropriate technical packages, (b) institutional changes leading to an effective extension and credit system, and (c) investment in physical infrastructure. The government decided, therefore, to activate forthwith the idle production capacity (in terms of developed land, management skills, available technological packages, farm machinery and equipment) of the affluent nontraditional farmers. This was the quickest way to overcome recurring shortages of grains, oil seeds, and other agricultural

commodities. This decision was part of a two-pronged strategy that also visualized taking the initial steps to help traditional farmers.

This decision to inject scarce foreign exchange into the relatively advanced agricultural sector can be rationalized in tactical terms, as argued above. Alternatively, it can be interpreted as the continuation of a longer-term trend in the Zambian body-politic that had allowed resources to be cornered by the better organized and politically more influential farmers at the expense of the more numerous traditional farmers. Good (1986a, p. 257) favors the latter interpretation.[27]

In 1982, the government adopted the principle of "economic" pricing. This led to substantial increases in nominal producer prices. The price of maize, for example, was raised from K13.50 (per 90 kg bag) in 1980/81 to K24.50 in 1983/84, thereby reducing negative nominal protection (at the official exchange rate) from 43 percent to 12 percent. Rapid depreciation of the kwacha in late 1984 raised the gap between producer prices and their border equivalents to 24 percent (Jansen, 1988). Jansen shows that if account is taken of the overvalued kwacha and of changes in fertilizer subsidies, average net incentives for maize during 1983 and 1984 did not improve very much, while those for cotton deteriorated markedly. There was a distinct improvement for Virginia tobacco, however.

In January 1985, the government agreed with the World Bank to (a) adopt a new methodology for establishing producer prices (taking account of border prices and regional transport and marketing costs) by October 1985, and (b) progressively cover the transport and marketing costs of NAMBOARD and the provincial cooperative unions (PCUs) in determining retail prices of maize and fertilizer. At least two-thirds of transport and marketing costs were to be covered by May 1986 and full costs by May 1987. This agreement was made in January 1985 in the context of signing the Agricultural Rehabilitation Project Credit, which amounted to US$25 million from IDA. The African Development Bank and several other donors contributed to a total loan of US$72 million.

This policy-based operation also included an agreement between the government and the World Bank on the restructuring of the agricultural marketing system. A number of steps had already been taken. In 1982/83, primary marketing and intraprovincial trade of crops and inputs became the responsibility of nine PCUs, and some NAMBOARD staff and assets were transferred to them. NAMBOARD retained responsibility for international and interprovincial trade and for the handling of national maize reserve stocks. This move was made without any attempt to strengthen the PCUs' weak management and finances, however. The existence of two official marketing channels continued to be a problem. One estimate maintained that 5 to 10 percent of the crop was lost annually as a result of marketing problems (Government of Zambia 1984). The mismanagement of the 1985 bumper harvest was a national tragedy (Good 1986b). The government agreed to give the World Bank a report on maize marketing and fertilizer distribution by October 1986 and to carry out the report's recommendations by April 1987. The government and the World Bank expected that NAMBOARD would become a buyer and seller of last resort, while the private sector would play a much bigger role in the marketing of maize and fertilizer.

The government adhered to these policy agreements to some extent. The cabinet approved the new pricing methodology and producer prices for 1986 conformed to it. The retail consumer price of maize was raised progressively from K14.22 (per 90 kg maize meal) in 1980 to K53.82 in 1985, thereby reducing the consumer subsidy. The decision to institute an auction determined exchange rate

in October 1985 greatly increased the cost of this subsidy (in kwacha terms), thereby putting the budget under pressure. The sharp depreciation of the kwacha was accompanied by a steep rise in the cost of living. The original targets of reducing the subsidy in May 1986 and eliminating it by May 1987 were revised substantially in mid-1986 in the context of negotiating another policy-based World Bank operation (that is, the recovery program). The judgment was that adherence to the original targets would have caused severe hardship. New goals were to (a) continue the subsidy for poor households, (b) eliminate the subsidy on maize used to produce livestock feed and opaque beer by December 1986, and (c) eliminate the subsidy for households not classified as poor by September 1987.

Notwithstanding these changes in policy targets, the government moved ahead of the schedule. The retail price of higher grade maize for breakfast meal was decontrolled in December 1986, and the price to be paid by millers to NAMBOARD for raw maize was doubled. The intention was to subsidize millers so that the retail price of lower grade maize flour (roller meal) would remain unchanged. The millers responded to the government move by doubling the price of breakfast meal and by stopping the processing of roller meal. They claimed that arrangements about how subsidies would be paid to them for roller meal were not firm. Sharp increases in the retail price of breakfast meal and shortages of roller meal precipitated widespread riots in the copperbelt and elsewhere, and the government had to withdraw the price hikes.[28] It nationalized all sizeable maize mills without much expert consideration of the consequences of this seemingly retaliatory move. According to government sources, millers had no basis for viewing the government's subsidy arrangements as uncertain and the millers had acted irresponsibly in not processing roller meal.

These tragic events are very difficult to understand. Why would the government decontrol the price of breakfast meal only six months after concluding that the inflationary impact of the auction had made it politically risky to press ahead with the earlier target to phase out maize subsidies? Had the leadership forgotten the lessons of 1975 when increases in consumer prices had to be rolled back? The IMF had been pressing the government to handle the subsidy question at the end of 1985 and in early 1986, but the government had resisted. However, the budget ceiling had all ready been breached in March 1986, and the government felt that it was losing control of the situation. Possibly neither the government nor the IMF had fully grasped the interaction between the auction and the budget. The move to raise maize prices in December 1986 could, therefore, have been a desperate one to regain control of the budget. Breakfast meal was much more expensive than roller meal, but some Zambian officials were aware that it was consumed to some extent by urban households at almost all income levels. Other government officials had the impression that it was consumed only by affluent households. Clearly the government did not have specific data on consumption patterns and was not fully equipped to assess the consequences of their policy move.

