

**Aid and Reform in  
Zambia  
Country Case Study**

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AID AND REFORM IN AFRICA PROJECT

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## **Abstract**

From a position in the 1980s as a 'non-reformer', in the early 1990s a new government came to power in Zambia with the expressed intent to undertake policy reform. Donors rewarded this local ownership of a policy process with large increases in aid. The political transitions begun in 1991 and the economic policy changes implemented in the first years thereafter, were expected to signify a major shift in Zambia's economic policy regime. However, this paper argues that the notion of *discontinuity* from the policies of the Kaunda era may have been overstated. In the 1990s, Zambia has undergone a shift from a state oriented to a market based economy. Major areas of reform such as liberalisation and privatisation appear irreversible. On the other hand, several key reforms have not been implemented, including civil service reform and the privatisation of the copper industry. The case study argues that both the Zambian government and the donors have failed to express a coherent strategy of economic growth. Instead, both the government and the donors have made fiscal austerity an end in itself and a measure of reform commitment. Different views among the donors have weakened their ability to apply conditionality instruments when commitment to both the political and economic reform processes declined. As a result, a partial reform syndrome characterised by uneven implementation and limited commitment to policy reform has been supported by the inability of donors to apply the conditionality instruments in a coherent manner.

## **Preface**

The main findings in this report are based on research carried out in Zambia in the period between 1991 and 1997 by Lise Rakner. Nicolas van de Walle and Dominic Mulaisho carried out additional field research in May 1999. In addition to the recent fieldwork, the study draws from two previous studies by the authors: "Reform as a matter of political survival. Political and economic liberalisation in Zambia 1991-1996" (Rakner 1998) and Nicolas van de Walle and Dennis Chiwele: "Democratization and economic reform in Zambia" (1994).

This study of Zambia's experiences with economic policy reform and development aid is part of a larger project on Aid and Reform conducted by the Research Department of the World Bank. The quantitative data provided by the World Bank for this project will be utilised in this study. In addition, the case study will present qualitative interview data to enable a deeper understanding of the relationship between policy reform and aid in the case of Zambia. It may not be possible to draw general conclusions from this study due to the case study format and the data material. But the Zambian case study supports a number of the findings reported in recent cross national analyses concerning the aid and reform problematic carried out by among others Killick (1995, 1998), Collier et al. (1997), Mosley (1992), Nelson and Eglington (1993), Burnside and Dollar (1997) and the World Bank Research Department (1998). This case study may therefore be read as an attempt to provide 'a story behind the numbers', or as an attempt to supplement and question some of the general findings appearing in the cross national surveys.

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## Abbreviations

ASIP	Agricultural Sector Investment Programme
AZ	Agenda for Zambia
BOZ	Bank of Zambia
BWI	Bretton Woods Institutions (The World Bank and the IMF)
CG	Consultative Group (meeting)
CSO	Central Statistical Office
DAC	Development Assistance Committee (OECD)
EAZ	Economic Association of Zambia
EDA	Effective Development Assistance
EFF	Extended Fund Facility (IMF)
EIU	Economist Intelligence Unit
ERC	Economic Reform Credit (World Bank)
ESAC	Economic and Social Adjustment Credit (World Bank)
ESAF	Enhanced Structural Adjustment Facility (IMF)
FAO	Food and Agricultural Organisation (UN)
FODEP	Foundation for a Democratic Process
GDP	Gross Domestic Product
GNP	Gross National Product
GRZ	Government of the Republic of Zambia
HIPC	Highly Indebted Poor Country Initiative
IBRD	International Bank for Reconstruction and Development (WB)
IDA	International Development Association (World Bank)
IFI	International Finance Institutions
IMF	International Monetary Fund
ISI	Import Substituted Industrialisation
Kw	Kwacha (Zambia's local currency)
LUSE	Lusaka Stock Exchange
MAFF	Ministry of Agriculture, Food and Fisheries
MMD	Movement for Multiparty Democracy
MOF	Ministry of Finance
MP	Member of Parliament
NERP	New Economic Recovery Programme
NGO	Non-Governmental Organisations
ODA	Overseas Development Assistance
PFP	Policy Framework Paper
PSRP	Public Sector Reform Programme
RAP	Rights Accumulation Programme (IMF)
SAF	Structural Adjustment Facility (IMF)
SAP	Structural Adjustment Programme (World Bank)
SDR	Standard Drawing Right (IMF)
SIDA	Swedish International Development Co-operation Agency
UN	United Nations
UNDP	United Nations Development Programme

UNIP	United National Independence Party
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
ZACCI	Zambia Association of Chambers of Commerce and Industry
ZAM	Zambian Association of Manufactures
ZCCM	Zambia Consolidated Copper Mines
ZCF	Zambia Co-Operative Federation Unions
ZCTU	Zambia Congress of Trade Unions
ZFE	Zambia Federation of Employers
ZIMCO	Zambia Industrial and Mining Corporation
ZIMT	Zambia Independent Monitoring Team
ZNCCI	Zambia National Council of Commerce and Industry
ZNFU	Zambia National Farmers Union
ZPA	Zambia Privatisation Agency
ZRA	Zambia Revenue Authority

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## Introduction

More than for most other sub-Saharan African countries, financial aid from the international donor community to Zambia in the last two decades has been tied to the implementation of economic policy reform. Zambia's experiences with economic policy reform can be divided into two main periods. During the 1980s, under the one-party rule of UNIP and President Kaunda, the structural adjustment reforms advocated by the international donor community were largely discontinued. Most observers argue that these economic reform measures constituted a treat to the privileges of the large urban community on which UNIP largely based its support (Bates and Collier 1993; Callaghy 1990; Hawkins 1991; West 1992). Due to a long tradition of subsidising urban consumer commodities, the UNIP government was very vulnerable to urban protest. Faced with 'food riots' in the urban areas each time comprehensive reforms were attempted, President Kaunda abandoned the economic reform programmes. But the combined result of an escalating debt burden and increasing donor coordination meant that by the late 1980s, Zambia was ineligible for financial assistance from the multilateral finance institutions. By 1989, the Kaunda government again approached the IFIs for a structural adjustment agreement.

In early 1990s, economic events were overtaken by political events when the continuous decline of the Zambian economy became the main rallying cry of the opposition against the one-party regime. In 1991, the Movement for Multi-party Democracy (MMD), an opposition drawn from a broad coalition of trade unions, business interests, intellectuals, and students, won an overwhelming electoral victory over the single party for the past 17 years, the United National Independence Party (UNIP). As one of the first countries in sub-Saharan Africa, Zambia experienced a peaceful transition to multi-party rule. One of the most significant aspects of the transition was the fact that MMD had committed itself to the implementation of an ambitious economic reform programme (MMD 1991). The peaceful transition to multi-party democracy in 1991, as well as the economic policies promoted by the new government, made Zambia a 'model for Africa' both in the eyes of the international donor community and much of the academic community (Bratton 1992, Joseph 1992, Bonnicksen 1997). With donors eager to promote one of the few African 'success stories' of dual reforms, Zambia experienced substantial growth in official development assistance (ODA) in the 1990s. Contrary to the experiences in the 1980s, Zambia has maintained a structural adjustment programme throughout the Third Republic (1991-).

The political transitions begun in 1991 and the economic policy changes implemented in the first years thereafter, were expected to signify a major shift in Zambia's economic policy regime. However, we argue that the notion of *discontinuity* from the policies of the Kaunda era may have been overstated and that a disturbing degree of *continuity* in terms of uneven implementation and limited commitment to policy reform has been witnessed since the mid 1990s. After almost a decade of continuous structural adjustment programmes, the record on Zambian policy reforms in the 1990s is exceedingly complex and mixed. On the one hand, during the 1990s the foundations have been laid for a shift from a state oriented to a market based economy. Most importantly, despite several exogenous shocks and uneven

implementation, none of the reform measures implemented have been reversed. On the other hand, several key reforms have not been implemented, including civil service reform and the privatisation of the copper industry. The MMD government has displayed genuine commitment to liberalisation and stabilisation with the implementation of the cash budget, the establishment of Zambia Revenue Authorities and the freeing of exchange controls as significant examples. However, commitment to a long-term strategy of growth, which would have included a proactive position on the mines from the very beginning as well as a strategy to enhance tourism and non-traditional agriculture, has not been displayed. The failure to restructure the civil service is yet an example of the government's limited commitment to reform. The net result is that the Zambian economy has not experienced any growth in the 1990s. Most alarmingly, social indicators have regressed within the last decade. From our perspective in 1999 it is therefore difficult to argue that the Zambian economy is heading in the right direction and that a resumption of GDP growth is an immediate prospect.

New evidence on aid effectiveness shows that aid transfers to date have been ineffective both in promoting growth and in inducing policy reform except in good policy environments (Burnside and Dollar 1997, Killick 1998). We argue that the Zambian case supports these findings. Throughout the 1980s, the UNIP government rejected policy reform. The cut-off from IFI finances following the cancellation of reform agreements in 1983 and 1987 were, however, largely offset by bilateral aid flows. From a position in the 1980s as a classic 'non-reformer', the reformist government coming to power in 1991 was rewarded by substantial increases in aid. However, over time, the MMD government's commitment to reform waned despite external support and in part because the reforms achieved so little in terms of stemming the continued economic decline. The international donor community has played a central role in Zambia's economic policy development in the last decade due both to their intellectual and financial impact. Financial aid has been instrumental for implementing some policy reforms and sustaining other reform measures. However, we argue that the donors, as well as the Zambian government, have failed to express a coherent strategy of economic growth. A donor promoted strategy of growth would have placed the mining industry at the centre of negotiations with the MMD government much earlier than 1997. Instead, in the 1990s both the government and the external donors have made fiscal austerity an end in itself and a measure of reform commitment. As a result, stabilisation is today threatened, as there has been no growth to support continued austerity. Similarly to the experiences of the 1980s, donor conditionality has proved unable to stem the waning reform commitment witnessed in the last half of this decade. The experiences in Zambia indicate that the specific targeting of certain reform elements and the technically formulated benchmarks offered a relative wide room for manoeuvring for the authorities. Furthermore, the singular focus on meeting the conditionality benchmarks made the Zambian government a *receiver* of a policy rather than an initiator. The government has indicated commitment to various elements of the policy reform package and little ideological opposition has been displayed towards the economic reform programme. Yet, ownership of the reform process remains weak and policy implementation appears justified with reference to generating aid funds rather than a domestically argued development strategy. Reflecting continuity rather than a shift in donor – government relations, a partial reform syndrome has been supported by the inability of donors to apply the conditionality instruments in a coherent manner as government commitment to political and economic reforms have declined.

Zambia, nevertheless, presents a challenging case study for the Aid and Reform project. As an alternative to conditionality based aid, the *Assessing Aid* report (World Bank 1998) recommends that recipient countries should be selected on the basis of good policy performance for aid to be effective. Based on Zambia's experiences with conditionality aid and policy reform we argue that the *Assessing Aid* report underestimates the difficulty of donor coordination when calling for aid selectivity. The model of selectivity presented is essentially a one-donor model, which assumes that donor preferences are singular rather than plural. However, the Zambian case illustrates that a range of conflicting interests within the international donor community complicated the conduct of unified action when a waning commitment to reform was witnessed. A major aim of the operations of the IMF and the World Bank is to enable indebted nations to repay their debt. In the case of Zambia, large amounts of the balance-of-payments support contributed by the donor community over the past decade have been used to service old debts to the same donor institutions. Both the Zambian government and the IFIs may therefore have had an incentive to exaggerate the results of the reform effort in order to maintain a constant flow of financial aid. Furthermore, the multilateral donors have high financial and intellectual stakes in the policy reform processes in Africa. A mixed, or even slipping, policy performance is not easily dismissed as the costs involved in entering yet another aid agreement six months ahead are exceedingly high. The bilateral donors, on the other hand, have tended to take a somewhat different view in the 1990s. Most bilateral donors have emphasised political reforms as a condition for financial support. Answering back to their local constituencies and tax payers, the bilateral donors have become increasingly wary of supporting undemocratic Third World governments. From 1995 onwards, Zambia's bilateral donors have shown an increasing willingness to exercise political conditionality over such issues as corruption, drug-related activities and the struggle over the revision of the constitution. However, pointing to the progress made on basic economic reforms, and the need to support a government that has gone a distance on reform, the multilateral donors have advocated for continued support of Zambia's economic reform process. Thus, underscoring the notion of continuity from the Kaunda era, the Zambian case study shows that donor differences largely diluted the impact of conditionality instruments.

In the following we analyse the relationship between policy reform and aid by firstly, assessing the aid flows that Zambia has received since the early 1980s (Part One). Secondly, we analyse the institutional developments and policy reforms in the period since 1980. The main emphasis will be placed on the period following the introduction of the Third Republic in 1991 as this represents the period of continuous economic reform in Zambia (Part Two). Thirdly, we focus on the relationship between policy reform and conditionality based aid. The World Bank and the terms of references for this study have emphasised economic conditionality issues. However, in Zambia in the 1990s a combination of political and economic conditionalities influenced reform implementation and the strength of donor cohesion. Political developments and political conditionalities will therefore be assessed alongside the economic issues (Part Three). The concluding section summarises the main findings of the case study (Part Four).

## **Part 1: Aid to Zambia**

In this section we present the main trends in aid flows to Zambia. During the period considered, aid levels have grown rapidly. In the last two decades multilateral aid levels have been substantially higher than bilateral aid. More than most other sub-Saharan African countries, foreign aid has since the early 1980s predominantly been tied to structural adjustment loans and programmes.

### **1.1: Definitions of aid and measures applied**

The standard concept of aid used in most studies is Official Development Assistance (ODA), consisting of financial aid and technical co-operation. Financial aid includes grants and concessional loans with a grant element at 25 per cent or higher. But it has long been acknowledged that the standard ODA measure tends to overestimate aid flows, as it does not provide an accurate measure of the grant element in official loans. As a result, the World Bank has produced a new aid measure, Effective Development Assistance (EDA) which provides a more accurate measure of actual aid flows<sup>1</sup>. EDA is defined as the sum of grant equivalents and grants, excluding technical assistance and bilateral debt forgiveness. This adjusted measure uses the same conventional grant data but aggregates the grant equivalent of loans rather than the full face value of all loans deemed concessional. In this paper we will use the EDA measure when presenting the overall aid trends in Zambia. However, the World Bank EDA figures are only provided until 1996. We will therefore present aid figures compiled by the GRZ Ministry of Finance as well in order to cover the period until 1999. These aid measures include technical assistance and bilateral debt forgiveness and are therefore higher than the World Bank estimated EDA figures.

### **1.2: Trends in Zambia's relationship to its external partners**

Zambia has received financial aid since the mid 1960s. A major leap was experienced in the mid-1970s and another significant increase took place in 1991. Due to the poor performance of the Zambian economy since the mid 1970s, the dependence on development assistance has increased both on a per capita and percentage of GDP basis. The importance of aid to Zambia cannot be overstated. At its peak in 1992 the disbursements from multilaterals and 22 bilaterals amounted to US\$1,479 million, representing 67 per cent of export earnings and 77 per cent of total public expenditure. In excess of 35 per cent of the government's budget is financed by the donor community. On average 80 per cent of the budget for capital expenditure is accounted for by donor financing (GRZ: Budget 1999). The donor community is large and influential and approximately 150 international donor agencies work in Zambia.

In terms of sectoral distribution of external aid, agriculture, infrastructure, health and education received most of western bilateral aid in the 1970s and 1980s<sup>2</sup>. Due to the worsening foreign exchange situation facing Zambia in the 1980s, a number of donors shifted

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1. For a presentation of the critique of ODA measures and the methodology used in measuring EDA see: Charles C. Chang, Eduardo Fernandez-Arias and Luis Servén: "Measuring aid flows: A new approach" *World Bank Policy Research Paper* 2050. Washington D.C.: World Bank, 1999.

<sup>2</sup> See table A1.1 and A1.2 in Appendix 1: Data and Statistics

substantial parts of their aid from project to programme aid. In the 1990s, balance-of-payments support, or programme aid, has become an increasingly more important part of Zambia's aid portfolio. Balance-of-payments support, consisting of import support and debt relief, accounted for more than half of total aid to Zambia in the early 1990s (Saasa and Carlsson 1996). Balance-of-payments support has in Zambia mainly been linked to the ongoing structural reform efforts and to a large extent it has been employed to service Zambia's debt and maintaining existing levels of import. Since 1970, Zambia's external debt has grown rapidly<sup>3</sup>. At present, Zambia's external debt stands at US \$ 6.6 billion. This constitutes one of the highest debt figures on a per capita basis in sub-Saharan Africa. The external debt service burden has been reduced in the 1990s through Paris Club debt-forgiveness. Nevertheless, in the mid 1990s the debt service flow has absorbed close to 80 per cent of the balance-of-payments support provided by the donors. An evaluation of Swedish development assistance to Zambia concludes that:

“Essentially, Zambia used non-concessional monies to repay borrowing from creditors and is now receiving grants and concessional funds to repay these non-concessional debts. Aid flows have thus for the most part been a large scale debt rescheduling” (White et al. 1994: 286).