Private traders had been allowed to trade in maize and fertilizer since January 1986, but they could not do so in practice as long as subsidies were routed through PCUs and NAMBOARD. The price millers paid for raw maize only covered compensation to farmers; all other costs were subsidized. In practice, liberalization in marketing occurred only to a very limited extent. The maize marketing and fertilizer distribution study was finished virtually on time. Government was favorably disposed toward its proposals, but the abandonment of the entire policy package in May 1987 disrupted implementation.

The restructuring of agriculture raised very difficult technical economic issues in designing polices. There was considerable tension between the aim of controlling producer prices and the auctioning of foreign exchange. Equally difficult was the task of coordinating the phasing of the removal of the maize consumer subsidy, the reintroduction of differential producer pricing, and the reorganization of the agricultural marketing system. These numerous design and management issues had to be resolved with very little information and an acute shortage of experienced, qualified professionals. Furthermore, this complicated reform was attempted at a time when the overall economy was severely strained and when the political leadership's capacity to manage dissent was at a low ebb. Given these conditions, it was not surprising that the reform failed to materialize.

New Policies for Manufacturing

The government recognized that the restructuring of the manufacturing sector would take a long time. The first package included some trade policy measures, a new investment code, and a screening of parastatal investments. The aim was to get a quick supply response by injecting intermediate good imports into economically viable firms. The details of the package adopted in August 1985, in the context of an IDA credit of US$62 million, were as follows:

- The elimination of import prohibitions on 50 items and dismantling of restrictive licensing of imports at the same time as the flotation of the exchange rate.
- The government had imposed a 10 percent import tariff on many industrial inputs in 1984 that had previously enjoyed zero tariffs. A similar duty would be imposed on all but a few of the remaining 300 zero duty items by December 1985.
- Sales tax would be extended to all final goods produced locally by June 1986.
- The maximum tariff would not exceed 100 percent.
- A tariff commission would be established by December 1985 to determine the new structure of duties, which would be implemented by June 1987.
- The system of duty drawbacks for exporters would be simplified by December 1985.
- Feasibility studies for establishing an export credit insurance and an export credit guarantee scheme would be started by December 1985, and a program of action adopted by December 1986.
- A new investment code would be developed that would provide moderate and automatic tax and other incentives for training and for research and development for a variety of priority enterprises. The same incentives would apply equally to local and foreign investors.
- Agreement was reached on INDECO's investment program for 1985/86. Projects determined not to be economically viable would be discontinued by December 1985. The program for 1986/87 would be subject to World Bank approval. Action programs for phasing out or restructuring individual firms would be agreed with the Bank and carried out by September 1986.

Implementation got off to a good start with the decontrol of interest and exchange rates. Restrictive licensing and import prohibitions were abolished. The new investment code was enacted. Minimum tariffs of 10 percent (15 percent

since January 1986) were extended to all imports except crude oil, fertilizer, wheat, maize, medicines, surgical goods, and school supplies. Maximum duties were lowered to 100 percent after some delay. The tariff commission was established, also after some delay.

There was some backsliding on measures aimed at imposing minimum tariffs on all imports. In the second half of 1986, a number of firms obtained import duty exemptions in what seemed to be an arbitrary manner. The tariff commission recommended duty exemptions on intermediate goods not produced locally. Enterprises enjoying "priority" status under the 1977 investment code (and thereby receiving duty exemptions) were to be brought under the new code and given alternative incentives, but this work was delayed; 42 firms still enjoyed duty exemptions.

The rationalization of INDECO's investment program proved to be a troublesome issue. INDECO established an investment appraisal and enterprise evaluation unit in December 1985. Considerable delay was encountered in carrying out studies to test the economic viability of on-going or proposed new projects. Given the overall austerity and high unemployment, the management of INDECO was reluctant to phase out projects. In January 1986, the management decided to drop four new projects from the 1986/87 program on the grounds that they were not economically viable, however, implementation continued on five on-going projects from the 1985/86 program whose viability was questionable. Six firms would be restructured. The work force of these was reduced by 39 percent between March 1985 and September 1987. Product lines were rationalized, for example, Rucom was to concentrate on fruit canning and to close down other activities, Crushed Stone stopped lime production. The managements of several firms were reorganized. INDECO took over some of Rucom's debt and put in new equity funds. Luangwa Industries were to be managed by the Tata Group of India on a profit sharing basis. The Livingston Motor Assemblers remained a problem case and there was reluctance to take drastic action.

Altogether, the record of implementation was fairly good. There was some hesitation and even backsliding, but progress was made on a wide front. Unfortunately, this progress could not be sustained when the overall reform program was abandoned in May 1987. Quantitative restrictions on imports were reintroduced at that juncture.

4
Lessons of Experience

On May 1, 1987, President Kaunda announced that the unsuccessful reform program was disintegrating Zambia's social fabric and that an alternative approach had to be developed.[29] Meanwhile, the kwacha was pegged at the rate of eight to a dollar, import licensing was resumed, interest rates were subjected to ceilings, and debt service was to be paid to the extent of 10 percent of exports (less allocations to ZCCM, petroleum, and the International Air Transport Association).

Five factors contributed to this impasse. First, the inherent problem Zambia faced at the beginning of the intensive reform effort was an extremely difficult one. Massive multiple shocks, the large number of policy and institutional distortions, as well as the acuteness of many of these distortions, would have required a truly heroic reform effort in any case. Issues were greatly complicated, however, by the fact that Zambia's historical growth engine, copper mining, was sputtering and needed rehabilitation, and later on, replacement. This formidable agenda had to be tackled by a weakened political leadership and by an administration that was very short of skills, and that had been demoralized by falling compensation, shifting assignments, and the *ad hoc* policymaking style that had emerged. Furthermore, the polity consisted of several pressure groups (the copper mine workers, commercial farmers, and the urban middle class) who had acquired a stake in the *status quo* and considerable muscle to resist reforms that they perceived as a threat.[30] Party and government structures that had emerged during the 1976-83 period of the "command economy" could hardly be expected to support a sharp change in policy orientation aimed at dismantling government controls.

Second, although outsider observers (the ILO and the World Bank, for example) clearly perceived the need for reform as did some insiders in the early or mid-1970s, the leadership did not mount an intensive effort until 1983. Such delay was easy to understand given the division of views about policy within UNIP circles, but the cost was enormous. This cost took the form of a huge build-up of debt, the exhaustion of external borrowing capacity, the drawdown of reserves, and the accumulation of arrears in payments. In addition, the real economy contracted considerably, and imported inputs were in very short supply, leading to the emergence of idle capacity and a substantial fall in the volume of investment. When reform efforts finally got into high gear, the initial position was one of acute disequilibrium. The economy had no cushion and no safety net. Successful reform under these circumstances required nearly perfect foresight, technically valid policy packages, strong political commitment, uninterrupted implementation, and good luck. These conditions could not be fulfilled.

Third, policy packages adopted during the intensive reform phase had a number of weaknesses. The main thrust was to stabilize the economy and regain financial balance by curtailing aggregate demand in short order. The objective of securing reasonable economic growth of the GDP took a back seat. Much was said in the policy packages about increasing efficiency, but the macro framework did not visualize improvements in real per capita GDP or restoration of

investment to normal levels in the near term. The objective of poverty alleviation or equitable distribution of the burden of adjustment was also given short shrift. This scheme of priorities looks odd against the background of (a) protracted decline in the Zambian economy, (b) strong pressures of a rapidly growing population, and (c) competing pressure groups within the polity who were greatly concerned about the distribution of the economic pie. Securing meaningful domestic consensus in support of such a program, which held out the prospect of protracted austerity and little relief, would have been very difficult.

Targets agreed by the government and the IMF for achieving equilibrium in the budget and the balance of payments were based on a set of assumptions about the terms of trade, resource transfers from abroad, and the volume of copper exports. As often as not, these assumptions proved inaccurate, thereby compounding the government's difficulties in adhering to precise, quantitative, time-bound goals for retirement of arrears and the net domestic assets of the domestic banking system, and its net lending to the government. While, in principle, obtaining waivers from the IMF's board was possible, in practice, this was far from being a straightforward matter. The underlying policy objective might have been better served by introducing contingency mechanisms to cope with fluctuating variables outside the government's control that affected Zambia's financial situation.

Targets reflected the desire of the government and the IMF to cut down financial imbalances very rapidly. Neither party expected swift supply side responses in production and exports, given the nature of the problem facing the Zambian economy. A quick contraction of budget and balance of payments deficits could only occur through a substantial cut-back of government expenditures and imports, and therefore of the real economy. In the event, the Zambian polity clearly could not tolerate such speedy adjustment, and the effort to make haste proved counterproductive.

Measures to enhance efficiency focused on distortions. Producer prices in agriculture were raised nominally, but *net* incentives for maize growing had not improved untill 1984, and those for cotton had deteriorated. Little was done to reduce the incidence of nonprice obstacles to higher smallholder production, for example, better marketing channels, improved technical packages, and appropriate physical infrastructure. ZCCM secured some positive results in cutting costs, but the big retrenchment visualized in 1986 did not occur. Foreign exchange and credit were decontrolled, restrictive licensing of imports was abolished, tariffs were limited to 100 percent, and minimum 10 percent duties were imposed, but these moves were followed by backsliding and then by reversal in mid-1987.

The idea of protecting vulnerable groups in urban areas from the impact of retail maize price increases only took shape in mid-1986. The public sector tried to shore up urban employment while production and productivity declined, but this proved financially ruinous. The restructuring of public expenditure failed to prevent a substantial fall in the quantity and quality of services to meet basic needs, including those for the poor. As the reforms proceeded, the government found assuring various pressure groups that the burden of adjustment was being shared equitably increasingly difficult. In particular, attention focused on violations of the leadership code, on allegedly widespread corruption, and on high profits made by multinational and joint venture companies.

Fourth, reforms could not be sustained because the process underlying these reforms was flawed. The development of the policy packages took place largely

outside Zambia. A small group of Zambian officials and a few politicians spearheaded the program based on a genuine understanding of its merits. Other influential civil servants and politicians had very little basic understanding of the economics behind either the crisis or the reforms. Still other segments of the Zambian policy circle were hostile to the thrust of the reforms for distinctly ideological reasons. Those spearheading the new policies received only intermittent support from their bosses and they "appeared" to be the tools of outside interests. The "insiders" became isolated partly because there continued to be at all times "influential" dissenters whose arms were twisted on a number of occasions, and partly because reforms failed to produce easily recognizable signs of economic recovery. Experts could always claim that the situation would have been much worse in the absence of reforms, but such arguments did not prove politically credible. Meanwhile, opponents of reform claimed that the medicine being applied contradicted the socialistic and welfare elements of Zambian humanist ideology. They also pointed to the inequitable distribution of the burden of adjustment in a double sense: Zambia (together with other African countries) was being "exploited" by the West, and Zambian state, in turn, was being hijacked by established local interests.

Finally, the lack of adequate external support undermined Zambia's reforms. Aid and debt relief in support of intensive reforms turned out to be "too little, too late." The international machinery of foreign aid and debt was fragmented: many actors and numerous foreign agencies pursued diverse objectives, and efforts to manage them did not produce coherent outcomes (Gulhati and Nallari 1988). The result was that imports declined below critical levels and undermined many of the production and export benefits of courageous economic reforms. For example, copper production during 1983-86 declined by 9 percent, mainly because the government was not able to allocate the promised foreign exchange to ZCCM. Value added in the manufacturing sector (constant prices) peaked in 1981 and declined by 10 percent during 1981-83. It recovered some 8 percent in 1985, but little change occured in the following year. Value added in 1986 remained 2 percent below the 1981 peak. Nontraditional exports rose sharply. Marketed maize production rose by 11 percent in 1985 and by 20 percent in 1986. Production of groundnuts, soya beans, and Virginia tobacco also increased substantially. Overall, GDP in real terms stagnated in 1984 and rose by 3 percent in 1985 and by 2 percent in 1986.

The lesson of the tragic Zambian story is not that reforms of the type tried do not work. The following inferences can be drawn that may help launch new reform exercises:

- Policy problems must be addressed in a timely manner. The cost of delay can be very high.

- Policy packages have to be "localized" and have to be perceived as indigenous initiatives.