In 1999, the Paris Club, grouping Zambia's major bilateral donors, agreed to restructure its loans to Zambia by writing off 67 per cent of the debt and rescheduling the remaining 33 per cent on more concessional terms. The Paris Club negotiations have been considered the first step towards further debt reductions through the highly indebted poor country (HIPC) status, which will cover the bulk of Zambia's multilateral debt stock. The World Bank is currently lobbying the bilateral donors and the IMF to ensure that Zambia qualifies for the Highly Indebted Poor Country initiative suggesting that some criteria for entry are waived (EIU: 2nd. Quarter 1999).

### **1.3: The relationship to the multilateral donors:**

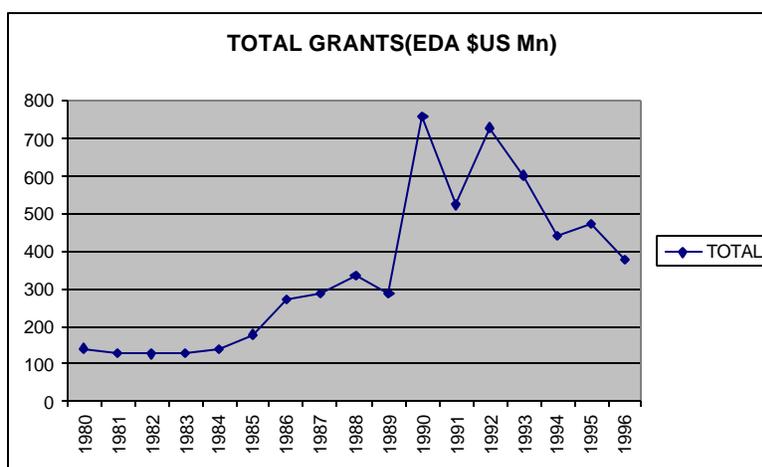
The first major leap in aid flows to Zambia dates back to the downturn of the copper industry in the mid 1970s. From 1973 onwards, Zambia drew on IMF financial resources. Due to the country's high copper earnings, Zambia was only declared eligible, i.e. poor enough, to qualify for World Bank IDA funds in 1978. Until 1978 Zambia borrowed from the World Bank on IBRD terms. Zambia was a blend country drawing both on IDA and IBRD terms until 1984 and since then, the country has borrowed on IDA terms only. The first two IMF stand by agreements in 1973 and 1976 were fully drawn, yet balance-of-payment was not restored to equilibrium. From 1978 onwards, Zambia depended on IMF and the Consultative Group for its foreign exchange requirements (West 1989). The World Bank and the IMF have been the most important providers of external support to Zambia's reform efforts. Yet, neither the World Bank nor the bilateral donors took active parts in policy discussions concerning Zambia until 1980. In the 1970s, IMF was therefore the main external advocate for liberal economic reforms in Zambia. However, since the early 1980s, the operations of the World Bank and IMF in Zambia has been marked by steady increases in borrowing matched by more stringent conditions.

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<sup>3</sup> See table A1.7 in Appendix 1: Data and Statistics.

In the early 1980s the World Bank presented a new development strategy (World Bank 1981). From this time on, Zambia's development assistance from the IFIs has predominantly been adjustment lending, which has accounted for approximately 60 per cent of World Bank commitments and close to 80 per cent of disbursements since the mid 1980s (Bonnick 1997). This figure is substantially higher for Zambia than other sub-Saharan African countries, including Tanzania, Kenya and Uganda. Zambia was a controversial country with respect to adjustment lending throughout the 1980s. Despite the great concentration on adjustment related programmes, the economic reform programmes in Zambia have been marked by frequent interruptions. Due to the accumulation of arrears, the IMF and the World Bank cancelled their programmes in 1983 and again between 1987 and 1990. In 1991 the World Bank and the bilateral donors were able to clear Zambia's arrears on their multilateral debt and lending was resumed. In the Third Republic (1991-), Zambia has remained committed to the economic reform programme agreed to with its international partners to the extent that the country has been current on its international debt payments. The main token of the success achieved by the Zambian government in terms of economic liberalisation in the period after 1991 was the completion of the Rights Accumulation Programme (RAP) with the IMF in December 1995. By completing the RAP, Zambia gained access to an IMF Enhanced Structural Adjustment Facility (ESAF). This again meant that the IMF lifted Zambia's ineligibility to draw on IMF resources. The significance of this is underscored by the fact that this was the first time Zambia completed any agreement entered into with the IMF. Zambia is now entering into its second ESAF Programme (1999-2001) as the completion of the previous programme (ESAF 1995-98) has been postponed and the programme period extended.

Figure 1: Total Grants by Creditor <sup>4</sup>



Since the early 1980s the operations of the World Bank and the IMF have become increasingly tied. Nevertheless, the IMF has maintained a more narrow mandate than the

<sup>4</sup> Based on table A1.3 in Annex 1: Data and Statistics

World Bank, namely to restore macroeconomic stabilisation and growth through the introduction of a set of macroeconomic policies. IMF loans, while on concessional terms, are conditioned on closely monitored macroeconomic and structural performance benchmarks (Killick 1997, Collier 1997). The World Bank, adhering to similar performance criteria, has a wider 'conditionality agenda' including issues of governance as well as policy goals linked to poverty reduction and sectoral performance. Connecting the lack of success of the first decade of structural adjustment programmes to domestic policy issues, the concept of 'good governance', was introduced by the World Bank in the early 1990s (Kapur 1997). The World Bank has emphasised issues of governance considered 'non-political', such as accountability, transparency and the rule of law, as necessary ingredients for successful economic reform implementation. This way, both the World Bank and the IMF have sought to avoid tying their assistance to the issues of democracy and human rights advocated by the bilateral donors. Contrasting the stop-go character of the relationship between the Zambian government and the multilaterals in the 1980s, in the 1990s no multilateral adjustment loans have been cancelled. World Bank balance-of-payments support continued in 1997 but in 1998 there was no multilateral balance-of-payments financing because no World Bank adjustment loan was scheduled until the second half of 1998. Another World Bank adjustment operation was approved in early 1999.

Table 1: Policy based loans from multilateral institutions

Institution	Loan	Requirements
World Bank	1991: Economic Reform Credit (ERC)	Phase out maize subsidies, begin liberalising of maize markets, limit bank credits, remove tariff bans, eliminate surplus civil service staff, announce privatisation policy and offer a minimum of 6 parastatal companies for sale, complete studies of Zambia Airways.
World Bank	1992: Privatisation and Industrial Reform Credit (PIRC I)	Fiscal and monetary performance, harmonise sales taxes, broaden tax base, reduce tariffs, retrench 10,000 civil service workers, enact privatisation law, offer additional 10 parastatals for sale, restructure ZIMCO.
World Bank	1993: (PIRC II)	Fiscal and monetary performance, reduce tariffs, develop plans for land markets, reform Investment Act, offer for sale 60 companies, establish Privatisation Trust Fund, study options to privatise ZCCM.
World Bank	1994: Economic and Social Adjustment Credit (ESAC I)	Redirect budget to social sectors (health and education), eliminate export ban on maize, create legal basis for land leasehold, and begin sale of state owned farms, adoption of acceptable financial plan for Zambia Airways.
World Bank	1995: Economic Recovery and Investment Project (ERIP)	Introduce VAT, improve budget management procedures, meet minimum budget and spending targets for key social services, reform social security, adopt and implement plans to privatise ZCCM.
World Bank	1996: (ESAC II)	Maintain a social sector budget of at least 35 %, privatise ZCCM, implement 1995 Land Act, implement National Housing Policy of 1995, amend Employment and Industrial and Labour Relations Act, formulate policy on collaboration with NGOs in welfare service delivery.
IMF	1992-95: Rights Accumulation Programme (RAP)	Restore macroeconomic stability, eliminate arrears to international creditors, and implement Economic Recovery Programme in collaboration with multinational finance institutions.
IMF	1995-98, 1995-98 Enhanced Structural Adjustment Facility (ESAF)	Quantitative benchmarks: Increase net domestic assets of BOZ, increase international reserves, and reduce government domestic arrears. Structural performance criteria: Reform civil service, gazetting of banking regulations, privatise ZCCM.
World Bank	1999 Structural adjustment fund	Structural performance criteria: Reform civil service, gazetting of banking regulations, privatise ZCCM.

Sources: World Bank 1996d; IMF 1995.

#### **1.4: The relationship to the bilateral donors**

As a result of the financial impact and the large concessional element of bilateral aid, bilateral donors have been influential in Zambian policymaking. The main bilateral donors have included Canada, Denmark, Finland, Germany, Japan, the Netherlands, Norway, Sweden, the UK and the US. In the 1980s, in the absence of aid coordination, the majority of bilateral aid was disbursed independently of policy reform. Some of the major bilateral

contributors to Zambia remained unconvinced of the World Bank and IMF advocated economic reform programmes and even increased their aid portfolios when Zambia cancelled the agreements with the IFIs. In the first decade of structural adjustment lending, the bilateral donors therefore represented a countervailing influence to that of the World Bank and IMF (Bates and Collier 1993, Sandberg 1990, West 1989, Saasa and Carlsson 1996). In the 1990s, the coordination both of aid, as well as ideology, has been much tighter and most bilateral donors have tied their programme aid to a previous agreement with the IMF and the World Bank. Furthermore, the Consultative Group meeting process has brought greater coherence to the operations of the various donors than was the case in the 1980s.

Zambia's bilateral donors do not represent a homogenous group in terms of the size of their aid portfolios or policy goals. Nevertheless, the bilateral donors display a number of similarities. Most of the large Western bilateral donors have since the early 1990s explicitly tied their aid policies to the promotion of good governance, democratic development and adherence to human rights<sup>5</sup>. Observers have related the bilateral donor governments' high profile on democracy and human rights in the early 1990s to the growing aid fatigue witnessed in the Western world (Killick 1996; Havnevik and van Arkadie 1996). In the 1990s differences between Zambia's multilateral and bilateral donors have been most clearly expressed with regard to governance issues. The majority of Zambia's bilateral donors withheld balance-of-payments support from 1996 through 1998. In June 1996, US, Norway, Sweden, the Netherlands, Germany and Japan cut off balance-of-payments support to protest the exclusion of Kenneth Kaunda from the presidential elections. At the Consultative Group meeting in July 1997, US \$150 million was pledged in balance-of-payments support, conditional on governance reform. However, no bilateral donors disbursed their balance-of-payments support citing poor performance on governance issues as their reason for withholding funds. Again, at the May 1998 Consultative Group meeting, Zambia's donors pledged US \$ 530 million in balance-of-payments support but the disbursement was made contingent on the sale of the copper mines and further improvements of the governance record. Most bilateral support was again held back. However, it must be noted that the financial cuts have in most instances affected programme aid, or balance-of-payments support, while project aid has continued<sup>6</sup>. Debt rescheduling and debt cancellations have also continued. Statistics compiled by the Ministry of Finance indicate that while virtually no bilateral balance-of-payments support was disbursed between 1996 and 1998, in the same period, project support *increased* from the 1991-94 levels. Project support, continued multilateral balance-of-payments support and debt relief have meant that the net aid transfers to Zambia has remained relatively constant as illustrated in Table 2.

The governance situation in Zambia has not improved significantly in recent years. Furthermore, the privatisation of ZCCM has not been finalised. Yet, currently, the bilateral donors appear to move towards the position of the IFIs and view Zambia's achievements in

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<sup>5</sup> The Scandinavian countries, the Netherlands and Canada were among the first countries to tie their aid to adherence to the principles of human rights (Selbervik 1997; Stokke 1995, 1996).

<sup>6</sup> As one of the few examples of cuts in project aid, USAID reduced its governance aid programme as a reaction to the exclusion of Kenneth Kaunda from the presidential elections in 1996.

a more positive light. The turbulent situation in neighbouring Angola, the Democratic Republic of Congo and Zimbabwe have induced a number of donor governments to invoke regional security concerns to their aid portfolio in Zambia. During the 1970s and 1980s, regional concerns prompted the bilateral donor governments to assist Zambia financially. In the 1990s, after the demise of communism and the end of apartheid in South Africa, regional concerns have been of less significance in terms of aid allocations. However, the political instability in the Great Lakes area and the Congo war have again brought regional concerns to the forefront of bilateral donor concerns. Recently, Zambia's President has taken initiatives towards peace building in Congo. At the May 1999 Consultative Group Meeting for Zambia, Zambia's regional role was stressed to justify continued aid to the country. The long anticipated influx of balance-of-payments support from the donors began in March and it is expected that continued unrest in the region will induce the bilateral donors to continue their support (EIU: 2nd. Quarter 1999).

Table 2: Net aid transfers to Zambia 1991-1999

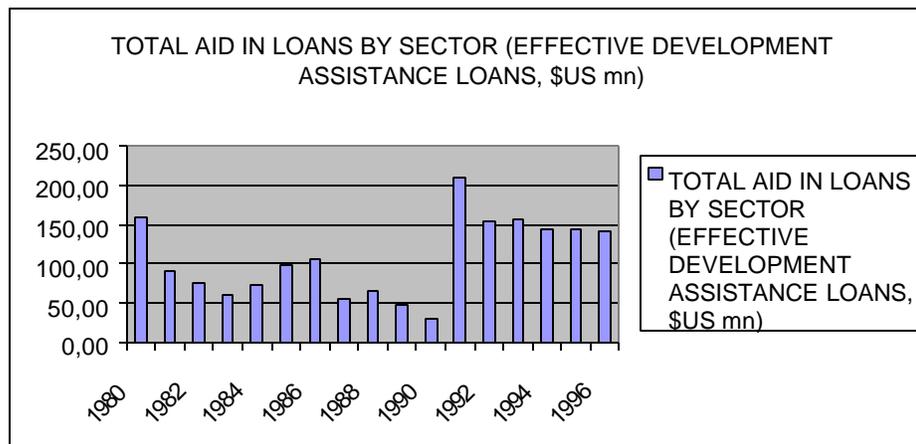
	1991	1992	1993	1994	1995	1996	1997	1998 (est)	1999 est
<b>Total External Assistance</b>	926	928	623	556	559	445	422	322	827
<b>Bop support</b>	586	491	299	278	304	142	120	0	359
World Bank	202	165	144	148	160	121	111	0	173
Other	384	326	155	130	144	21	9	0	186
<b>Commodity Aid</b>	74	246	90	26	40	34	0	3	10
Drought	16	146	40	34	0	0	2	--	
Other	58	100	50	26	0	34	0	1	10
<b>Project Finance</b>	266	191	234	252	215	269	302	319	458
<b>Debt Relief</b>	1,158	551	359	260	234	310	159	122	219
<b>Total External Financing.</b>	2,084	1,49	982	816	793	755	581	444	1,046
<b>Gross Debt Service</b>	-1,841	-926	-710	-616	-578	-453	-352	-286	-309
<b>Net Transfers</b>	243	553	272	200	215	302	229	155	737

Source: GRZ: Ministry of Finance, 1999.

### ***1.5: Aid coordination and the evolution of conditionality based lending***

Aid until the early 1980s set few conditions and involved little coordination. It consisted mainly of project support. Increasingly, the donors resumed full responsibility for planning, preparing and implementing their own programmes in Zambia. In the absence of any donor coordination, donors took the initiative without a framework for setting national priorities (Bonnick 1997: 116). In the 1980s, multilateral donors began to focus on policy reforms and formal conditions for assistance. However, little attention was paid to the coordination of donor efforts. In an attempt to meet the growing balance-of-payments problems facing many sub-Saharan African nations, the World Bank in the early 1980s shifted a large proportion of its lending portfolio from project aid to programme aid. By tying the

disbursement of programme aid to an a priori stabilisation agreement with the IMF, the operations of the World Bank became more closely linked to those of the IMF. Towards the late 1980s, increasingly, the evolution toward cross-conditionality also included the bilateral donors. Thus, an increasingly stronger degree of cohesion and coordination within the international donor community around the principles of economic policy reform, based on the promotion of exports through market-friendly economic policies, took form<sup>7</sup>.



Source: World Bank

Chaired by the World Bank, Consultative Group meetings appeared in the mid-1980s as a mechanism to improve coordination among donors and co-operation with the recipient governments in the field of macroeconomic and structural policy reforms. In addition to the Roundtable meetings hosted by UNDP, the Consultative Group meeting process hosted by the World Bank is intended to serve as 'pledging sessions' to help close financing gaps for the aid recipient countries. In the 1980s, increasingly, the Consultative Group meeting process has become the main channel for indebted recipient governments to raise external support required to meet their balance-of-payments needs and debt servicing obligations. As a result, recipient governments have had great incentives to participate in these meetings (van de Walle and Johnston 1996: 50). In 1989 the World Bank resumed the leadership of the Consultative Group meeting for Zambia. Since then, the Bank has played a crucial role in mobilising donor support for Zambia through an unusually active dialogue with the donor community and the client country. The Zambian government has used the periodic Consultative Group meetings as one of its principal mechanisms to facilitate aid mobilisation and coordination (Saasa 1997: 197). The main task of the World Bank has been to mobilise assistance to close financial gaps and to provide the documentary and analytical basis for discussions and negotiations. According to the World Bank's own evaluation, it has also played an advocacy role by educating donors and convincing them of the merit of structural adjustment (Bonnick 1997: 9). An other important measure of aid coordination in the 1990s relates to debt rescheduling and debt cancellations that have taken place within the Paris Club. In the 1990s, Zambia has seen a net fall in interest burden as indicated in Table 2. Over time, however, the share of multilateral debts has increased.