- Much more effort needs to be made than was the case in Zambia to build consensus among "influential" actors and to educate the public. The imperative of securing a consensus might require altering the technical design of policy packages to accommodate vested interests without undermining the main thrust of the reform.

- In the absence of progress in the international machinery, the reforming government must assure itself of sufficient reserves before undertaking risky policy initiatives. Some readers will regard this prescription as "unrealistic," but

history teaches that many worthwhile initiatives collapse as a result of insufficient liquidity to cope with unforeseen developments.

The implications of these inferences can be illustrated by re-examining one aspect of Zambia's reforms: the 1985 decision to liberalize credit and foreign exchange markets (including delicensing of imports). This radical move was made in the middle of an acute financial crisis and was soon reversed. Although the need to depreciate the real exchange rate and to get to positive interest rates was urgent , was liberalization on the scale attempted the right move at that time? The liberalization package did produce a number of positive outcomes, for example, the disappearance of the black market, a sharp reduction in levels of corruption, and a new spirit among many economic agents to improve the efficiency of their operations. Skepticism about the package was based, nevertheless, on technical, economic, and political considerations. Liberalization at the macro level was in sharp contrast with controls and rigidities at the sectoral and microeconomic levels, for example, the government subsidized maize consumer price, government determined agricultural producer prices, and reluctance of the parastatal sector to shed redundant labor.

Liberalization of the markets for credit and foreign exchange should have followed (rather than preceded) a much greater control of the budget and of underlying inflationary pressures. While the government had made progress in reducing agricultural subsidies, much remained to be done to complete the process and to secure a viable agricultural marketing system. Also, the real wages of senior civil servants had dropped sharply (for the sake of containing budget deficits), thereby making it very difficult for the government to fill key vacancies. In addition, given that Zambia's balance of payments was subject to a large measure of uncertainty, it would have helped greatly if at the outset of the auction, the Bank of Zambia had had a comfortable margin of foreign exchange reserves and access to a substantial amount of external loans. This was clearly not the case. Very low reserves, unpredictable capital inflows, and the overhang of external payment arrears made feeding the auction with a stable source of foreign exchange very difficult. These factors contributed to the lack of confidence on the part of economic agents that the auction regime would be sustained.

Superimposed on these technical weaknesses were weighty political considerations that helped to undermine the reforms. Many key players were unconvinced that the auction would work effectively, and at least some of their doubts or ambivalence were public knowledge. Many officials were perceived to be working behind the scenes to resurrect controls. The president probably legitimized these speculations by changing the cast of key actors in April 1986 and by changing the auction rules a few months later.

An alternative to the auction that Zambia could have adopted would have involved a decision to engineer a substantial real depreciation in the official exchange rate over a specified time and a corresponding timetable for phasing out import restrictions. These alternative policies are now being tried in several Sub-Saharan countries. Their success is not yet assured, but they may well be more adapted than the auction to the institutional frameworks and histories of these countries. If the initial target for real depreciation proved insufficient, another round could follow (Gulhati et al. 1986). This manner of proceeding would relieve pressure on the overburdened control system and greatly reduce the magnitude of scarcity premiums that fuel corruption without the appearance of the government letting go of scarce resources.[31] It would also allow time for all economic agents

to adjust to changes in the exchange rate and tariff regime. Structural adjustment requires a combination of "getting the prices right" and complementary technical, managerial, attitudinal, and institutional changes that are time consuming. Attempts to force the pace of change may not be the best way to proceed in Sub-Saharan Africa.

Zambia attempted a major economic reform that did not work. Such radical, nonincremental reforms are always a risky venture; in Zambia, they were a policy gamble. The risks could have been reduced by Zambia's foreign partners. Positive exogenous shocks would also have helped provided they did not encourage backsliding on the reforms. Avoidance of technical weaknesses in the design of policy packages would also have enhanced the probability of success. However, while these factors could have made a substantial difference, it is not clear that they would have been decisive in determining the outcome. Much more basic than these factors is the requirement of political entrepreneurship of a very high order to successfully orchestrate such a reform and to sustain it.

Notes

1. Capital goods accounted for 39 percent of total imports in the early 1970s, intermediates for 37 percent (petroleum 5 percent), and food for 10 percent.

2. The year 1974 was fairly representative of the average terms of trade in the post-independence period. The index of 219 in 1974 can be compared with the average of 216 for 1966-73.

3. Interested readers can request from the authors an unpublished paper; Ravi Gulhati and Vimal Atukurala, *Import Instability and External Reserves in Eastern and Southern Africa* (1985).

4. The following comparison of projected and actual copper prices is instructive.

	(U.S. c./lb in current U.S. dollars)						
	1974	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*
Actual price	93	56	64	59	62	90	99
Forecasts made							
May 1974	110	105	107	109	117	125	135
May 1975	—	68	81	98	109	117	126
May 1976	—	—	67	80	104	112	120
May 1977	—	—	—	70	80	95	120
May 1978	—	—	—	—	62	68	85

Source: World Bank (no date).

World Bank forecasts have had an upward bias. One cent per lb difference in the price of copper represents annual export earnings of approximately US$15 million for Zambia.

5. The series on real commercial bank lending rate (deflated by the wholesale price index) leads to the same general conclusion. This series was more erratic, however, than the data on real commercial bank deposit rates. Fluctuations in wholesale prices were larger than in consumer prices. See table A-3.

6. President Kaunda made a statement immediately after receiving the instruments of independence that placed high priority on the government providing basic needs (Hatch 1976, p. 207).

7. This incremental capital output ratio is for public and private investment. It is cited here because government and parastatal investment accounted for about 70 percent of total capital formation.

8. The author made several visits to Zambia during this period and interviewed many key officials. The findings reported here reflect his observations, which were shared by several (but not all) Zambian officials.

9. Burdette (1984, p. 54) argues that these penalties might have been avoided if Zambian negotiators had played their cards skillfully. In fact, the Zambian team was deeply divided, allowing the foreign companies to take advantage of the situation.

10. Commercial farmers use capital- and import-intensive technologies. Emergent farmers use improved seeds plus ox or tractor power plus fertilizer. Traditional farmers cultivate on average farms of less than 2 hectares and produce subsistence crops with family labor, using hand tools.