<sup>7</sup> The concept of donor cohesion is used to denote the level of agreement among representatives of the states and multilateral organisations within the international donor community (Sandberg 1990).

Donor coordination has improved in the 1990s with respect to policy based lending. However, a key feature of the aid relationship in Zambia still appears to be lack of coordination both among the donors themselves and within the government. Analyses of donor involvement and various bilateral donor programmes in Zambia have revealed a diversity of external agencies and organisations involved in support to the same sectors and sub-sectors suggesting the need for better collaboration (Saasa and Carlsson 1996: 126). Beginning in 1992, sectoral coordination among donors has been attempted. Sweden was then given the lead role for the education sector, health was to be the main area of Dutch project aid, water supply and sanitation was allocated to Germany and Norway. In recent years, considerable efforts have gone into a coordinated and integrated approach for the health and agricultural sectors in particular. In agriculture, sectoral coordination has centred around the World Bank initiated Agricultural Sector Investment Programme (ASIP). According to a World Bank evaluation, the Bank has sought to limit itself to a catalyst role, but has faced conflicting pressures - a desire to promote local ownership, and a need to offset institutional weaknesses in the public sector management to maintain momentum of the process (Bonnick 1997). In the health sector, the Ministry of Health, which has adopted a very open and transparent approach with the donors, has driven the Health Sector Support Project (Graham 1995, Bonnick 1997).

Earmarking aid expenditures to specific sectors or projects like health and education may improve expenditure outcomes. Evidence from Zambia suggests that sector reform can have a significant impact even in the absence of commitment to macro-economic reform. Comparative studies between sector reforms in education and health have indicated that competent ministers who manage to work well with the donors and assemble a good team, can bring reform processes far without much initial support from the rest of the government (Graham 1995). Yet, the problem of aid fungibility raises the question of whether aid in the form of project grants or loans may dilute policy conditionality in the sense that money can be reallocated, thereby lessening the need to follow through on the reform programme. Thus, the question is whether or not budgetary support, with more coherent and strict conditionality, would work better. As indicated by Table 2, increases in project aid to Zambia from 1996 reduced the impact of reductions in balance-of-payments support in terms of overall aid transfers. This issue is problematised further in part Three where we discuss the impact of donor divisions on conditionality. However, with regard to sector support, we find the fungibility issue to be of limited relevance in fiscally strapped countries like Zambia, essentially lacking a development budget. If donors fail to finance health or education, the fear is that very little will take place beyond the most basic administration. Thus, donor support to sectoral reform may be meaningful even in the absence of macro economic reforms.

Table 3: Consultative group meetings (1991-1999)

Date	Issues of debate
March 1992	<ul style="list-style-type: none"> <li>- the economic reform programme (main)</li> <li>- the drought and food security situation</li> <li>- the external debt situation</li> </ul>
December 1992	<ul style="list-style-type: none"> <li>- inflation</li> <li>- the implementation of a cash budget</li> <li>- corruption</li> <li>- the slow pace of privatisation</li> </ul>
April 1993	<ul style="list-style-type: none"> <li>- the composition of public spending,</li> <li>- lack of adherence social sectors</li> <li>- the subsidies to Zambia Airways</li> <li>- inflation</li> <li>- the state of emergency</li> <li>- corruption</li> </ul>
December 1993	<ul style="list-style-type: none"> <li>- governance, corruption and drug trafficking</li> <li>- slow pace of privatisation (Zimco)</li> <li>- government expenditure priorities</li> </ul>
March 1994	<ul style="list-style-type: none"> <li>- 'renewed partnership'</li> <li>- the continued high interest rates</li> <li>- the slow progress on privatisation</li> <li>- the external debt situation</li> </ul>
December 1994	<ul style="list-style-type: none"> <li>- the continued slow pace of privatisation</li> <li>- the delayed closure of ZIMCO</li> <li>- limited progress on the PSRP</li> <li>- governance and corruption</li> <li>- poverty</li> </ul>
December 1995	<ul style="list-style-type: none"> <li>- governance issues (constitution)</li> <li>- privatisation of ZCCM</li> <li>- poverty alleviation</li> </ul>
July 1997	<ul style="list-style-type: none"> <li>- 'renewal of partnership'</li> <li>- budget balance and discipline</li> <li>- the external debt situation</li> <li>- privatisation of ZCCM</li> <li>- Public Sector Reform Programme</li> <li>- poverty reduction</li> <li>- governance issues</li> <li>- aid dependency</li> </ul>
May 1998	<ul style="list-style-type: none"> <li>- privatisation of ZCCM</li> <li>- Public Sector Reform Programme</li> <li>- poverty reduction</li> <li>- governance issues</li> </ul>
May 1999	<ul style="list-style-type: none"> <li>- privatisation of ZCCM</li> <li>- Public Sector Reform Programme</li> <li>- poverty reduction</li> <li>- governance issues</li> <li>- regional stability</li> </ul>

## Part 2: Institutional development and policy reform

During the first ten years after independence in 1963, the Zambian economy expanded fairly rapidly with GDP increasing at an average of 2.3 per cent annually in real terms (World Bank 1984). However, Zambia's modest luck ran out in 1974, and according to estimates, in the period between 1975 and 1990, Zambia experienced a 30 per cent decline in real per capita growth (World Bank 1990). Among the nations of sub-Saharan Africa, Zambia suffered one of the greatest and most rapid economic declines starting in the early 1970s. After 1974, copper prices fell sharply on the world market. The fall in copper prices also coincided with an enormous increase in oil prices. Zambia's revenues fell sharply with the decline in the price of its major export. Diversification of the Zambian economy away from copper had been an expressed political goal since independence. Nevertheless, Zambia remained dependent upon copper for 90 per cent of its exports and 40 per cent of its GDP throughout the 1970s and 1980s.

In Zambia's case, declining ore grades and technical production difficulties leading to a lower export volume and reduced export revenues from copper exacerbated the effects of the price decline. The disorder in the copper industry caused by the government's assumption of management of the mines in 1969 also added to the problems. With declining revenues from copper, other productive industries were starved of foreign exchange. The inevitable government market controls and price limits spelt shortages and decreased production (Hawkins 1991; Bates 1981). In the years that followed, the Zambian economy essentially collapsed. GDP growth was either negative or weak for the period 1975- 1980, reserves declined and the budget balance was negative. By 1977 the government had completely exhausted its foreign reserves (Hawkins 1991: 844). Thus, from 1975 onwards, Zambia was caught in a classic bind as a weakening market for the main export cut into foreign exchange earnings, in turn necessary for the purchase of increasingly more expensive industrial and consumer goods.

Table 4: Macro economic indicators 1973-1990

Year	Terms of trade (a)	Reserves (b)	Current account (c)	Budget balance (d)	GDP growth (e)	Copper prices (f)
1973	301.8	185.5	113.3	-315.4	-0.9	80.58
1974	215.5	164.4	8.4	70.0	6.7	93.23
1975	126.3	142.0	-726.1	-340.8	-2.4	56.10
1976	139.6	92.7	-132.8	-231.3	4.3	63.64
1977	119.8	66.3	-232.3	-190.3	-4.8	59.41
1978	114.0	51.1	-321.1	-208.8	0.6	61.92
1979	135.9	80.0	4.7	-139.9	-3.0	89.49
1980	125.5	78.2	-544.6	-295.0	3.0	99.12
1981	100.1	56.2	-766.6	-210.2	6.2	79.05
1982	88.9	58.2	-592.6	-276.5	-2.8	67.21
1983	97.8	54.5	-310.0	114.6	-2.0	72.23
1984	na	54.2	-162.7	-120.1	-0.4	62.66
1985	na	200.1	-404.1	-232.7	1.6	64.29
1986	na	70.3	-372.1	-388.1	0.6	62.13
1987	na	108.8	-256.7	-232.3	-0.2	80.79
1988	na	134.0	-324.7	-205.2	6.7	117.93
1989	na	116.2	-292.0	-71.7	-1.1	129.15
1990	na	193.1	-489.8	-43.8	-0.4	120.72

a: terms of trade (1987 index), b: total reserves minus gold in US\$ million, c: current account balance before official transfer in US\$ million, d: government balance in ZK'million, e: annual growth rates of GDP at constant prices, f: London Metal Exchange copper prices US cents/pounds.

Sources: World Bank: World Tables; IMF: International Financial Statistics, 1992.

### **2.1: Economic policy reforms in the Kaunda era (1974-1991)**

In Zambia economic decline coincided with the implementation of the one-party state constitution (the Second Republic 1973-1991). The responses to the economic decline from UNIP and President Kaunda's leadership, major interest associations and the international donor community can be divided into three time periods:

1974- 1983: Economic crisis without reaction. Through commercial and public borrowing the Zambian consumers were shielded from the effects of economic decline. From the late 1970s onwards Zambia accumulated large arrears on international loan repayments. Despite increasingly stronger demands for economic restructuring from the international donors, no sustainable reform programme was implemented. The World Bank, and a majority of the bilateral donors appeared to share Zambia's optimism with regard to the copper industry and was therefore uncritical of the country's industrial development strategy (West 1989, Bonnicksen 1997).

1983-1987: External pressure for reform faces internal opposition. By 1983, 'soft options' in terms of non-concessional borrowing were no longer available. Increasingly, the IMF and the World Bank conditionalities guided economic policy-making. From 1985 onwards, the implementation of a substantial structural adjustment programme was attempted. However, external pressure for change was met by internal opposition. In May 1987 the structural adjustment programme was abandoned.

1987 to 1989: Home-grown reform became hampered by the magnitude of crisis. In this period Zambia sought to implement an economic recovery programme without economic assistance from the international donor community. The economic crisis and escalating international debt, however, forced the Zambian leadership to enter new aid agreements with the IFIs in 1989. The new economic restructuring programme was adhered to until the political pressures of the 1991-election campaign led the UNIP government to again abandon reforms and international debt obligations.

### Reform in the 1980s: Lack of ownership

A large literature exists on Zambia's failure to implement structural adjustment policies in the 1980s<sup>8</sup>. The majority of these analyses explain the reform collapse with reference to the overwhelmingly strong domestic resistance to the structural adjustment reforms. The strong and vocal trade union movement (ZCTU) has in particular been depicted as a major element in the 1987 decision to abandon economic reforms. At this time, donor pressure to reduce maize-meal subsidies lead prices to triple and riots broke out in Lusaka and in the Copperbelt-towns. Others have, however, pointed to the strong opposition to reform found within the ruling party and its bureaucracy (Bates and Collier 1993; Geddes 1995). We argue that the failure of reform in the 1980s in part should be attributed to the ideological resistance to orthodox reform found within the Zambian State. At the time, high level politicians, bureaucrats and party officials simply did not believe that copper prices would not eventually increase. A fascinating account of the economic reform efforts in the 1980s ties the limited understanding of the economic crises to optimism on behalf of the copper industry (West 1989). Furthermore, neither top bureaucrats nor politicians believed that an outward economic orientation would result in growth. It should here be emphasised that the inward looking ISI strategy was in part justified by the fear of South Africa and the entire ideology of the front line states. Moreover, the structuralist economic ideas were widely supported by influential bilateral donors and development economists in the Western world as well (Helleiner 1986). The 1980s witnessed an intense ideological debate between socialist and capitalist economic models both within the party, the government and the bureaucracy at large (West 1989, Sandberg 1990). By the mid 1980s, a technocratic core team within the Ministry of Finance and the Bank of Zambia was present. However, these technocrats had very limited support from the political leadership as neither President Kaunda nor the central elements of the UNIP cadre were convinced of the necessity or virtue of economic reform.

According to one observer, Zambia was effectively bankrupt before agreeing to undertake a comprehensive structural adjustment programme put forth by the IFIs in 1985 (West 1992). However, again, the economic reform measures threatened to undermine the welfare of the main constituencies of the increasingly weaker UNIP party. In April 1986, President Kaunda changed his economic team from the group who had negotiated the programme with the IFIs to some of the strongest critics of market based economy and the programme

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<sup>8</sup> Zambia's relationship with the IMF and most notably its much-publicised decision to break the relationship in 1987 have received much scholarly interests. For useful presentations, see Akwete 1994; Bates and Collier 1993, 1995; Callaghy 1990; Gulhati 1989; Mwanza 1992; West 1989 and 1992; Loxley and Young 1990; Sandberg 1990.

was discontinued. UNIP's attempts to compromise between externally expressed demands for economic liberalisation and an increasingly outspoken trade union movement were overtaken by political events on an international scale towards the end of 1989. Increasingly, economic dissatisfaction and discontent with UNIP's reign was translated into demands for a return to multi-party politics and a new government. However, it should here be emphasised that UNIP's heterodox experiment had failed and been replaced by an IFI led reform programme already in 1990, more than a year before the political transition which led to UNIP's and Kaunda's resignation from the government. As a result of the government's failure to adjust to the changing economic conditions, by 1991, Zambia was considerably worse off than in 1964. Per capita income in 1964 was US \$ 540 against the 1991 figure of US \$ 390. Basic social service schemes barely functioned, the hospitals were without drugs and beds and personnel while schools had no desks or books. Zambia's 1989 agreement with the World Bank and IMF was cancelled in the summer of 1991 when Kaunda refused to cut maize subsidies right before the 1991 elections. In the pre-election atmosphere, President Kaunda abandoned spending limits set by the economic reform programme, raised salaries for civil servants and increased subsidies on maize and housing. When Zambia in July 1990 failed to make a US\$ 20 million payment to the World Bank, the IMF and the World Bank suspended a scheduled disbursement of US \$ 75 million. According to one observer, by now even the Scandinavian donors appeared reluctant to finance further operations (Graham 1994: 155). This was the legacy of UNIP and the starting point for the new government.

## **2. 2: Economic policy reforms in the Third Republic (1991-)**

Considering the fact that UNIP's loss of popularity related to its attempt to reduce food subsidies, it is ironic that MMD actually was overwhelmingly elected to office despite a clear promise of implementing a structural adjustment programme. However, after 27 years of Kaunda and UNIP, the latter years marked by precipitous economic decline, the Zambian people appeared willing to accept what was then perceived to be short-term austerity in return for the promise of future economic stability and growth. In Zambia, the political and economic reform processes begun in 1991 had a strong domestic support at the outset. Most notably, the MMD government included committed policy reformers in all the key economic ministries. Throughout its election campaign, MMD advocated a complete shift in economic policies, involving a change from the system of public monopolies to a greater reliance on markets, private networks and institutions. The party's commitment to fostering private sector growth and a limited role for government was spelt out in the 1991 election Manifesto stating that:

"The government restricts itself to rehabilitate and build socio economic infrastructure with a small public sector in the midst of a basically private enterprise economy" (*MMD Manifesto* 1991: 14).

The Manifesto did not, however, enter into details of MMD's future economic programme. Soon after attaining power, the MMD government adopted a structural adjustment

programme agreed to with the IMF and the World Bank<sup>9</sup>. Based in its 1991 Manifesto and the Policy Framework Paper agreed to with its multilateral financial partners, MMD had three main economic goals. Firstly, to restore macro-economic stability through monetary and fiscal reforms, secondly, to facilitate private sector growth through withdrawing the state from price and exchange-rate regulations, import and export restrictions and, finally, to shift the industrial and agrarian sectors from a system of public monopolies to one of private and decentralised institutions.

### Macroeconomic stabilisation through monetary and fiscal measures

In its task of economic reconstruction, the government identified the attainment of macroeconomic stabilisation as its most immediate objective (McPherson 1995). An attack on inflation was identified as the most urgent task to restore macroeconomic equilibrium. To achieve this, the government instituted thoroughgoing monetary and fiscal reforms to cut fiscal deficits and growth in money supply. As indicated by the adjustment calendar in Appendix 2<sup>10</sup>, the government immediately started to address the issue of subsidies as a drain on the government budget. After only a few months in office, in December 1991, the government eliminated subsidies on mealie-meal, the main staple food in Zambia<sup>11</sup>. This was a significant political action, considering the fact that all attempts to reduce subsidies earlier had resulted in major internal uprisings and break-offs in the relationship with the international finance institutions. The sharp reduction in food and parastatal subsidies attained by these measures resulted in a decline in the fiscal deficit from 7, 4 per cent to 2,2 of GDP in MMD's first year of government.

However, while 1992 was a year of promise in terms of economic reforms, the economy was adversely affected by a number of external as well as internal factors, the most serious being the severe drought which reduced the agricultural output by 39.3 percent (GRZ: Budget Address 1993: 3). By late 1992, it was becoming evident both to the Ministry of Finance and the donor community that lack of budgetary control constituted a major impediment to the attainment of macroeconomic stabilisation (GRZ: Budget Address 1993: 5-6). While the elimination of expensive programmes such as the consumer maize subsidies was critical to reducing the budget deficit, the most important measure to strengthen budgetary control was taken in the 1993 Budget when the MMD government implemented a *cash budget system*. This key institutional innovation implied that the Bank of Zambia would deny any government transaction unless adequate funds had been made available, in

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<sup>9</sup>The previous government had already negotiated a complete reform programme with the donors, which remained viable despite the suspension in September 1991. The new structural adjustment agreement was, therefore, essentially the same as the 1989 Policy Framework Paper that the Kaunda government had agreed to with the donor community after a short spell of home-grown economic reforms. The MMD and the multilateral institutions in early 1992 (GRZ 1992) nevertheless produced a new Policy Framework Paper. This programme differed little from the earlier programmes and included all the significant reform measures advocated by the MMD during its election campaign.

<sup>10</sup> Table A 2.3: Chronology of main economic reforms in Zambia 1991-1999.

<sup>11</sup>This resulted in a price increase of almost 700 per cent as a 25 kg bag of maize-meal increased from Kw. 225 to Kw. 1,800 from October 1991 to October 1992 (Seshamani 1996).

other words, if there was enough revenue to support it at the time<sup>12</sup>. Thus, the government could no longer resort to printing money in order to cover expenses. With the new budgetary procedures, extraordinary expenditures could only be financed from additional tax increases or expenditure cuts (GRZ: Budget Address 1993: 10). In order to put the new rule into effect, the Ministry of Finance and the Bank of Zambia created a joint committee to monitor fiscal and monetary conditions which met three days a week to oversee virtually all checks going out of the Ministry of Finance' accounts. The cash budget provided the government with capacity to curb fiscal deficits and inflation was reduced from close to 300 per cent to 30 within two years. Initially, it also helped implant a perception that the fiscal regime was coming under control (Bolnick 1997).

Of equal importance in terms of reducing the growth in money supply was the auctioning of Treasury Bills introduced in the 1993 Budget to provide a market mechanism for determining interest rates and siphoning off large amounts of excess liquidity. The Treasury bill tender implied that domestic debt was to be financed by the sale of new Treasury Bills to members of the public. On the domestic revenue side, the creation of the semi-autonomous Zambia Revenue Authority (ZRA) in 1994 constituted an equally important development. Through ZRA, computerised tax-records were implemented and the former government-employed tax collectors were retrained. The implementation of Value Added Tax (VAT) in 1995 replaced the former cumbersome system of sales tax and was also an important mechanism in terms of broadening the tax-base.

### Liberalisation of imports, trade and exchange rates

The MMD government also wanted to encourage the private sector to take the lead in the productive activities. A range of liberal reforms were implemented soon after the new government attained power in 1991 and evaluations of Zambia's adjustment efforts after 1991 have emphasised the pace of the process of economic liberalisation as one of the government's most remarkable achievements (van de Walle and Chiwele 1994; Seshamani 1996; Kalyalya and Lushinga 1996; World Bank 1996a, 1996c). In order to encourage foreign investments and enhance the confidence of the local business community, soon after it attained power, the government started to decontrol foreign exchange. A Bureaux de Change system for foreign exchange was introduced in October 1992, and by December that year the official exchange rate was unified with the Bureau rate (GRZ: Budget Address 1993). With these changes, the exchange rate became fully market-determined. Thus, the government abandoned the practice of seeking to control the exchange rate through administrative means. Such practice had been maintained throughout the Second Republic, save for a short spell of foreign exchange auctioning in 1985-86. The 1994 Budget further eliminated the Exchange Control Act and thus allowed both citizens and non-citizens to open foreign currency accounts (GRZ Budget Address 1994). From early 1994 onwards, Zambia made its national currency, the Kwacha, fully convertible, one of the very few countries on the African continent to do so. Funds now flowed freely in and out of Zambia. The final restriction in the foreign exchange field was removed in April 1996, when the Bank

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<sup>12</sup>For a useful account of the initiation and early experiences with the cash budget, see Bolnick 1997. Stasavage and Moyo (1999) provide a comparative analysis to the experiences in Uganda and also a more detailed analysis of the effects of the cash budget in second half of the 1990s.

of Zambia allowed ZCCM to retain 100 per cent of its foreign exchange receipts to supply the market directly (BOZ 1997; Kani 1996). Since the nationalisation of the mines in the late 1960s, the mining company's lack of access to foreign exchange generated from mining had meant that only limited capital was reinvested into the mining industry. This decision was therefore considered to be of great political significance<sup>13</sup>.

Reforms in the domestic money market constituted another significant area of reforms implemented in the first few years after MMD attained power. In 1993, the Bank of Zambia removed all restrictions on bank lending and deposit rates. The liberalisation of the money market resulted in the entry of several commercial banks and non-bank financial institutions, ranging from insurance companies to pension funds. Furthermore, with the introduction of Weekly Treasury Bills, from 1993 onwards, the official interest rates were freed from administrative controls. The government moved equally fast to liberalise the commodity market and trade. The liberalisation entailed that all goods could be bought from or sold to any buyers locally or abroad freely and at market determined prices. Free imports of consumer goods meant that the choice of commodities widened and the queues for basic commodities, which had become a daily occurrence in the Second Republic, were effectively ended. Extensive reforms within the external trade regime were commenced in 1992. Over the five-year period, all licensing and quantitative restrictions on imports and exports were eliminated. The tariff structure was compressed and simplified. The level and dispersion of customs duty rates which ranged from 0 to 100 per cent prior to 1991 and with 11 tariff bands, by 1996 ranged between 0 to 25 per cent with only four bands (GRZ: Budget Address 1996; Seshamani 1996; Taylor 1997). The trade liberalisation meant that local firms were no longer protected by the state but had to compete with imported products. In terms of changing its economic policy regime and its regulatory environment, despite exogenous factors such as the severe drought, Zambia could by the mid 1994 claim to have one of the most liberal foreign exchange regimes in Africa, and an impressive record in terms of inflation and fiscal probity.

### Institutional reforms

Alongside the stabilisation and economic liberalisation measures, several institutional reforms were initiated involving both the creation of new institutional frameworks and the dissolution of existing ones in order to facilitate private sector led growth. Zambia's record in this area proved much more varied than in the areas of stabilisation and liberalisation.

The Public Sector Reform Programme (PSRP) was launched in 1993. The programme promised to cut 25 per cent of the civil service within three years and to improve the conditions of service for the remaining staff in order to retain and attract the best candidates (GRZ: Budget Address 1993). However, while 15,000 contract daily employees with no job security were retrenched in 1992, no retrenchment of civil servants had taken place by

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<sup>13</sup> The economic significance of this decision in 1996 is more questionable due to the low copper production and ZCCM's debt estimated at US\$ 800 million (*Financial Mail*, March 4, 1997).

early 1999<sup>14</sup>. The contentious nature of this reform, and its potential political implications became pronounced when the Minister of Finance in March 1996 announced that the PSRF was put on hold indefinitely (*Times of Zambia*, March 22, 1996). Based on interviews with senior policy-makers in Zambia, the main obstacle to the PSRF exercise appears to be the cost of reforms. Since the legally mandated retrenchment costs amounted to 10 years salary for each employee, the most economic approach for the Government has simply been to retain workers rather than retrench them. According to estimates of the Central Statistical Office, rather than a leaner civil service, as promised by MMD in its election campaign, the civil service grew by 19 % between 1989 and 1994<sup>15</sup>. Most observers have regarded the continued failure to address the issue of a large and inefficient public sector as the main obstacle to economic growth, in addition to the decline in copper production and the successive droughts (McPherson 1995; Seshamani 1996; World Bank 1996a, 1996b and 1996c).

Table 5: Macroeconomic indicators 1991-1998

	1991	1992	1993	1994	1995	1996	1997	1998
GDP growth %	-4.0	-2.8	6.8	-8.6	-4.3	6.4	3.5	6.6
Exchange rate ZK:US\$	127.3	172.2	600.4	687.3	878.9	1213,00	1336	1862
Inflation %	92.6	165.1	187.3	54.6	34.9	43.5	22.1	22
Interest rates % (a)	25,00	47,00	133.3	80.9	39.8	52.5	25.6	Na
Total reserves \$US (b)	184.6	184.2	192.3	na	133.4	163.4	237.0	92
Money supply % (c)	99.2	128.5	87.6	44.3	55.6	30.1	27.5	Na
Investment/GDP	11.1	11.9	15.0	13.4	13.9	15.1	na	Na
Consumption/GDP	85.5	93.6	87.0	90.4	79.8	103.5	na	Na
Current account USD	-307,00	-117,00	-88,00	-185,00	-314,00	-472,0	-257,00	-301
Copper output (d)	387,00	432,00	403,00	354,00	307,00	320,00	325	293
Total external debt (e)	7.27	7.04	6.82	6.61	6.85	6.85	7.1	7.19
Debt service/GDP	51.4	29.3	34.9	31.7	205.3	25.7	na	Na

a) 1991- 1992: prime lending rate %. 1993- 1997: treasury bills period average %, b) excluding gold, c) change over from previous year, d) '000 tonnes per year, e) USD billion. Sources: International Financial Statistics Yearbook (IMF) 1997; Zambia Investment Centre 1997; GRZ: Budget Address (1992-1998).

## Agricultural liberalisation

The agricultural liberalisation process has been the most contentious issue of the economic restructuring programme in Zambia to date. Throughout the Second Republic, political factors dictated policies that hampered growth in the agricultural sector. After independence, the UNIP government increased and broadened maize subsidies substantially, partly to keep both producers and consumers satisfied and in part in keeping with its development doctrine. Agricultural subsidies had their origin in the 1974/75 agricultural season when the government introduced uniform national producer prices (pan-territorial prices). This resulted in maize production dominating the agricultural sector, accounting for approximately 70 per cent of land cropped and 85 per cent of crop production (World Bank 1993). The

<sup>14</sup> According to a recent World Bank evaluation study of the Zambian structural adjustment programme, the Zambian government is still required by law to hire recent graduates in the teaching and medical professions (World Bank 1996b: 28).

<sup>15</sup> See Table A1. 9 in Appendix 1: Data and Statistics.

MMD government set out to alter this long-standing arrangement. Announcing its withdrawal from the marketing of agricultural inputs in 1993, the government appointed a small number of principal buying agents and allowed private traders to enter the maize market. This implied that co-operative societies were no longer allocated government funds for handling marketing or for the purchase of maize from farmers (GRZ/MAFF 1995: 3). However, a combination of continued intervention by the government and the effects of the stabilisation measures on credits and interest rates and finally, the size of the 1993 crop recovering from the disastrous drought in 1992, left the private sector unresponsive to the liberalised market for grain marketing and purchase.

With hindsight, maybe the largest transitional problem was the fact that the agricultural liberalisation was carried out before the economy was stabilised. In 1993, the government liberalised the exchange rate, interest rates, introduced treasury bills, and committed the government to a cash budget. However, with interest rates running as high as 300 per cent, private investors tended to neglect the risk-prone and politically sensitive agricultural sector and invested instead in the lucrative, and virtually risk-free, government treasury bills. On the one hand, the bumper crop tested the capacities of the new evolving production and marketing structures. On the other hand, farmers entered the 1992-93 season with pressing financial needs after one of the most devastating droughts during the previous year. The combination of extremely high interest rates and the cash budget put a strain on the government allocated finances for marketing the 1992-93 crop which in turn had dire consequences for the 1993-94 crop. The lack of private sector response forced the government back into the market as a buyer. However, due to the restrictions of the cash budget, the funding was given in the form of promissory notes, or forward sales contracts. The financial obligation this incurred on the 1994 budget in turn put a severe strain on the cash budget. Thus, as a consequence of market liberalisation taking place simultaneously with macroeconomic stabilisation, the newly emerging agricultural trade sector faced a harsh financial environment. Throughout the Third Republic, agricultural liberalisation has had a destabilising effect on the industry. However, none of the major liberalisation measures within agriculture have been reversed despite the fact that growth continues to be hampered by poor implementation practices, limited supply response in addition to adverse external conditions. It should also be noted that some product diversification has taken place as a result of the liberalisation efforts. Marketed production of tobacco, cotton, wheat, and groundnuts, among other products, has increased in the last decade<sup>16</sup>.

### The privatisation of the parastatal industries

Under UNIP and President Kaunda, the majority of the parastatals were managed by the state under an umbrella management institutions, the Zambia Industrial and Mining Corporation (ZIMCO). Under pressure from the donors, Zambia had begun to sell state-owned companies during the last stages of the Second Republic. A Technical Committee on Privatisation within the Ministry of Commerce, Trade and Industry set up in 1990 had carried out some preliminary work. However, by the time of the political transition in 1991, no privatisation transactions had taken place. In its 1991 Manifesto, the MMD

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<sup>16</sup> See table A1.10 in Appendix 1: Data and Statistics.

government committed itself to privatising the parastatal sector (MMD 1991: 4). The process of privatisation followed a very different implementation pattern to that of agricultural liberalisation. The liberalisation of the agricultural sector was implemented in a so-called 'shock-therapy' manner. In contrast, the process of privatising the public enterprises that accounted for some 80 per cent of GDP in 1991 and employed 140,000 workers was a very slow process which only gathered momentum in 1995. From its inception, apart from some key ministers, the privatisation process had only lukewarm support even within the cabinet. As a result, neither the mines nor the utility companies were included in the government's original privatisation portfolio (Rakner 1998). While some government ministers had argued for the inclusion of the mines from an early stage, the general feeling within the MMD government at the time was that this issue was too controversial to include at an early stage. Instead a careful process, in which the smaller companies were privatised first, was opted for. Despite the lack of support and the slow beginning of the privatisation process, and most notably, the failure to take action towards the mining sector, by 1996 the privatisation programme in Zambia was cited as one of the government's key successes. By 1997, 224 companies of a total of 275 laid out for sale were sold and the government had committed itself to tender the mining conglomerate by February 28, 1997. The World Bank attributed the success of the privatisation programme to the fact that the process through the Zambia Privatisation Agency was predominantly private sector driven, with little interference from the government (*World Bank Findings* October 1996, *Times of Zambia*, October 15, 1996)<sup>17</sup>.

Table 6: Privatisation in Zambia

<b>Progress date</b>	<b>Companies privatised</b>
June – December 30 1992	Privatisation Act passed in parliament, information of programme carried out, establishment of ZPA
January - June 30 1993	2
July – December 30 1993	4
January - June 30 1994	6
July- December 30 1994	3
January - June 30 1995	3
July – December 30 1995	27
September 30 1996	108
November 30 1996	166
December 30, 1997	224
Total privatisation portfolio	275

Source: Zambian Privatisation Agency: *Progress Reports 1993-1996*; *Profit* December 1997.

Due to Zambia's dependence on copper, the privatisation of the mining conglomerate was the main issue in terms of a potential economic turnaround. It was only in 1996 that the government accepted the advice to begin the process of privatisation of the Zambia Consolidated Copper Mines (ZCCM) in unbundled units by open tender, with the aim of

<sup>17</sup> The success of the privatisation programme was further highlighted by most respondents both among the external donors, government officials and independent local analysts

reaching agreements before June 1997. This decision was made during a fierce debate with the bilateral donors over the new constitution. The move on the privatisation of the mines was decisive in securing funding from the multilateral donors and thereafter, the bilateral donors. However, when tenders came in February 1997, the government's negotiating team declined all offers. In November 1997, the Kafue Consortium presented a bid that was considered good by independent observers, considering the fact that copper-prices had fallen by 35 per cent since earlier in the year<sup>18</sup>. However, the government turned down the bid. As the copper-prices continued to fall, in March 1998 the Consortium made a new and lower offer. Again, the Zambian government turned down the offer. After substantial pressure from the IFIs and two years of reduced balance-of-payments support, the government has since early 1999 entertained the uncertain possibility of a much lower offer from Anglo American Cooperation, on the condition that Anglo can find a partner. As of mid-1999, no sale has been finalised. The view among the donors in Lusaka is that the negotiations failed out of a combination of incompetence and corruption on the part of the MMD government.