11. "The operations of parastatals in Zambia often represent a double loss to the national economy—the original investment in whole or part plus the loans and subsidies to compensate—as well as a potential gain to executives and staff in the loss-making agency. One speaks of gains to staff and management in the sense that they are maintained in public office and are permitted to continue undisturbed with uneconomic operations. Some also enjoy a personal profit from corrupt practices, given the range of existing malpractices and the inexorable intermingling of error and fraud; the Times of Zambia has editorialized about scandalous business transactions, malpractices, fraudulent accounting, financial mismanagement--the list is endless and almost as nauseating'. President Kaunda recently was reported to have said that he had been appalled at the extravagance with which most parastatals were run..." (Good 1986a, p. 254).

12. The difference between the actual consumer retail price and its border equivalent (at the official exchange rate) as a proportion of the border equivalent.

13. Tordoff (1974) argues that sectionalism is the key divisive factor in Zambia rather than allegiances to tribe, language, or other historic focal points. Zambia has 73 tribes.

14. "There was also considerable discrimination against ANC supporters in the granting of agricultural loans and trading licences" (Tordoff, 1974, p. 367). "The judicious use of patronage emerged as a necessary and accepted strategy against the sectionalism that threatened UNIP" (Gertzel et al. 1984, p. 12)

15. "The basic issue in all these crises has been the same: which sectional group of leaders shall, under President Kaunda, hold preponderant power within the party and government. In August 1967 the pendulum swung in favor of the Bemba-speaking group, led by Kapwepwe, when he ousted Kamanga as Vice-president. By August 1969 it had swung away from them towards the Nyanja-speaking group" (Tordoff 1974, p. 383).

16. Some Zambian observers argue that these nationalizations (particularly of copper mines) were matters of vital concern to national security, and expecting an open cabinet debate on such issues would have been unrealistic.

17. "Collective decision-making has been further undermined by President Kaunda himself. Particularly since the end of 1967, he has responded to the in-fighting among leading members of his party and government by taking more and more decision-making into his own hands. After 1970 he did this not by adding to but by steadily divesting himself of all portfolio responsibilities and by building up a sizeable corps of personal advisers, mostly located in State House itself. He has used them increasingly to by- pass his official advisers, both Cabinet colleagues and

senior civil servants, much to the chagrin of both groups. This trend towards presidentialism in government decision-making has been paralleled by Dr. Kaunda's centralization of party power in his own hands" (Tordoff 1974, p. 383-384).

18. According to Bates (1971), the gulf between headquarters trade union officials and the rank and file was the result of (a) the decentralized structure of unions, (b) the militancy of workers about race, and (c) the union leaders belonging to the national political elite. By contrast Burawoy (1972), insists that the gulf was because workers perceived the emergence of a new "black upper class" to which union leaders belonged.

19. For a discussion of working class organization, see Mudenda (1984), who maintains that mine workers defend their class interest, albeit in a confused manner. Manufacturing workers were spread out geographically and were organizationally weak. Construction and trade sector workers had no strong organization, while financial sector and restaurant/hotel workers could defend their group interests effectively.

20. Other knowledgeable Zambian authorities disagreed with Lungu's views.

21. The corruption issue was not confined to civil servants. "Zambia's political leaders are supposed to be governed by the December 1972 leadership code, which aims at preventing them using their positions to amass personal fortunes. Although blatantly flouted, no one has ever been charged with breaching its provisions, creating the basis for considerable popular hostility to the party leadership ..." A crusade against corruption was mounted in 1984 and 1987 leading to some arrests (The Economist Intelligence Unit 1987, p. 15).

22. Good (1986a, p. 255) argues that the Zambian state is "... aligned with the leading, best organized social forces in the country". He refers in this connection to the Mine Workers' Union of Zambia, the Commercial Farmers' Bureau, and the townspeople. "It seems difficult for the state, as presently constituted to break out of this mutually supportive but inherently debilitating inter-relationship."

23. "The 1978 general elections, like its predecessor, saw many of the political leadership defeated,including four cabinet members. Opposition to Dr. Kaunda in the parallel presidential elections was restricted to the traditional areas in the Southern, Western and Northern provinces. However, following the general elections, more widespread opposition to the government emerged from both the growing Zambian middle class and the trade union movement, relecting the country's increasing economic problems culminating in October, 1980, in an alleged coup plot against Dr. Kaunda..." (The Economist Intelligence Unit 1987, p. 4). It should be recalled that two prominent candidates had not been allowed to stand in the 1978 presidential elections: Mr. Kapwepwe and Mr. Nkumbula.

24. "In the October 1983 presidential and parliamentary elections Dr. Kaunda scored a landslide victory with 93 percent of votes cast—improving his position particularly in the South—while the political leadership survived largely unscathed" (The Economist Intelligence Unit 1987, p. 4).

25. Luxury consumer good imports were actually flowing in not so much through the auction, but through a scheme that allowed importers to bring in such goods financed by foreign exchange balances held abroad.

26. Some observers were not convinced, however, that such intersectoral differences pointed out by the Ncube study were real and attributed them to the misleading nature of available statistics.

27. "The importance of agriculture in the state's eyes lies in the specific form of large-scale and state-project agriculture, and it is with this sub-sector and the chief groups and organizations operating within it (the Commercial Farmers' Bureau, special projects such as Settlement Schemes, Rural Reconstruction Centres, and state farms) that the state aligns."

28. "The worst internal violence since independence, the riots left 15 people dead, hundreds injured, millions of dollars worth of property damaged, and the government profoundly shaken...there were also indicators that the riots were as much a protest at UNIP's political management as over economic austerity, with party buildings among the prime targets for attack" (The Economist Intelligence Unit 1987, p. 5).

29. "With the riots [December 1986, over maize policy] having immeasurably strengthened the hands of the anti-IMF lobby within UNIP, it became clear in early 1987 that pressure on Dr. Kaunda to agree to a major redirection of policy was becoming irresistible" (The Economist Intelligence Unit 1987, p. 6).

30. According to Callaghy (1989), the 1985 reforms "...were extremely unpopular among nearly all strata of the population, from senior cabinet and party figures down to the unemployed urban worker...President Kaunda had to ram them through the cabinet."