### Economic reforms in the 1990s: Opportunities lost

After almost a decade of uninterrupted policy reforms, the record in terms of economic growth, employment creation, investments and poverty reduction remains weak. In terms of macro economic growth indicators, the Zambian economy has shrunk and is now smaller than it was in 1991. With a 25 per cent increase in population over the last decade, per capital income has dropped by 4 per cent annually in the last decade, thus extending the long period of economic decline that begun in the 1970s<sup>19</sup>. Mineral production has declined throughout the decade<sup>20</sup>, formal employment has been reduced in all sectors but public administration<sup>21</sup> and social indicators reveal that poverty and infant mortality have increased since the 1980s<sup>22</sup>. Zambia's most notable success in terms of macroeconomic stabilisation has been to bring inflation under control. And while the pronounced 'national enemy number one' has been subdued during this period, it has not disappeared completely and since 1998 inflation has again increased slightly<sup>23</sup>. Yet despite the rather dismal record in terms of results attained, it cannot be argued that the direction of the government's overall economic policies has been altered, as so often was the case during the Kaunda era. The Zambian government has, in principle, remained committed to stabilisation and the economic liberalisation process throughout its first electoral period and now into its second period. None of the reform measures implemented have been reversed and no aid agreements with the IFIs have been cancelled. However, other aspects of the reform programme, most notably institutional reforms, have lagged behind. Midway through the second and, according to the present

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<sup>18</sup> See: "Trouble in Lusaka" *Institutional Investor* International Edition, No. 12, Vol.23 (December 1998); Theo Bull: "An incredible country" in *Profit Magazine* (Lusaka), July 1998; Theo Bull: "The mines - where are we now?" *Profit Magazine* (Lusaka) April, 1999.

<sup>19</sup> Hendrick van der Heijden: "Losing the Decade or Getting Things Going for the Next Millennium". Lusaka. Ministry of Finance, April 1999. Mimeo

<sup>20</sup> See Table 5

<sup>21</sup> See Table A.1.9 in Appendix I: Data and Statistics.

<sup>22</sup> See Table A.1.11 in Appendix I: Data and Statistics.

<sup>23</sup> The Minister of Finance, Emmanuel Kasonde, in his 1992 Budget Address, first formulated the naming of inflation as the nation's number one enemy.

constitution, last electoral term of the Chiluba government, the public sector reform programme, deemed essential both to balancing the budgets and to enhancing the capacity of the bureaucracy, has not been implemented. Furthermore, the postponement of the privatisation of the mining industry is considered to have had enormous adverse consequences for the economy as a whole (World Bank 1996b, 1996c, EIU 1998, Profit 1998). The effects on the economy has been exacerbated by the decline in international copper-prices and the donors decision to with-hold balance-of-payments support both in 1997 and 1998 due to the government's failure to privatise the largest mines. Thus, after a promising start as 'one of the most important and hopeful transitions anywhere in Africa', as the US Secretary of State for African Affairs Chester Crocker phrased it, by 1999, Zambia is again depicted a 'poor-reformer' by its external aid-partners (World Bank 1998) and international investors. The quote from a South African investment firm may serve as an illustration as to how international investors regard Zambia. Under the heading: "What a difference a year can make" the South African Merchant Bank, Investec Securities stated the following:

"The transformation in less than a year is startling. Twelve months ago Zambia seemed set for a rosy economic future. Inflation was falling and with it domestic interest rates, the external value of the Kwacha was stable, the government was running a budget surplus (albeit after significant contributions from foreign aid) and the keystone of the governments privatisation programme - the sale of ZCCM - was imminent. The contrast between those optimistic days and the situation today in Lusaka is marked. Where there was once hope, there is now despair. As the political situation has deteriorated, foreign aid has dried up, leaving the government desperately short of funds. Inflation, interest rates and the currency have all reacted negatively, whilst the sale of ZCCM has all but collapsed" (*South African Merchant Bank*, Investec Securities June 3, 1998, quoted in *Profit Magazine*, July 1998 p. 16).

A fundamental question in the case of Zambia is why a government committed to reform, with a wide mandate for change from its population and with donor finances to support it, achieved so little in terms of growth. A number of explanations for the limited supply response have been offered ranging from claims that the government's commitment to reform has waned, to sequencing errors, investor insecurity, exogenous factors and Zambia's landlocked status. We argue that most of these explanations point to one commonality: The precarious absence of a genuine strategy for economic development set forth by the MMD government. As the next section (Part Three) will reveal, long term development goals have also largely been absent from the donors' strategy.

### Waning reform commitment?

A number of factors suggest that the Zambian government's commitment to economic reform may have waned in the second half of the decade. While no reform measures have been reversed, it is evident that the major reform initiatives, such as the liberalisation, the implementation of the cash budget and the establishment of Zambia Revenue Authorities, happened in the first years after the 1991 transition. After 1991, macroeconomic stability has constituted a major problem. Since 1993 the MMD government has maintained, and in principle remained committed to, a cash budget. According to analyses of monthly spending data the government has generally adhered to a rule of prohibiting monetary financing of fiscal deficits, but it has on several points violated its zero monetary financing rule (Stasavage

and Moyo 1999: 10). Subsequent to each of these episodes, the government has imposed severe expenditure reductions. A tendency of fiscal performance going off-track in the early part of the year and the problem being resolved later in the year by squeezing expenditures and/or introducing ad hoc revenue measures has occurred on a regular basis since 1994. Thus, evidence suggests that Zambia has failed to solve commitment problems in fiscal policy. As argued by Stasavage and Moyo (1999: 11)

“It is important to note that in most of the above cases, violations of the zero monetary financing rule were prompted by excess expenditure by central authorities (such as wage hikes) rather than being due to expenditure overruns by line ministries.”

In addition, the Zambian government has run sizeable primary domestic deficits, financed by increased holdings of government securities in commercial banks (*ibid.*). Thus, after some years, the cash budget, which was meant to curbe fiscal deficits, appears to have become a mere window dressing activity. Budgetary constraints appear to be abided by, but at the same time the government ignores to pay suppliers. The government's failure to pay their bills was a constant source of complaint by both members of the Zambian business community interviewed. It may therefore be argued that the costs of a compressed economy in Zambia today is not carried by the government through reduced spending, but rather by the private business sector. Despite austerity measures introduced and maintained, budget allocations also indicate that government consumption levels remain high, a view which was expressed repeatedly by our respondents from the Zambian business community and the bilateral donors.

Most respondents interviewed in Lusaka expressed the opinion that the government's commitment to economic reform had declined. Pointing to a variation of watershed events, beginning in 1993 with the replacement of Guy Scott from the Ministry of Agriculture and Emmanuel Kasonde from the Ministry of Finance and culminating with the sacking of Finance Minister Ronald Penza in 1997, respondents argued that experienced, competent and reform minded ministers had been removed from the Cabinet<sup>24</sup>. With hindsight, it is clear that the MMD leadership that entered State House in 1991 included some exceptional people with regard to reform commitment as well as capacity. Increasingly, junior people, displaying a stronger commitment to the MMD President than an economic development strategy, has replaced the experienced and reform minded ministers. However, it is important to disaggregate commitment. Commitment to reform in Zambia has varied across issues and across parts of the Cabinet. The MMD government was united in its resolve to attain stabilisation in 1991. Furthermore, there was a relatively strong support for the liberalisation measures implemented and the re-invigoration of the private sector, including some privatisation. But, the public debates in the early 1990s indicate that the MMD government was never united over the privatisation of ZCCM (Rakner 1998). The reactions to the agricultural liberalisation from various Cabinet ministers from 1994 onwards further

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<sup>24</sup> However, as both Scott and Kasonde were replaced by pro-reform ministers such as Simon Zukas (agriculture) and Ronald Penza (finance), the 1993 reshuffles cannot be interpreted as a reversal of the reform processes.

indicate that few in the MMD government had thought through the implications of substantive agricultural reform.

Nearing a decade of continuous austerity measures and growth prospects still appearing dismal, a waning reform commitment may be expected. Yet, at some levels the Zambian government still appears committed to reform and many of the reforms now seem irreversible, such as privatisation, liberalisation and much of the opening of the economy. By their very nature, stabilisation measures, on the other hand, are reversible as balancing a budget one year in no way can ensure that a government will balance the budget again next year. As argued above, with regard to budgetary discipline, it is evident that the government's commitment to the economic reform process has waned over the last five years. The government, however, denies this and instead, government officials argue that donors have kept 'moving goal posts' by introducing new conditionalities and failing to recognise the difficulties of what they are asking the government to achieve. Such disputes, however, do invariably point to uneven government commitment to policy reform. More and more, the MMD government's policy choices appear justified or criticised in terms of donor conditionality, rather than in terms of an indigenous development strategy.

### Investor uncertainty and sequencing dilemmas

The government's lack of commitment to key reform measures such as the privatisation of the mines and the reform of the public service have constituted a major impediment to growth in the last decade. However, as commitment to these reform measures was weak and uneven from the start, it is unclear that a waning commitment to the reform process can explain the limited supply response witnessed in Zambia during the last decade of continuous reform. Responding to the paradox of why a seemingly 'good reformer' seemed unable to generate growth and sectional 'winners', a World Bank report summarised the reform process in Zambia in the following manner:

“Persistent uncertainty has caused investors to be hesitant to commit themselves in a significant way. While there have been many positive signs of market liberalisation, decontrol of prices, and a lower Government role in the economy, there was still high inflation, tight credit, reduced protection and uncertainties about whether these policies would continue. Agricultural market reform has left producers with transitional increase in uncertainty. Privatisation has brought more anxiety and conflict in the short term than tangible results in terms of companies sold or turned around. Based in part on conflicting signals, the stop-go experiences of the 1980s and the fear that donor fatigue or government intransigence on some issue could lead to a cessation of international support, many investors adopted a wait and see attitude before making major changes” (World Bank 1996a: 48).

Seconding the views expressed by the World Bank staff, lack of investor confidence in the irreversible nature of the reform process was cited as the main reason for the limited supply response by our Zambian respondents in the private sector. We find this explanation plausible. However, the persistent budgetary problems have also affected the business community's confidence (Stasavage and Moyo 1999). Added to this, anecdotal evidence suggests that corruption and government enrichment have increased in the Third Republic, which again has led investors to question the government's credibility. Not disregarding the

issue of investor confidence, a recent external evaluation of the IMF's ESAF funding to sub-Saharan Africa concludes that the current adjustment programme in Zambia has been weakly designed<sup>25</sup>. Firstly, the move to capital account convertibility and interest rate liberalisation prior to the attainment of stabilisation created an avoidable bout of inflation which led to a credit crunch of the private sector, delaying the emergence of rural food markets and reducing the private investments required for structural change. Secondly, the IMF evaluation argues that the structural reforms needed to be sequenced in a particular fashion to produce growth. In particular copper and agriculture would have needed early policy attention. The privatisation of the ZCCM has still not been implemented and agricultural growth would have required early improvement of rural roads. With hindsight, the argument put forth by the ESAF evaluators seems justified: Liberalisation carried out in the early phases of the reform programme created economic distortions that, coupled with a devastating drought, hampered growth in the agricultural sector. On the other hand, it may also be argued that the MMD government chose to take advantage of the 'honeymoon' offered by its election victory and implemented the liberalisation measures as a shock therapy. It may not have been possible to carry through the liberalisation measures at a later time when the political opposition had reorganised. As argued by the Minister of Finance at the time, Emmanuel Kasonde:

"I was lucky as prior to taking office Chiluba has told me that I would be offered the Ministry of Finance if we were to form a government. I therefore had a year in which I followed economic events very closely and when we formed government we were able to hit the road running in order to implement my ideas quickly. I was also aware of MMD's popularity, if I had to make unpopular decisions it had to be done during the honeymoon period; otherwise it would be very difficult. In other words, necessary but unpopular decisions had to be quick. I was very interested in using the political status of the MMD government to make economic advancements. ... I use the singular I because the cabinet did not contain many economically trained brains and myself had to train them."<sup>26</sup>

Most of the above explanations point to a precarious lack of a coherent long-term strategy of growth. The MMD immediately implemented stabilisation measures to curb fiscal deficits. However, the one factor that would have reduced government consumption drastically, public service reform, did not enter into the early restructuring plan. For this major reform effort, the 'honeymoon' from public opposition was apparently not enough to carry the process through. Similarly, investments in agriculture and tourism depended on investment capital, which could only have come from one source, apart from donor funds, namely a reinvigorated, privatised mining industry. Again, this reform did not enter into the government's immediate restructuring plan. In the absence of any kind of long term growth strategy on the part of the government, in the 1990s fiscal austerity appears to have become a goal in itself and the focal point in discussions with the international donors in terms of adhering to a structural adjustment programme.

So far, the discussion has centred on economic reforms. Yet, as argued in Part One, in Zambia since the mid 1990s governance issues played a central role both in terms of souring

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<sup>25</sup> "External Evaluation of the ESAF. Report by a Group of Independent Experts", by Kwesi Botchwey, Paul Collier, Jan Willem Gunning and Koichi Hamada. Washington DC: IMF 1998.

<sup>26</sup> Personal interview, Emmanuel Kasonde, MMD Minister of Finance 1991-1993, Lusaka, October 7, 1996.

relations among Zambia's donors and between the donors and the government. The MMD government's commitment to good governance waned in the first election period, culminating with the signing of the 1996 Constitution that denied the main opposition candidate access to the presidential elections. A question to be addressed is whether or not commitment to economic reform has co-varied with commitment to political reform.

### **2.3: A note on the political reform process**

In 1991, the MMD Manifesto laid out an ambitious plan to strengthen the democratic gains won in the 1991 elections. However, by 1996, the early euphoria had largely given way to conflict. The government appeared more and more isolated and reacted in a paranoid manner to criticism from the external donors, the press, interest groups and opposition parties. The politicians who had entered politics in 1991 displayed a strong commitment to the values of democracy and human rights. By 1996 these ministers had largely been replaced by young and inexperienced politicians with loyalties to the President and the consolidation of the MMD party rather than to the development of a democratic political system of rule. In May 1996, a unified bilateral donor community decided to withhold balance-of-payments support and in some instances new project aid pledges. The decision was based on what the external donors interpreted as declining adherence to the principles of good governance by the MMD government. The passing of a constitutional amendment which effectively barred former president Kenneth Kaunda from contesting the 1996 elections became the crucial issue in a long chain of events leading to the bilateral donors' decision. However, despite loud protests from the donor community and the domestic opposition, consisting of a large number of non governmental associations (NGOs), interest groups, the independent press and opposition parties, the MMD government went ahead and conducted the elections on the basis of a contentious voter registration system and a constitution denying the main opposition candidate the opportunity to compete.

The 1996 general elections were considered flawed by many observers (Bratton et al. 1997, Baylies and Szeftel 1997). The MMD took advantage of its control over government resources to promote its electoral prospects. The conduct of the elections proved that the Chiluba government was willing to compromise the rule of law, was intolerant of criticism and willing to exploit its majority position and control of government resources to undermine its opponents. In terms of political reform, the progress over the five-year period and the holding of a second election were not sufficient, therefore, to conclude that a process of democratic consolidation had taken place in Zambia. In 1996, the separation between the incumbent party (MMD) and the government was increasingly blurred. After five years of political liberalisation, no opposition party had emerged that was remotely capable of challenging the ruling party and win either a parliamentary majority or the presidency. The capacity of the political opposition and of civic associations to shape the political agenda was limited.

In the period after the 1996 elections, the governance situation in Zambia appears to have deteriorated even further. Negative 'highlights' include the police shooting and wounding of Kenneth Kaunda in August 1997, the detaining of Kaunda and other high profile politicians, the declaration of a state of emergency in October 1997 following a failed coup by junior

officers, and increasing harassment of the private press and human rights organisations. In 1998, the Zambian Parliament approved a discretionary fund of app. US\$ 5 million for the Republican President and in 1999 the government refused to announce the amount allocated to the Presidential Fund, raising speculation of abuse<sup>27</sup>. Commonly referred to as the "Slush Fund", there are no disbursement criteria for the fund, nor a system of accountability in place to ensure it is used for legitimate purposes. The Presidential Fund was therefore viewed by local observers as a means for the President to enhance his own public standing.

Most observers of Zambian politics characterise the negative trends in governance performance as a return to the politics of the past. NGOs, the press and the political opposition point to the high levels of government corruption, to the increased powers and resources of the Presidency, despite the stated intention to reduce the power of the Presidency in 1991. However, the period after 1991 has not witnessed a complete reversal of the process of political liberalisation. The independent press still exists, and manages to maintain its critical and independent reporting. Judicial rulings in favour of press freedom and opposition candidates in detention continue to indicate that the courts operate with a considerable degree of independence. During the first election period, 48 by-elections were conducted freely and fairly. Despite the high levels of conflict, international criticism and declining levels of aid, the 1996 parliamentary and presidential elections were conducted peacefully and the turnout of the registered voters actually increased compared to 1991 (Bratton et al. 1997, Electoral Commission of Zambia, 1996). The 1998 local elections were also carried out peacefully, albeit with alarmingly low participation figures caused by serious defaults in the registration process.

To what extent then, has commitment to good governance co-varied with commitment to economic policy reform within the last decade? Recent research carried out by the World Bank has shown that the rate of return for World Bank projects are correlated with the indices of political and civil rights collected by Freedom House (Pritchett 1998). The Zambian experiences witnessed over the last decade support this general finding, we argue. The original reformist cabinet of the MMD was committed to both economic and political reform, and it seems evident that the commitment to both processes of reform waned at the same time. The new politicians that replaced the original reformist cabinet have viewed both economic and political reform with much less enthusiasm and in 1996 economic policy making became subordinated to political objectives, most notably, winning the 1996 elections.

Yet, despite the lack of economic growth generated, and the fact that no sectors of society had emerged as clear 'winners' of the economic reform measures implemented, the MMD government was not faced with a political movement which seriously challenged its popularity in the 1996 elections. No party or politician lobbied for a return of the controlled exchange rate regime or protection of local industry. As a result, the 1996 elections represented a significant departure from the Zambian policy debates in the 1980s when opposition to the various structural reform programmes centred around the *desirability* of

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<sup>27</sup> Afronet: The Inter-African Network for Human Rights and Development. Lusaka, May 14. 1999. Mimeo.

economic reform programmes as such. Based on the 1996 election results, it cannot be argued that the Zambian voting population displayed strong resistance to the economic changes carried out by the MMD government. Indeed, one of the most striking features of Zambia's first electoral period under a multiparty constitution is the decline in influence of key economic interest groups. In Zambia the process of political liberalisation appear to have weakened the relative position of interest groups vis-à-vis the government due to the associational proliferation and the various associations' weak membership base (Rakner 1998).

Turning now to the relationship between the Zambian government and the external donor community, the next section will show that the deteriorating political situation largely 'cooled off' the bilateral donor's enthusiasm for the Zambian political reform process from 1993 onwards. From about 1996 onwards, the bilateral donors increasingly began to question the economic policy record as well, despite the multilateral donors' claim that Zambia's 'economic house' was largely in order. We argue that the disagreements within the donor community regarding what weights to attach to economic performance and governance diluted the clout of the donors' weapon of conditionality.

## **Part III: Aid and Reform**

### ***3.1: The relationship between aid and reform in the 1980s: Lack of ownership***

As argued in the section above, the economic reform efforts in the Kaunda era failed because the reform objectives of the international donors were at odds with the interests and ideology of the political leadership and its main political constituents. Furthermore, during the 1980s the politicians, the press and even the oppositional forces like the trade union movement consistently blamed the economic misfortunes on external forces, most notably the IFIs. The lack of domestic ownership, both within the political elite and society at large resulted in increasingly stronger conditionality measures from the aid community. Western donor institutions had insisted that market mechanisms should replace of state controls since the early 1980s. The demands and conditions became increasingly more pronounced and insistent. Zambia's ability to bypass these demands was limited due to its financial needs and lack of alternative financial sources for securing foreign exchange needs. Thus, in theory, the leverage of the Western financial institutions and donor governments was high. However, analysing the reform implementation efforts in the 1985-1987 period, the lack of influence of the external institutions in the face of unravelling agreements is striking (West 1989, Sandberg 1990, Callaghy 1990). The implementation of the 1985 structural adjustment programme indicated that the international donors were virtually powerless and unable to interfere after the President changed his economic team in April 1986 from the group who had negotiated the programme to some of the strongest critics of market based economy. Experiences in Zambia in the 1980s highlight the importance of local ownership of the reform process: The conditionality mechanisms were unable to bring about policy change as these measures were at odds with the economic ideology prevailing at the time and thus, they were not supported by the political leadership.

Imperfect donor coordination further reduced the credible threat of the conditionality instruments. While a number of bilateral donors from the early 1980s onwards tended to link a parts of their commitments to Zambia's policy reform measures, defined by a prior agreement with the IFIs, not all bilateral donors responded in the same way. Linking bilateral aid flows to Zambia in the 1980s to the country's commitment to reform, some bilateral aid flows followed the multilateral aid flows, some aid flows increased regardless of policy reforms and lastly, some bilateral aid flows actually flowed in the opposite direction of the multilateral aid flows. According to estimates made by Saasa and Carlsson (1996:54), aid flows from Norway, Japan and the UNDP increased when Zambia cancelled the structural adjustment agreement with the IMF and World Bank both in 1983 and in the 1987-89 period. Thus, Zambia received substantial levels of external assistance in the form of both concessional loans and grants throughout the 1980s, rendering the conditionality instruments less than credible. As Figure One (p.12) indicates, despite multilateral aid cancellation in 1983 and between 1987 and 1989, aid levels to Zambia increased gradually during the 1980s.

### **3.2: The relationship between aid and reform in the Third Republic (1991-)**

The 1990s signified a new era in donor -government relations in Zambia. A democratically elected government, committed to economic reform, set out to work closely with the international donor community in an attempt to turn the Zambian economy around.

Assessing the relationship between the Zambian government and the international donor community in the Third Republic, the dynamics of the relationship appear to have passed through four stages:

- In the first phase, the level of enthusiasm was high, as the donor community was eager to support the new reformist government on the basis of the 1991 Manifesto.
- However, the relationship moved quickly to a second stage, where it became apparent that the MMD government was very diverse. In this phase, donors sought to support the pro-reform ministers in Cabinet, still within a pro-reform partnership.
- From 1994 onwards the relationship became characterised by hard negotiations and increasing use of conditionality instruments. This tactic was in particular evident in terms of the privatisation process, but also with regard to governance issues.
- Finally, in the post-election period (1996), the international donor community appears to have lost faith in the effectiveness of the conditionality instruments. The Zambian government on its side has adopted a rather sceptical attitude towards the donors, increasingly viewing the process of policy reform as externally imposed and charging the donors of moving goal posts. Thus, within a few years, the international donor community's view on Zambia appears to have changed from a position as a most promising reformer to one as a most reluctant reformer. In the following, we assess the processes leading to these changes.

#### **Liberalisation as a signal of reform commitment**

The political transition in 1991 offered a new situation as the new democratically elected government indicated its intention to reform the economic system and working with the international donor community. As argued by the Zambian local press, for the MMD government facing an escalating economic crisis situation the question was not whether to adopt an IMF/WB approved structural adjustment programme but rather, which steps to take to meet the requirements of the IMF/ World Bank policies (*Financial Mail*, April 21-27, 1992). The emphasis placed on restoring Zambia's international financial reputation was further emphasised by one observer:

"Economic reform is meant to fundamentally alter a country's growth prospects. In principle, reform is not primarily a means of satisfying external creditors. But because of Zambia's poor credit standing, a practical precondition for the resumption of sustained growth is for Zambia to re-establish a reputation of responsible financial behaviours. Thus, a major objective for the reform effort has been to gain regular access to international finance as due to its debt overhang Zambia could not finance its economic imbalances independently of donor support" (McPherson 1995: 14)<sup>28</sup>.

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<sup>28</sup> Malcom McPherson was the team leader of the Harvard HIID team working as advisors within the Ministry of Finance until the spring of 1996. The Harvard advisory team within the Ministry of Finance started its operations in 1990.

In retrospect, it may be argued that the initial period after the 1991 elections reflected an almost uncritical acceptance of the donor policy agenda. Particularly in the area of trade reforms, the MMD government is regarded to have over committed and carried out reforms too rapidly. As argued in Part Two, financial liberalisation was carried out in Zambia prior to the achievement of fiscal balance. This increased the fiscal costs of stabilisation. According to the ESAF evaluation (Botchwey et al. 1998) the MMD government went ahead with its decision to liberalise the economy at an early stage against the advice of IMF<sup>29</sup>. Adams argues that the government hoped to signal its commitment to economic reform to the international donor community through decisive moves in the area of financial liberalisation:

“In the absence of other mechanisms to signal its commitment to reform, the government chose to accelerate the liberalisation measures, even though it distorted the logical sequence of reforms and imposed significant costs on the economy later in the stabilisation process” (Adams 1995: 738).

Adam's argument appears plausible. During the UNIP era the Kaunda regime failed on a number of occasions to implement the agricultural and financial liberalisation measures strongly advocated by the external donors. These areas of reform were the ones pushed most consistently by the new MMD government almost from the start of its election period. The government used its 'honeymoon' to implement far-reaching reforms in the areas of liberalisation because these reforms would signal MMD's clear commitment to implement 'new' economic policies in contrast to the former regime. Liberalisation measures are also relatively 'easy' reform measures in the sense that they do not require a large administrative apparatus and the consent and participation of a large group of stakeholders (Nelson 1993). Arguably, the main reward for carrying out these reform measures was witnessed in the relationship to the international donor community. The negotiations carried out at the various Consultative Group meetings between Zambia and the external donor community indicate that the commitment displayed in the areas of financial and agricultural liberalisation was an instrumental factor in the donor community's decision to reward the Zambian government with extraordinary levels of financial assistance in the 1992-94 period. Similarly, in 1993 when the government consented to the donors' advice of implementing a cash budgeting system, a new strong 'commitment barometer' was established. The adherence to the cash budget and the resulting decline in inflation, became a significant policy measure in terms of donor support.

Minister of Finance Emmanuel Kasonde's statement to parliament illustrates the importance of international credibility and the centrality of attracting donor finance and support when presenting the 1993 Budget. Defending the decision to remove subsidies on maize meal and fertiliser, the Minister of Finance made no secret of the main intention behind this decision. Emphasising that the move would save the government around US\$ 10 million, according to

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<sup>29</sup>This view is seconded in an earlier evaluation of the implementation of RAP. International Monetary Fund (IMF), 1995: "Zambia: Staff report for accumulation of rights and economic program for 1995-1998", Washington DC: November 21 (confidential). Representatives of the World Bank and IMF also raised this issue in personal interviews. Ellah Chembe, World Bank. Lusaka June 6, 1995 and E. Talia, resident representative IMF. Lusaka, December 10, 1996.

the Minister of Finance, the main result would be the securing of an estimated US\$ 600 million in donor support required by Zambia this year (GRZ: Budget Address 1993). Commenting on the fact that few of the economic targets set for 1992 had been met, the minister nevertheless, noted that:

"Our commitment to policy reform has yielded substantial benefits already. For example, we have been able to reactivate our Rights Accumulation Programme with the international Monetary Fund, which paved the way for external assistance amounting to US\$ 1,5 billion. This amount is unprecedented in our history" (GRZ Budget Address, 1993).

### Donor leverage in the area of privatisation

The issue of privatisation was raised in the meetings between the Zambian government and its external donors from the very beginning. According to observers, the urgency expressed by the donors on the issue of privatisation in part reflected the lack of results achieved under Kenneth Kaunda. But it also reflected a desire to take advantage of the support and legitimacy enjoyed by MMD in the early stages of the reform period<sup>30</sup>. Reflecting the changes from a cooperative relationship to a conditionality based relationship, stronger conditionality measures were utilised by the external donor community in order to push the privatisation programme forward from 1994 onwards.

The issue of privatisation had a small group of influential supporters in Zambia. However, it should be noted that even the Zambian business community was divided on the issue of privatisation. Many emerging businessmen with a background in the public sector were unable to reap the benefits of privatisation and felt threatened by the prospects of foreign take-overs of indigenous businesses (Rakner 1998). As a result, in the first half of the 1990s, no coherent domestic lobby group in favour of privatisation was present. Comparing the analysis of the internal policy debates on the process of privatisation to the external debate between the international donors and the government at the various consultative group meetings, it may be argued that external pressure, through a combination of 'promotion' mechanisms and economic conditionality, played a significant role in terms of moving the process of privatisation in Zambia forward. In interviews with approximately 40 representatives of various multilateral donor organisations and representatives of bilateral governments, all respondents cited the privatisation process as either the main, or one of two main, adjustment achievements of Zambia during the period in question. The interviews also indicated that in terms of donor leverage, and thus the success of their economic conditionality policies, the progress achieved in the area of privatisation was considered the main area of success. For the first time since coming to power, in late 1994 the MMD government ran into serious conflict with the IMF when failing to meet the monetary benchmarks set for advancement to an ESAF agreement in March 1995. Slippage on a number of macroeconomic indicators led the international donors to question the MMD government's continued commitment to economic liberalisation. The new benchmarks negotiated with the IMF for the postponement of the ESAF agreement strongly emphasised

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<sup>30</sup> Personal communications, Oliver Campbell White, senior Public Enterprises Specialist, World Bank, Washington DC, March 11, 1997 and Hendrick van der Heijden, External Advisor, Ministry of Finance. Lusaka, October 28, 1996.

progress in the area of parastatal reform. Incidentally, it was only when encountering these problems that the government made the policy decision which appeared to secure progress in the process of privatisation, namely to liquidate the holding company, ZIMCO. Furthermore, it was under increasing donor pressure and reduction of funds due to governance issues that the Zambian government in 1996 officially announced the date for the sale of the mines (ZCCM) set to February 28, 1997. The MMD government's commitment to a date for the privatisation of the mining industry in 1996 constituted a major reason behind the multilateral finance institutions' decision to continue financing the Zambian reform programme in 1996. It was also the prospects of the sale of the copper mines, and associated investments expected to flow from here, that induced most bilateral donors to pledge new funding to Zambia at the July 1997 Consultative Group meeting. Again, the failure of the MMD government to finalise the sale of the mines in 1998 has held back large amounts of bilateral donor funds until this year.

### Political conditionality

The relationship between MMD and the international donor community was very positive in the first years of MMD's electoral term. The international donor community shared the political and economic visions of the new Zambian government, presented in the 1991 Manifesto. The MMD Manifesto committed the new government to accountability, to the strengthening of the legislature and the parliament vis-à-vis the cabinet, to delinking the party from the state, to freedom of speech and association, as well as to adopting a new constitution based on the principle of consensus. On the basis of its Manifesto, the MMD was given a large electoral majority in the 1991 elections. However, the Manifesto also functioned as the basic document, or 'contract', between the new government and its external supporters, as it became a significant document in terms of securing the return of high levels of financial support from the international donor community. As a result, in the conflicts unfolding between the Zambian government and the international donor community in the period leading up to the 1996 elections, the question of adherence to the principles laid out in the 1991 Manifesto became a key issue<sup>31</sup>.

In retrospect it may be argued that the cabinet reshuffles and the introduction of state of emergency laws in the spring of 1993 ended the 'honeymoon' between the domestic opposition and the government. Maybe not surprisingly, the very same issues changed the relationship between the MMD government and the external donors from one of co-operation to one of conflict. Governance first appeared as an issue of conditionality between the Zambian government and its external partners at the Consultative Group meetings in 1993. Concerns were raised relating to the implementation of state of emergency laws in March 1993 and later to the issues of corruption and drug trafficking within high

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<sup>31</sup> Before the Consultative Group meeting scheduled for December 15, a preparatory meeting between the donors and the Zambian government was conducted in Lusaka (December 5, 1995). The Minister of Finance (Ronald Penza) stressed the economic achievements of the government and urged the donors to judge Zambia relative to other developing nations. When a representative of the donor community intervened that Zambia should be judged according to the Manifesto of 1991 which constituted a contract both between the government and its citizens as well as between it and its external partners, the answer from a representative of government was given in the form of a loud laugh.

political offices. In an apparent response to demands raised by the donors at this stage, several high ranking cabinet members, including the Minister of Foreign Affairs, were dismissed from the cabinet. In 1995, as the work on the constitutional review increasingly became tied to Kenneth Kaunda's return to the Presidency of UNIP, the relationship between the donors and the Zambian government again became conflictual. According to donor representatives in Lusaka, the late parts of 1995 witnessed a distinct decline in the commitment to good governance by the Zambian government. Most saw the quality of governance as having deteriorated sharply and linked this development to Kaunda's return, as well as the stagnant economy and increasing levels of unemployment. At the December 1995 Consultative Group Meeting governance once again became the main issue of debate. But whereas the use of political conditionality and threats of aid withdrawal had produced 'results' in 1993, this time the government did not bow to donor pressure. The constitution was ratified by the parliament and later signed into law by the President, despite the conflicts raised over the issue of 'the Kaunda clause' among other things. During the spring and summer of 1996, a majority of the bilateral donors announced that they were either withholding balance-of-payments support, freezing discussions on new aid grants, or cutting on-going-project aid to Zambia. All bilateral donors cited the lack of progress on governance issues, and in particular the signing of the constitution banning Kenneth Kaunda from contesting the elections, as their main reason for withholding financial support<sup>32</sup>.

### Divisions among the external partners

Following the bilateral aid-reductions due to the issues of governance, during the summer of 1996 an intense debate unfolded between the bilateral donors and the multilateral agencies of the World Bank and the IMF. Attempting to reach a compromise between the concerns of the bilateral donors on governance issues and the economic assessments conducted by the IMF in October 1996, the Board of the World Bank decided to release US\$ 45 million in balance-of-payments-support. The remaining sum would be released in February 1997, pending a solution to the impasse created over the constitutional issue in the upcoming elections between the Zambian government and the bilateral donor community. The 1996 elections did not bring a solution to the stalemate between the domestic opposition and the government in Zambia. Furthermore, the elections did not bring an end to the chilled diplomatic climate between the external donor community and the Zambian government. However, in January, the MMD government commenced on a process of confidence building. During the spring of 1997, the Zambian government and its external partners met on several occasions to discuss the issue of governance. At the Consultative Group Meeting in Paris in July 1997, the donors acknowledged the initiatives taken by the MMD government towards reconciling with the opposition. Expressing satisfaction with the positive developments, the meeting concluded that the ground was laid for the donors to engage in more active co-operation with the Zambian government. Bilateral donors lifted the existing

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<sup>32</sup>The United Kingdom was the first bilateral donor to announce the suspension of US\$ 10 million in balance-of-payments support shortly after the constitution was signed into law on May 28 (ANC Network News Harare, June 6, 1996). Norway then suspended all of its non-project aid on June 5 amounting to an annual amount of US\$ 40 million. The US followed shortly after suspending 10 per cent of its aid to Zambia on July 16 (approximately US\$ 3,5 million). In the weeks and months following, Japan, the Netherlands, Sweden, Denmark and Finland followed.

aid freeze on Zambia by granting US\$ 435 million to the country for 1997, pending the privatisation of the mines and progress on the governance situation. The donor enthusiasm experienced in 1991 was largely gone, but Zambia and the external donors resumed 'business as usual' in the summer of 1997. The government had maintained the economic reform programme, but refused to abide by the demands raised in terms of the voter registration procedure and the constitutional amendment process. And while the mutual good will and high aid levels of the early 1990s have not been restored, the comment by the Economist Intelligence Unit Report seems to capture an essential ingredient of the donor-government relationship:

"The government's risky policy stand of standing firm on these issues and waiting out the bilateral donor aid freeze has paid off in a spectacular fashion" (EIU Country Report 3rd Quarter, 1997: 9).