31. Another policy scenario would consist of an auction followed by a return to an administrated rate after the auction rate had climbed to say a level of K12 = US$1.

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Appendix

Table A-1 Zambia: Selected Social Indicators

Category	*1965*	*1973*	*1980*	*1986*	*Comparators 1986* *Low income countries*	*All developing countries*
Area under agriculture (% of total)	53.0	53.1	53.4	53.4	n.a.	n.a.
GNP Per Capita[a] (constant 1980 US$)	540	710	600	370	240	530
Total population (thousands)	3,609	4,559	5,647	6,945	2,493	3,761
— Urban population (% of total)	24	34	43	48	n.a.	n.a.
— Population growth rate (% p.a.)	2.8	3.0	3.3	3.5	1.9	2.0
Total Labor Force (thousands)	1,287	1,585	1,954	2,323	n.a.	n.a.
— Female (% of total)	28	28	28	28	34	29
— Agriculture (% of total)	79	76	74	73	72	62
— Industry (% of total)	8	9	10	10	10	16
Percentage of private income received by						
— Highest 20% of households	58.2	63.0	56.7[b]	n.a.	n.a.	n.a.
— Lowest 20% of households	5.4	3.8	3.6	n.a.	n.a.	n.a.
Estimated population below absolute poverty income (%)[c]						
— Urban	n.a.	n.a.	25[d]	n.a.	n.a.	n.a.
— Rural	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Education: Enrollment ratios (%)[e]						
— Primary: Total	53	97	96	100	67	101
— Male	59	105	102	105	75	110
— Female	46	88	90	95	56	92
— Secondary: Total	7	15	17	17	22	39
— Male	11	20	22	22	28	45
— Female	13	10	12	12	16	33
— Tertiary: Total	n.a.	n.a.	n.a.	2	5	8
Life expectancy at birth (years)	44	49	49	53	61	61

n.a. = not available

Note: Countries with a GNP per capita of less than US$425 (in 1986) are low-income countries. Other developing countries have a GNP per capita of more than US$425, but does not include 4 high-income oil exporters, 19 industrial market economies, and 9 communist countries.

a. GNP per capita is calculated according to the *World Bank Atlas* method of converting data in national currency to U.S. dollars. In this method, the conversion factor for any year is the average exchange rate for that year and the two preceding years, adjusted for differences in rates of inflation between the country and the United States. The official exchange rate is usually used, but when the official exchange rate is judged to diverge by an exceptionally large margin from the rate effectively applied to international transactions, then an alternative rate is used. Mid-year population is used to arrive at per capita figures.

b. Most recent estimate is for 1976.

c. Absolute poverty income level for *urban* areas has been estimated at US$247 per capita and for *rural* areas at US$168 per capita annually.

d. Most recent estimate is for 1978.

e. Percentage of age group enrolled may exceed 100 percent as some pupils are younger or older than the country's standard primary age.

Sources: World Bank (1984a, various years).

Table A-2 Zambia: Selected Economic Indicators
(Percentage of GDP)

	1966-68	*1972-74*	*1978-80*	*1984-86*	*Comparators 1986* *Low-income countries*	*All developing countries*
National Accounts						
— Value added in agriculture	14.2	13.6	14.8	15.9	38	19
— Value added in industry	13.5	18.2	18.6	19.4	20	36
(of which manufacturing)	6.3	12.3	15.5	15.4	11	21
— Value added in mining	40.3	34.9	22.7	21.0	n.a.	n.a.
Resource balance	14.6	15.8	-4.0	-4.2	-8	-1
— Exports (GNFS)	49.2	49.0	41.4	42.2	14	19
— Imports (GNFS)	34.7	33.2	45.4	46.4	22	20
Total consumption	92.0	76.4	79.1	79.5	90	76
Gross domestic investment	26.4	29.2	21.0	14.1	15	24
Gross domestic savings	8.0	23.6	20.9	20.5	7	24
Government Finance						
— Current revenue (excluding grants)	n.a.	28.6	24.0	25.3	15	23
Total expenditure	n.a.	29.9	32.4	28.0	21	26
— Current expenditure	n.a.	23.3	28.6	23.3	n.a.	n.a.
— Capital expenditure	n.a.	6.6	3.8	4.7	n.a.	n.a.
Expenditure on						
— Education	n.a.	5.8	4.5	5.8	3	3
— General public services	n.a.	11.0	11.0	10.9	2	2
— Health services	n.a.	1.9	2.2	2.4	6	6
— Economic services	n.a.	7.6	9.4	8.7	1	1
— Wages and salaries	n.a.	7.4	9.7	8.9	n.a.	n.a.
Actual debt service [% of exports (GNFS)]	n.a.	10.7	18.5	10.2	21	20
Rescheduled Debt Service[a] [% of exports (GNFS)]	n.a.	n.a.	n.a.	119.4	n.a.	n.a.

GNFS= goods and nonfactor services
n.a. = not available

a. Rescheduled debt service is defined as the difference between projected and actual debt service. The projected debt service figure excludes accumulated arrears.

Sources: World Bank, (1987b), IMF (various years).

Table A-3 Zambia: Real and Nominal Interest Rates, 1966-86

Year	*Nominal lending rate (minimum) (end period, percent p.a.)*	*WPI*[a] *(1980 = 100)*	*Real lending rate (percent p.a.)*
1966	6.50	29.91	n.a.
1967	6.98	29.55	8.3
1968	7.00	32.16	-1.0
1969	7.00	35.21	-1.5
1970	7.00	34.31	9.8
1971	7.00	32.19	14.5
1972	7.50	33.86	2.4
1973	7.50	41.31	-8.9
1974	7.50	46.60	-3.5
1975	7.50	43.97	14.3
1976	8.00	51.90	-6.3
1977	8.25	63.30	-8.3
1978	9.50	73.71	4.1
1979	9.50	91.59	-8.4
1980	9.50	100.00	1.0
1981	9.50	105.32	4.2
1982	9.50	112.32	3.1
1983	13.00	139.34	-5.4
1984	17.50	178.30	-3.6
1985	18.60	262.50	-10.2
1986	27.40	468.20	-11.5

a. Wholesale price index.