In the period after 1997, governance issues and the failure to finalise the sale of ZCCM has again resulted in a withholding of bilateral balance-of-payments support. However, as argued in Part One, at the 1999 CG meeting, regional concerns have induced a number of donors to resume their lending to Zambia. Currently, the arguments used for increasing bilateral aid levels are fear of regional stability and the potential of instability within Zambia caused by a cancellation of donor funds rather than economic and political reform.

### Conditionality reconsidered

The change from positive cooperation to mutual distrust between the government and the donors was caused by a combination of economic slippage and reversals in the field of political liberalisation. However, it was first and foremost governance issues that generated the heated conflicts. Many donors present in Lusaka in 1996 described their relationship to the Zambian government as a feeling of betrayal in terms of trust between the Zambian government, the people and its external partners. The betrayal related to what donor representatives felt was a break of the contract expressed in the 1991 Manifesto. Due to the conducive relationship starting in 1991, based largely on MMD's political manifesto, the international donor community had expected far more progress both in terms of adherence to democratic principles and economic reforms. In 1991 Zambia had represented something very different; an ambitious agenda promising an economic turn-around within the context of democratic governance procedures. The Zambian government had expected that several years of fiscal austerity measures and economic hardships would produce results in terms of growth, employment creation and substantially increased levels of foreign investments.

A number of studies have pointed to the dilemmas of political conditionality and the potential conflicts between the application of conditionality and the building and consolidation of democratic institutions (Mkandawire 1996, 1998; Havnevik and Arkadie 1996; Collier 1997; Gwin and Nelson 1997). The case of Zambia's dual reform processes in the period after 1991 reflects these general concerns. The conflicts between the need for consistency in aid flows to sustain and secure the processes of reform and the increasing application of donor conditionality witnessed from 1993 onwards, strained the relationship between the government and its external partners. The donor community, and in particular the various

bilateral donors present in Lusaka, judged the declining performance of the MMD government on both political and economic reforms against the goals presented in the 1991 Manifesto. The MMD government asked to be judged in comparison with other developing nations as well as Zambia's previous economic and political record<sup>33</sup>. Echoing the sense of betrayal felt among the international donors, a number of government officials who had been part of designing and implementing the reform programme, expressed anger towards the external donors as they felt MMD was being judged much more harshly than Kenneth Kaunda had been during his 27 years in office.

The Zambian government refused to bow to the demands raised by both the international donors and the local opposition in terms of postponing the debate on the Constitution to the next electoral term, and to scrap the use of the Voter registry and instead let people vote on the basis of their National Registration Cards. Choosing to abide, in principle, to the conditions set in terms of economic reforms, yet refusing to abide by the political conditionality ties, the Zambian government presented the bilateral donor community with a dilemma. Their use of political conditionality and withdrawal of balance-of-payments support had not produced the intended political response from the MMD government. By continuing and extending the withholding of financial support, the bilateral donors faced the dilemma of causing the structural adjustment programme to default at a time when the benefits of the privatisation of the mines were in sight. In the press, as well as in the negotiations with the external donors, the Zambian government indicated that it saw its commitment to carrying out an economic reform programme as more important than the process of political liberalisation. Increasingly, government representatives presented the issue as one in which Zambia had committed itself to carrying out an economic reform programme. From the perspective of the government, it was the bilateral donor community that changed the agenda by deciding to also include issues of governance. From 1996 onwards, members of the MMD government have criticised the external actors for introducing new hurdles, for 'blackmailing the government to follow an external dictate' and for 'interfering with Zambia's principle rights as a sovereign nation' (*The Post*, April 9, 1996; *The Post*, June 19, 1996; *Times of Zambia*, May 21, 1996). The multilateral institutions have been portrayed as the real partners of Zambia due to their main focus on the economic reform process.

The conduct of the 1996 elections, and the fact that the multilateral finance institutions insisted that Zambia's 'economic house was in order', to a certain extent shifted the burden of responsibility from the Zambian government to the bilateral donors. Given the tension between the short-term goals of debt reimbursement and the longer-term goal of sustained economic development, the rhetorical question of ownership of the debt problem provided no clear answer in the case of Zambia. The statement by the chief economic advisor at the Swedish embassy illustrated the conflicts and dilemmas involved for all parties:

"The whole situation is a bit absurd. The Bretton Woods Institutions are of course very keen that we as bilateral donors pay Zambia's debt, we are in reality paying to them. As a

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<sup>33</sup> In his opening statement to the December 1995 consultative group meeting, this was the Minister of Finance's main argument, which was repeated by various members of the MMD government throughout the 1996 election campaign (*The Post*, August 13, 1996).

result, they tend to take a much more positive view assessing the economic situation than the bilateral donors tend to do. They [the multilateral donors] naturally want to see Zambia on its feet, however, it is we that pay the credits and as a result, they gloss over economic realities. In addition, we have an additional criterion for evaluating the results, as we also have put in political conditionalities... Every body will have to page in, who is in the drivers seat is difficult to say"<sup>34</sup>.

The above quote highlights a number of the conflicting motivations and incentives facing the bilateral and multilateral donors. The emphasis on debt repayment by its member governments has made the multilateral institutions prone to defensive lending (Gordon 1993). Furthermore, the multilateral institutions have invested much intellectual prestige in the African adjustment programmes (Kapur 1997). Bilateral donors in the West are increasingly facing domestic Parliaments demanding a stronger emphasis on democratic development and thus, political conditionality issues. In sum, in terms of political reforms, the international donor community was not able to reverse the regressive trends witnessed, in particular, from 1995 onwards. The influential position acquired by the World Bank witnessed throughout sub-Saharan Africa in the 1990s was also clearly reflected in the case of Zambia. However, despite the strong co-ordination function, in the areas of governance stressed by the World Bank, relating to institution-building to ensure accountability, transparency, and the limit of corrupt practises, a positive influence of the donors was not detected. The combined effects of the continued disbursements from the multilateral donors and the debt rescheduling agreements which were not affected by the aid-freeze reduced the impact of the bilateral aid freeze. The figures presented by the Ministry of Finance (Table 2) provide a key to understanding the limits of donor conditionality and the potential conflicts of interest between the principles of political liberalisation and economic liberalisation. The bilateral donor agencies presented an unusually unified and coherent policy reaction to the political actions of the MMD government. However, the fact that substantial amounts of their aid had been tied to the multilateral finance institutions and the implementation of economic rescheduling programmes at least in the short run rendered a purely bilateral reaction of limited effect. Thus, the aid freeze in the 1996-98 period represents a clear parallel to the situation in the 1980s when continued bilateral funding diluted the impact of the multilaterals donors aid cancellations.

In the case of Zambia, it may be argued that the concern for the economic reform programme won over the principle of political liberalisation and democratic consolidation. For the IMF and the World Bank, arguably, the key credibility point was the continuation of the process of privatisation and the continued adherence to a stable macroeconomic framework. For the multilateral institutions, Zambia's proven ability to carry through a conditionality programme in the context of political turmoil became a crucial determining factor for continued support. Due to the great stakes given to cultivating the country as a success story of structural adjustment by the multilateral donors, withdrawal of multilateral funding was not likely unless Zambia started to slide on its debt-service obligations. If the government was to stop meeting its debt-service commitments, and thus, risking the collapse

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<sup>34</sup>Personal interview Christer Aagren, Economic Advisor, Swedish Embassy. Lusaka, September 12, 1996.

of the ESAF agreement with IMF, a real financial crisis would be looming. As argued by the Economist Intelligence Unit:

"It remains the case that the donor community in general, and the Bretton Woods institutions in particular, need Zambia to look successful as an example to the rest of the continent of the workability of structural adjustment (EIU Country Report, 4th Quarter, 1996: 4).

### Commitment and conditionality

The question remains however, to what extent the international donor community exercised real influence and leverage over the economic policies of the Zambian government during the period in question. Increasingly, the academic literature has argued that the economic reform programmes of the Bretton Woods institutions do not increase economic growth or levels of investments (Killick 1995, Mosley et al. 1991, Collier 1997, Burnside and Dollar 1997). As argued above, Zambia has in principle, remained committed to stabilisation and fiscal discipline by adhering to a cash budgeting procedure. However, Zambia has suffered from significant month to month volatility of expenditures. Zambia's several lapses in fiscal discipline have invariably been followed by drastic cuts in expenditure, and non-wage expenditures and capital expenditures have suffered the largest reductions. This situation has meant that inflation remains relatively low. However, accumulation of arrears on domestic debt has increased and unbudgeted wage hikes and retirement packages for civil servants have failed to send a signal of government commitment to fiscal discipline to the private sector. Yet, the swift fiscal adjustments have sent a positive signal to the IFIs:

"Ultimately, the most convincing explanation for the fiscal policy outcomes observed in Zambia may be the simple need to meet IMF government saving targets. In fact, corrective measures taken after the emergency of monthly deficits in Zambia have frequently coincided with months at the end of which IMF targets for the change in net claims of the banking sector on government need to be met" (Stasavage and Moyo 1999: 15).

Similarly, both members of the Zambian business community and bilateral donor representatives expressed concerns with the MMD government's lack of budgetary discipline despite seeming to adhere to a cash budget and the macroeconomic benchmarks set by the donors. The problems of lack of budgetary discipline also affected the bilateral donors. As argued by the economic advisor of the German government:

"Coming to 1997 it is our view that the budget situation is not a sane one, budget discipline is not being observed. Through our bilateral co-operation project we have been supporting Lusaka Sewage Company for more than a decade. However, this last year the Zambian government has not paid their water bill, as this payment was suppressed in order to balance the budget. But a budget is not in balance if you do not pay your bills, it is like shopping and refusing to pay and claim you have saved money... The simple idea that if you do not have money you cannot spend is not adhered to"<sup>35</sup>.

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<sup>35</sup> Personal interview, Axel Zeidler, First Secretary, Embassy of the Federal Republic of Germany. Lusaka, January 15, 1997.

The arguments put forth here address the dilemmas of conditionality based aid in the absence of genuine government ownership. Swift adjustments ensure that benchmarks are met. Yet no real fiscal discipline, which could provide the basis for investor confidence, investments and ultimately growth, has been achieved. The MMD government's emphasis on maintaining a good relationship to the IFIs by, at least in principle, meeting the benchmarks set marks a contrast and ultimately a policy learning from the conduct of economic reform in the 1980s and the 1990s. Despite the macroeconomic problems encountered from 1995 onwards, Zambia has remained current on its external debt service payments throughout the first election period and also for 1997 and 1998. Debt servicing has been maintained despite reduced levels of balance-of-payments support has been withheld due to the postponement of the privatisation of the mining industry. In the eyes of the international donor community, the progress of the economic restructuring programme therefore justified continued support to Zambia despite the regression witnessed in terms of democracy and good governance. It may therefore be argued that the government in the 1990s have used adherence to the economic reform demands from the donor community as a 'trump card' before the bilateral donors when conflict arose over the issues of respect for human rights and political liberties.

With hindsight, it seems that the commitment to both the political and economic processes of reform waned within the MMD government mid-way through the first electoral term. For a number of reasons, Zambia appears to have returned to the 'politics of the past', in which the performance at CG meetings entail making promises with no intentions of sticking to them. We find that Zambia, both in the 1980s and 1990s, fit a more general portrait of a country in which policy choices are driven by donor funding rather than domestically formulated development concerns. The recent developments in the privatisation of the mines described above illustrate both the effects and limits of donor conditionality in the absence of a firm and strong government commitment to the reform measures.

## **Part Four: Lessons about conditionality aid from Zambia**

The point of departure for the ongoing Aid and reform project has been the new evidence on aid effectiveness indicating that aid transfers to date have been ineffective both in promoting growth and in inducing policy reform except in good policy environments. The Zambian case supports these findings. Throughout the 1980s, the UNIP government rejected policy reform. However, the cut-offs from IFI finances following the cancellation of reform agreements were diluted by continued bilateral aid flows and poor aid coordination. From a position in the 1980s as a classic 'non-reformer', a reformist government came to power in 1991 with the firm intent to undertake policy reform. The donors rewarded this local ownership of a policy process with substantial increases in aid. Influential Cabinet ministers in key positions in the initial MMD Cabinet was clearly in favour of economic policy reform. The high levels of aid received initially reflected the mutual interests and understanding between Zambia's key policy makers and the donor community. While the prospect of aid was not the major motivation for the government's reform effort, the financial and non-financial support from the donors was nevertheless important. The experiences of frequent cancellations of agreements with the IFIs in the 1980s had

contributed to policy learning before the 1991 transition. It was acknowledged both by politicians and technocrats that an agreement with the IFIs, entailing servicing the country's international debt, was essential in order to receive external financial aid.

However, over time, the MMD government's commitment to reform waned despite external support and in part because the reforms achieved so little in terms of stemming the continued economic decline. While the government displayed genuine commitment to liberalisation and stabilisation, commitment to a long-term strategy of growth, including the privatisation of the mines and a commitment to restructuring the public sector was not displayed. The donors also failed to express a coherent strategy of economic growth. A donor promoted strategy of growth would have placed the mining industry at the centre of negotiations with the MMD government much earlier than 1997. Instead, in the 1990s both the government and the external donors made fiscal austerity an end in itself and a measure of reform commitment. Thus, nearing the end of the decade, the similarities and continuances with the policy practices of the Second Republic appear more striking than the policy shifts. Supporting the findings of the Assessing Aid report, donor finances and donor conditionality have proved unable to stem the waning reform commitment witnessed in the last half of this decade. Reflecting continuity rather than a shift of practices, a partial reform syndrome has been supported by the inability of donors to apply the conditionality instruments in a coherent manner.

### The limits of conditionality

In terms of actual results achieved, however measured, Zambia's reform experience cannot be depicted as a success. With a basis in comparative research, Tony Killick raises the question of whether the effect of financial aid for structural adjustment purposes has been to *postpone* real adjustment processes by allowing governments to avoid politically sensitive decisions (Killick 1996, 1998). This observation appears relevant for the Zambian case. In Zambia the economic reform process progressed far after 1991 and major areas of reform appear irreversible. However, two major reform processes were postponed to the second election term at considerable economic costs: The reforms within the large public sector and the privatisation of the mining industry. Considering Zambia's dire economic situation in 1991 and the complete run-down of the country's foreign reserves and food reserves, it may be appropriate to ask whether the large civil service, as well as the loss-making mines and national airline, could have been supported in the absence of increased balance-of-payments support from the donor community. Supporting the argument raised by Killick, a number of Zambian business men suggested that the abundance of aid in the 1991-1994 period in fact hindered real economic adjustment as the high aid levels made it possible for the MMD government to postpone difficult decisions. In 1996 Zambia was able to maintain its international debt obligations despite reduced levels of aid through increased internal resource mobilisation. This indicates that large inflows of foreign exchange to weak economics may create economic distortions that hinder actual economic restructuring. The Zambian case therefore supports findings by Burnside and Dollar (1997) suggesting that the high volumes of aid to Africa during the 1980s may in fact have slowed down the adjustment process by acting as a substitute to private capital.

However, the *Zambian case* suggests that the *Assessing Aid* report, and ongoing work to reform conditionality based aid, underestimates the difficulty of donor co-ordination when calling for aid selectivity. The model of selectivity presented is essentially a one-donor model that assumes that donor preferences are singular rather than plural. Yet, the *Zambian case* illustrates that a range of conflicting interests within the international donor community complicated the conduct of unified action when a waning commitment to reform was witnessed. Throughout the 1990s, bilateral donors have emphasised political rights and given much attention to democratic reform in their aid allocations. In Zambia, the bilateral donors' focus on policy reform and issues of governance lead them to reduce aid allocations at a time when the multilateral donors claimed that the government's good economic reform record qualified for increases in donor funding. Towards the second general elections in 1996, the bilateral donors started to openly question the multilateral institution's judgement of Zambia's economic policy record as well. The numerous different, and often inconsistent, motivations of the various donor agencies diluted the impact of the conditionality measures implemented. As a result, the *Zambian government* to an extent succeeded, as in the 1980s, in pitting the various donor agencies against each other.