Source: World Bank data files.

Table A-4 Zambia: Nominal and Real Interest Rates on Commercial Bank Deposits of Six Months, 1966-86

Year	*Nominal*[a] (percent per annum)	*Real*[b] (percent per annum)	*CPI*[c] *(1980 = 100)*
1966	3.5	n.a.	28.5
1967	4.0	-1.0	30.0
1968	4.0	-5.1	33.2
1969	4.0	-1.6	34.0
1970	4.0	1.4	34.9
1971	4.0	-1.6	37.0
1972	4.5	-0.4	38.9
1973	4.5	-1.5	41.4
1974	4.5	-2.9	44.8
1975	4.5	-4.2	49.3
1976	5.8	-8.7	58.6
1977	6.8	-8.3	70.1
1978	6.8	-6.4	81.6
1979	7.3	-1.4	89.5
1980	7.5	-2.7	100.0
1981	7.5	-4.3	114.0
1982	7.5	-3.2	128.2
1983	8.5	-6.8	153.4
1984	15.5	-1.0	184.1
1985	15.5	-9.2	253.0
1986	24.0	-7.7	370.8

a. Interest rates at year end.
b. Real interest rates (R) have been calculated using the formula

$$R = \frac{1 + i}{1 + p} - 1$$

where i = nominal interest rate
p = percentage change in consumer price index (CPI).
c. See graph 6.
Source: Nominal interest rates: World Bank data files.; CPI: IMF (1987).

Table A-5 Zambia: Nominal and Real Effective Exchange Rates 1970-86
(Index 1980 = 100)

Year	*Nominal exchange rates*	*Real exchange rates*
1970	130.5	122.0
1971	128.9	120.4
1972	123.5	114.6
1973	126.5	113.7
1974	129.6	111.1
1975	130.7	105.9
1976	127.0	108.7
1977	114.3	106.1
1978	105.4	105.5
1979	101.7	102.3
1980	100.0	100.0
1981	102.4	106.0
1982	107.3	115.2
1983	86.6	104.6
1984	83.5	90.8
1985	66.8	84.1
1986	22.8	40.5

Notes: Effective exchange rates have been derived using base year (1980) import weights of 123 countries. The real exchange rate is derived on the basis of the nominal effective rate and movements in consumer price indices in Zambia and its trading partners. An increase in the index means an appreciation in the exchange rate and vice versa. A distinction is made between trade of manufactured goods and primary products. Four separate sets of weights have been calculated for manufactured exports, manufactured imports, primary product exports, and primary product imports. Then the four sets of weights are aggregated into a single set based on the associated trade values. See graph 5.

Source: IMF data (Developing Country Studies Division, Research Department).

Table A-6 Zambia: Terms of Trade Index 1970-86
(index 1980 = 100)

Year	*------Terms of trade-------* *(NA)*[a]	*(UNCTAD)*[b]	*Export price index (UNCTAD)*	*Import price index (UNCTAD)*
1970	251	262	68	26
1971	186	179	50	28
1972	181	164	49	30
1973	233	223	81	36
1974	214	219	103	47
1975	109	122	61	50
1976	116	132	68	52
1977	98	113	63	56
1978	84	107	65	61
1979	117	119	92	78
1980	100	100	100	100
1981	74	81	82	102
1982	54	72	71	99
1983	64	82	76	93
1984	78	74	67	91
1985	87	75	68	91
1986	81	n.a.	n.a.	n.a.

n.a.= not available.

a. Terms of trade in national accounts (NA) is defined as the ratio of export (GNFS) price index to import (GNFS) price index.

b. Terms of trade is defined as the ratio of the export (f.o.b.) unit value index to the import (c.i.f.) unit value index. A full description of methodology and estimates is contained in UNCTAD Secretariat's document TD/138/Supp. 1 (see graph 1). In this study, wherever possible, terms of trade indices as defined by UNCTAD were used. When data from UNCTAD was not available, national accounts were the alternative source.

Source: World Bank data files; UNCTAD (1984).

Table A-7 Zambia: National Account Indicators, 1960-86
(million kwacha, 1980 prices)

Year	*GDP*	*Consumption*	*Investment*	*GDE*[a]	*GDY*[b]
1960	1,859	1,254	644	1,898	2,672
1961	1,884	1,298	622	1,920	2,528
1962	1,838	1,311	585	1,896	2,480
1963	1,898	1,338	453	1,790	2,550
1964	2,129	1,418	334	1,752	2,896
1965	2,484	1,693	967	2,659	3,408
1966	2,348	2,112	1,054	3,165	3,864
1967	2,530	2,352	1,241	3,593	4,050
1968	2,559	2,384	1,290	3,673	4,229
1969	2,557	2,191	946	3,137	5,694
1970	2,670	2,203	1,552	3,755	3,735
1972	2,922	2,288	1,599	3,888	4,066
1973	2,897	2,182	1,515	3,698	4,609
1974	3,088	2,330	1,919	4,249	4,646
1975	3,016	2,614	1,648	4,263	3,130
1976	3,198	2,532	881	3,413	3,454
1977	3,047	2,340	793	3,133	3,012
1978	3,071	2,281	771	3,052	2,833
1979	2,974	2,449	430	2,879	3,202
1980	3,064	2,474	713	3,187	3,063
1981	3,250	2,703	633	3,335	295
1982	3,164	2,466	483	2,949	257
1983	3,099	2,361	366	2,727	268
1984	3,084	2,418	392	2,811	284
1985	3,128	2,641	425	3,066	299
1986	3,143	2,376	503	2,879	292

Notes: See graphs 2 and 9.

a. Gross domestic expenditure (GDE) = total consumption + investment.

b. Gross domestic income (GDY) = gross domestic product (GDP) plus/minus gain/loss due to changes in terms of trade.

Source: World Bank (1987b).

Table A-8 Zambia: Balance of Payments Indicators, 1970-86
(US$ million current prices)

Year	*Current account balance*[a]	*Net capital*[b]	*Net IMF*[c]	*Net ODA*[d]
1970	107.0	318	0	13
1971	-248.7	-2	19	22
1972	-210.6	66	38	22
1973	113.3	16	19	46
1974	8.4	115	0	58
1975	-726.1	383	23	87
1976	-132.8	169	19	62
1977	-232.3	52	0	109
1978	-320.5	-9	186	185
1979	5.2	361	74	270
1980	-544.0	444	8	318
1981	-766.3	212	363	232
1982	-640.3	258	55	317
1983	-267.3	131	64	217
1984	-185.5	212	90	240
1985	-132.0	219	-96	329
1986	-370.0	139	-136	266

Note: See graph 3.

a. Current account excludes official capital transfers.

b. Net capital inflow excludes official development assistance (ODA).

c. Net IMF = IMF purchases - repurchases.

d. Net ODA disbursements includes grants and concessional loans.

Sources: Current account balance: *IMF, Balance of Payments Yearbook,* IMF (various years); net ODA: OECD (various issues); net IMF: *International Financial Statistics Yearbook,* IMF (various years); net capital: *Balance of Payments Yearbook,* IMF (various years).

Table A-9 Zambia: Budget Deficit and its Financing, 1972-86
(million kwacha, current prices)

Year	*Net foreign capital*[a]	*Borrowing from local banks*[b]	*Budget deficit*[c]
1972	16.5	139.3	- 178.8
1973	148.4	0.0	- 129.8
1974	37.6	0.0	+ 68.2
1975	73.4	0.0	- 359.1
1976	38.9	0.0	- 262.5
1977	52.8	229.2	- 250.7
1978	40.6	293.1	- 183.8
1979	163.3	0.0	- 306.6
1980	295.2	0.0	- 459.7
1981	271.4	119.6	- 482.4
1982	140.7	575.2	- 655.9
1983	150.7	19.3	- 378.6
1984	60.8	138.2	- 374.0
1985	169.2	439.5	-1,038.9
1986	435.0	1,306.0	-1,601.5

Note: See graph 4.

a. Net foreign capital (including grants) comprises borrowing from foreign governments, international development institutions, and other foreign borrowing (see line DIII of source).

b. Borrowing from local banks is the total of government borrowing from deposit money banks and monetary authorities of central government. It is in a net basis.

c. Budget deficit of central government = total expenditure - current revenue (excluding grants).

Source: *Government Finance Statistics Yearbook*. IMF (various years).

Table A-10 Zambia: Average Annual Earnings of Zambians by Sector, 1965-83
(Nominal earnings in current kwacha, real earnings in kwacha at 1975 prices)

Year	*Nominal earnings all sectors average*	*Real earnings all sectors average*	*Real earnings mining sector*	*Real earnings manufacturing*	*Low income urban CPI (1975=100)*
1965	468	890	1,570	924	52.6
1966	512	884	1,613	826	57.9
1967	716	1,178	2,174	1,099	60.8
1968	764	1,134	1,852	955	67.4
1969	808	1,171	2,046	1,078	69.0
1970	857	1,210	2,179	1,133	70.8
1971	918	1,222	2,089	1,260	75.1
1972	1,014	1,285	2,029	1,299	78.9
1973	1,135	1,351	2,006	1,267	84.0
1974	1,122	1,236	1,873	1,180	90.8
1975	1,140	1,140	1,478	1,179	100.0
1976	1,478	1,244	2,113	1,428	118.8
1977	1,566	1,100	1,850	1,074	142.3
1978	1,740	1,051	1,522	1,134	165.6
1979	2,103	1,158	1,820	1,084	181.6
1980	2,301	1134	1,408	883	231.3
1982	2,556	982	1,303	830	260.2
1983	2,647	851	1,186	756	311.2

Note: Earnings are annual averages of employees in the formal sector, which accounted for only 22 percent of the total labor force in 1980 (see graph 7). Information on earning differentials between occupations and skills is not available. Information on wage trends in the informal sector is not available. The data has several inconsistencies:

- after 1966, only 4th quarter estimates are available;
- some fringe benefits and noncash earnings are excluded from 1970 onward;
- after 1972, the classification of employees between Zambians and non- Zambians is on the basis of citizenship; until then it is on the basis of ethnicity.

Source: Meesook et al. (1986, Appendix table 2-3).

Table A-11. Zambia: Government Expenditure and Revenue, 1972-86
(million kwacha, constant prices)

Year	*Total expenditure*	*Current expenditure*	*Current revenue*	*Capital outlays*
1972	1,046	724	653	322
1973	949	685	709	263
1974	963	694	1,076	269
1975	1,586	1,112	893	474
1976	1,221	948	780	273
1977	1,162	916	777	246
1978	1,020	791	769	229
1979	1,019	835	677	185
1980	1,243	1,023	783	220
1981	1,223	1,077	772	146
1982	1,324	1,076	447	249
1983	1,057	894	776	162
1984	912	801	680	111
1985	1,154	1,002	683	152
1986	1,213	1,040	789	174

Notes: GDP deflator is used to convert data in current prices into series at 1980 prices. Current revenue excluded grants. See graphs 8 and 11.

Source: *Government Finance Statistics Yearbook,* IMF (various years).

Table A-12. ZCCM Financial Performance, 1973-86

Year	*Sales (K million)*	*Net profit after taxes (K million)*	*Profit after taxes/sales (%)*	*Profit after taxes/total assets (%)*
1973	578	119	21	15
1974	924	187	20	22
1975	845	106	13	9
1976	n.a.	n.a.	n.a.	n.a.
1977	n.a.	n.a.	n.a.	n.a.
1978	684	(22)	(3)	(2)
1979	886	90	10	6
1980	1,089	141	13	8
1981	1,093	56	5	3
1982	977	(174)	(18)	(9)
1983	913	(128)	(13)	(6)
1984	n.a.	n.a.	n.a.	n.a.
1985	1,862	3	0.2	0
1986	4,097	(31)	(1.0)	(0.2)

n.a. = not available.

Note: ZIMCO up to April 1981, thereafter ZCCM.

Source: ZIMCO (ZCCM) annual reports (various years).

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ISSN 1013–333X
ISBN 0–8213–1241–3

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