The paradox of more and more conditions leading to less and less effective conditionality, has been referred to as the 'non-reform paradox' (Gordon 1993; Collier 1997). The real problem of the 'conditionality game' in which a donor tries to 'buy' as much reform as possible while recipient governments attempt to get as much money from the donor as possible, draws government attention away from the serious need for economic restructuring and development as benefits of reform are sometimes defined more in terms of increased donor finances than improved economic performance. In Zambia, we argue that the much delayed processes of privatising the mines and reforming the public sector in recent years have been pursued in order to fulfil Consultative Group meeting demands rather than because these reforms are part of a domestically formulated development strategy. We are concerned that the World Bank's preoccupation with debt service has diverted resources and time- including management time- away from development issues and that the debt situation has been improved at the expense of focussing on real sector issues.

The terms of reference for the *Aid and Reform* study argues that the World Bank in particular has a large role to play in terms of persuading governments about the virtues of reform and that this role ultimately is more important than its role as a provider of finance. Particularly in the absence of a reform committed political leadership, it is now assumed that non-financial aid will have a greater impact than financial aid. The *Zambian case study* reinforces findings from across Africa that there is an absence of genuine policy learning and that commitment to reform is at best thin and confined to a few political leaders. In many cases, as in Zambia, the shallow support base for reform indicates that the reform processes and commitment to these processes can regress with a few changes in the Cabinet. However, based on our analysis in Zambia we do not think that in its present form the donors have communicated their views effectively to the government, let alone to the overall population. Thus, we do not believe that aid in its present form has generated much policy learning. Firstly, as the *Zambian case* has illustrated, the donor community does not have a single clear message about reform due to poor donor coordination. Governments receive policy advice from a full ideological spectrum from the so-called Washington Consensus to

NGOs advocating a new international economic order. Secondly, and most importantly, the process of aid, and in particular adjustment aid is such that the recipient government is essentially a passive participant and the larger population completely absent. Technical assistance to the Central Bank and Ministry of Finance typically provide ammunition to reformist technocrats. However, very little of their work is distributed and more time is spent briefing donor missions than in promoting policy learning in the given country. In general we find that the aid process is not conducive to policy learning. In aid dependent countries such as Zambia, donor conditionality undermines genuine policy learning. Ministries become very passive, once they learn that donors mean to set policy, individual officials have negative incentives to disagree with the donors since this will only serve to delay the arrival of the much needed aid resources. Most ministries in Zambia appear paralysed by the austerity under which they have performed now for two decades. They appear to be so desperate for donor money that they will agree to any proposal they received from the external donors. In sum, we do not think non-financial aid will result in much policy learning in Zambia in the foreseeable future, unless current delivery mechanisms are altered.

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## Appendix 1: Data and Statistics

Table A1.1: TOTAL AID IN LOANS BY SECTOR (EFFECTIVE DEVELOPMENT ASSISTANCE LOANS, \$US mn)

IMF Code	Country Name	P Name Level 1	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ZMB	ZAMBIA	AGRICULTURE, FORESTRY, FISHING	7,71	6,83	5,89	9,52	6,54	15,89	30,49	4,09	14,94	11,15	15,17	24,23	6,60	18,71	7,90	6,06	18,78
ZMB	ZAMBIA	BALANCE OF PAYMENTS SUPPORT	0,00	0,00	21,98	1,81	1,78	0,16	0,06	21,05	0,27	0,00	0,00	154,28	79,76	15,86	3,66	1,72	0,89
ZMB	ZAMBIA	COMMUNICATION	1,44	0,65	0,52	3,38	1,39	0,51	1,37	-0,86	-1,85	-0,27	-0,95	-0,13	-0,64	-0,10	-0,05	-0,33	-0,01
ZMB	ZAMBIA	COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	26,63	15,83	0,64	16,96	16,96	7,49	4,79	1,36	5,80	7,93	10,04	18,78	3,37	8,79	96,62	112,27	97,55
ZMB	ZAMBIA	CONSTRUCTION	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,06	7,68	0,00	0,61	1,09	0,00	0,00	0,00	0,00
ZMB	ZAMBIA	CONTRIB.TO FINANCE CURRENT IMP	78,06	33,85	11,12	4,50	1,98	15,25	11,30	3,44	9,29	0,16	0,00	0,00	3,12	0,00	0,00	0,00	0,00
ZMB	ZAMBIA	ELECTRICITY,GAS,& WATER PRODUC	0,10	1,51	0,27	2,96	4,02	3,94	5,06	6,68	20,79	9,84	1,26	5,41	4,21	3,75	7,05	5,43	4,15
ZMB	ZAMBIA	FINAN.,INSUR.,REAL ESTATE,BUS.	-0,40	0,81	1,45	1,14	0,21	-0,02	0,00	0,00	0,66	0,00	0,04	0,36	54,44	103,82	17,09	4,54	3,15
ZMB	ZAMBIA	GENERAL PURPOSE CONTRIBUTIONS	9,41	0,00	2,98	0,17	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
ZMB	ZAMBIA	MANUFACTURING	10,29	16,86	8,86	5,12	17,63	37,76	39,42	8,57	2,71	3,52	1,20	3,78	1,55	0,40	2,92	6,16	11,72
ZMB	ZAMBIA	MINING,QUARRYING	0,95	1,44	0,32	-0,11	11,04	10,31	8,19	4,12	1,23	0,51	0,56	0,22	0,59	3,55	3,61	5,25	2,92
ZMB	ZAMBIA	NA	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	-1,89	0,00	0,00	0,00	0,00	0,00
ZMB	ZAMBIA	OTHER CONTRIBUTIONS	6,81	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
ZMB	ZAMBIA	PENSION PAYMENTS	0,00	0,00	3,32	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
ZMB	ZAMBIA	TRADE,RESTAURANTS,LODGING	1,75	0,61	0,06	0,02	-0,07	0,00	-0,11	0,00	-0,18	-0,04	0,00	-0,07	0,00	0,00	0,00	0,00	0,00
ZMB	ZAMBIA	TRANSPORT & STORAGE	15,65	11,79	18,93	14,33	12,18	7,78	4,70	5,85	12,59	5,97	2,39	4,40	1,29	0,87	5,46	1,86	3,41
		TOTAL	158,4	90,18	76,34	59,8	73,67	99,07	105,27	54,3	66,31	46,45	29,71	209,98	155,38	155,65	144,26	142,96	142,56

Source: World Bank 1998

Table A1.2: TOTAL DISBURSEMENTS BY SECTOR (\$US mn)

IMF Code	Country Name	P Name Level 1	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ZMB	ZAMBIA	AGRICULTURE, FORESTRY, FISHING	15,329	10,808	12,916	15,119	12,436	23,558	39,484	6,712	23,152	18,346	20,164	33,801	9,632	26,994	11,496	8,311	29,452
ZMB	ZAMBIA	BALANCE OF PAYMENTS SUPPORT	0	0	54,3	2,429	2,403	0,211	0,076	27,284	0,358	0	0	202,38	112,46	51,324	4,948	2,32	1,199
ZMB	ZAMBIA	COMMUNICATION	15,114	9,354	3,457	9,455	7,002	0,904	2,449	7,107	18,181	2,263	7,834	1,062	5,333	0,863	0,435	2,745	0,094
ZMB	ZAMBIA	COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES	47,565	54,956	8,151	40,015	25,508	57,482	42,985	34,748	23,906	13,668	42,905	38,866	6,825	19,422	146,72	258,30	147,56
ZMB	ZAMBIA	CONSTRUCTION	0	0	0	0	0	0	0	0	3,369	26,457	0,283	1,21	2,186	0	0	0	0
ZMB	ZAMBIA	CONTRIB.TO FINANCE CURRENT IMP	113,51	57,033	18,452	11,559	8,412	23,16	21,042	6,776	16,457	0,321	0	0	4,365	0	0	0	0
ZMB	ZAMBIA	ELECTRICITY,GAS,& WATER PRODUC	1,595	2,453	0,54	6,256	7,353	7,133	8,06	10,116	39,379	20,415	2,373	8,55	10,673	7,213	11,633	9,416	6,348
ZMB	ZAMBIA	FINAN.,INSUR.,REAL ESTATE,BUS.	7,477	12,502	12,129	6,688	2,768	1,076	0,08	0,012	1,227	0	0,076	0,605	76,91	147,13	24,952	6,804	4,771
ZMB	ZAMBIA	GENERAL PURPOSE CONTRIBUTIONS	14,858	0	4,697	0,262	0,023	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	MANUFACTURING	20,006	46,379	18,623	6,335	31,846	71,882	67,734	24,542	33,464	10,708	30,251	13,228	2,124	0,557	4,07	8,838	16,613
ZMB	ZAMBIA	MINING,QUARRYING	32,204	33,002	11,027	2,121	67,608	44,222	36,18	31,562	7,795	4,671	8,715	4,129	23,227	22,945	27,532	9,205	5,48
ZMB	ZAMBIA	N.A.	0	0	0	0	0	0	0	0	1,505	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	NA	0	0	0	0	0	0	0	0	0	0	0	18,747	0	0	0	0	0
ZMB	ZAMBIA	OTHER CONTRIBUTIONS	22,556	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	PENSION PAYMENTS	0	0	41,342	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	TRADE,RESTAURANTS,LODGING	2,035	0,709	0,074	0,021	1,5	0	2,25	0	3,75	3,279	0	1,415	0	0	0	0	0
ZMB	ZAMBIA	TRANSPORT & STORAGE	22,037	21,587	28,262	31,668	29,74	30,745	24,681	17,585	31,137	20,194	4,656	13,984	6,886	2,647	8,516	3,474	7,062
ZMB	ZAMBIA	TOTAL	314	249	214	132	197	260	245	166	204	120	117	338	261	279	240	309	219

Source: Charles C. Chang, Eduardo Fernandez-Arias, Luis Serven, "Measuring Aid Flows, A New Approach," World Bank, 1998.

Table A1.3: TOTAL GRANTS BY CREDITOR (\$US mn)

Country Code	Country Name	Cred Code lvl 1	Cred Name lvl 1	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ZMB	ZAMBIA	AFDB	African Development Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	CAN	CANADA	8,1	5,2	4,7	3,7	10	8,4	12,7	25,5	30,4	15,9	87,8	23,2	26	13,6	10,1	18,7	9,5
ZMB	ZAMBIA	CEC	Commission of the European Communities	11,6	17,9	5	8,2	16,5	28,8	15,6	19,7	34,9	23,5	19,9	24,2	97,8	133,5	43,4	69,2	36
ZMB	ZAMBIA	CHE	SWITZERLAND	0,2	0,1	0,2	0,3	0,5	4,4	0,2	1,6	0,2	0,6	0,4	0,9	2,5	0,5	0,5	0,9	0,5
ZMB	ZAMBIA	DEU	GERMANY	13,1	10,4	14,9	10,2	9,9	12,1	11,7	16,8	14,8	15,2	329,7	13,8	54,7	74,3	39,2	71	79,7
ZMB	ZAMBIA	DNK	DENMARK	4,2	2,9	3,2	1,8	1,8	3,1	4,5	2,7	11,2	6,4	22,1	17,3	38,6	15,6	17,7	25,6	25,8
ZMB	ZAMBIA	FIN	FINLAND	8,3	6,4	8,6	10,2	9,4	11,8	16,6	16,1	23,8	25,1	24,9	25,4	31,1	15,2	13,1	11,9	11,7
ZMB	ZAMBIA	FRA	FRANCE	0,8	0,5	1	0,8	1	0,7	1	1,2	1,4	1,4	21,4	20	14,5	14,4	11,5	8,4	2,1
ZMB	ZAMBIA	GBR	UNITED KINGDOM	29,3	25,8	18,6	16,9	14,9	15,5	41,2	38,9	29,6	27,6	42,6	67,1	102,5	44,2	76,2	70,1	56,6
ZMB	ZAMBIA	IDB	Inter-American Development Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	IMF	IMF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	ITA	ITALY	0,1	3,7	1	0,7	3,5	1,3	4,3	15,5	10,6	11,7	8,6	7	6,3	37	2,4	6	1
ZMB	ZAMBIA	JPN	JAPAN	1,4	4,2	10,2	11,4	4,8	16,2	23,2	31,9	71,4	62,9	40,1	61,5	73,7	68,9	87,3	62	48,3
ZMB	ZAMBIA	NLD	NETHERLANDS	11,8	11,4	13,6	11,8	19,8	15,7	48,5	28,4	24,4	21,1	60,6	29,5	46	30,2	36,6	42	26,6
ZMB	ZAMBIA	NOR	NORWAY	10,5	8,7	13,8	16,1	16	16,7	28,7	31,9	40,2	34,9	55,3	51,6	50,4	31,3	51,2	35,1	30,6
ZMB	ZAMBIA	SWE	SWEDEN	31,1	28,8	27,5	29,4	20,4	22,9	36,1	25,4	35,8	36,1	37,2	90	79,5	34,5	35,5	32,4	31,1
ZMB	ZAMBIA	USA	UNITED STATES	11	6	4	11	11	23	30	31	6	7	7	90	106	89	17	23	18
ZMB	ZAMBIA	World Bank	World Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA		IMF	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1 265	na
			TOTAL	141,5	132	126,3	132,5	139,5	180,6	274,3	286,6	334,7	289,4	757,6	521,5	729,6	602,2	441,7	476,3	377,5

Table A1.4: TOTAL AID IN LOANS (EFFECTIVE DEVELOPMENT ASSISTANCE LOANS, \$US mn)

Country Code	Country Name	Cred Code lvl 1	Cred Name lvl 1	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	
ZMB	ZAMBIA	AFDB	African Development Bank	1,712035	1,921237	2,717956	5,907766	2,884411	6,433118	9,384085	3,240934	5,899012	0,460815	16,50297	22,66412	14,61071	7,989656	12,25793	8,900525	9,076909	
ZMB	ZAMBIA	CAN	CANADA	13,95602	0,924255	11,3689	4,707583	9,624902	1,815287	0,760046	0,433008	0	0	0	0	0	0	0	0	0	
ZMB	ZAMBIA	CEC	Commission of the European Communities	0	0	0	0,107479	0,086898	1,107565	0	0	0,724148	0	0	0,674601	0,444398	0,311002	0,177607	0	0	
ZMB	ZAMBIA	DEU	GERMANY	13,56342	3,507471	6,148991	10,55332	4,853039	3,621589	4,246862	8,735327	6,863119	2,203255	0	10,88235	4,885283	0	0	0	0	
ZMB	ZAMBIA	DNK	DENMARK	0	0,087985	3,295213	1,813986	1,775269	1,089915	4,924332	0,849352	0,367478	0,017537	0	0	0	0	0	0	0	
ZMB	ZAMBIA	FIN	FINLAND	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
ZMB	ZAMBIA	FRA	FRANCE	0	0	0	0	0	0,396899	1,291036	0	0,286525	0	0	-1,8887	0	0	0	0	0	
ZMB	ZAMBIA	GBR	UNITED KINGDOM	32,3587	9,355135	5,354685	1,479056	2,521101	2,890553	2,532171	-1,71214	1,501535	-0,04113	0,091208	-0,26004	0	0	0	0	0	
ZMB	ZAMBIA	ITA	ITALY	0	0	0	0	0	0	0,196496	0,078634	25,38135	5,92106	1,982939	1,839691	0,546426	0	0	0	0	
ZMB	ZAMBIA	JPN	JAPAN	3,889528	13,51919	0,532959	0,787803	3,642603	9,959677	11,54204	4,859162	0,414416	0	0	0	0	0	0	0	-20,0848	0
ZMB	ZAMBIA	NLD	NETHERLANDS	11,15844	4,692555	1,113907	0,205801	0	0,023823	0	-0,19278	0	-0,08882	-0,05414	0	0	0	0	0	0	
ZMB	ZAMBIA	SWE	SWEDEN	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
ZMB	ZAMBIA	USA	UNITED STATES	69,58167	20,35537	15,00302	9,325172	14,16458	15,34208	6,016529	0,811151	7,958143	0,352101	1,619336	0	0	0	-0,16005	0	0	
ZMB	ZAMBIA	WB	World Bank	-0,93618	0,189959	4,701435	7,434287	8,964095	44,72453	55,78365	32,3208	3,635436	3,187697	2,157788	160,6527	127,3437	123,0191	129,5036	144,4158	125,3661	
			TOTAL	145,2836	54,55315	50,23706	42,32226	48,5169	87,40504	96,67725	49,42345	53,03117	12,01251	22,3001	194,5647	147,8305	131,3197	141,7791	133,2315	134,443	

Table A1.5: TOTAL DISBURSEMENT BY CREDITOR (\$US mn)

Country Code	Country Name	Cred Code lvl 1	Cred Name lvl 1	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ZMB	ZAMBIA	AFDB	African Development Bank	9,429	4,888	6,826	12,231	5,225	22,85	34,144	27,474	45,342	6,82	90,045	36,858	52,884	34,729	31,95	26,95	21,387
ZMB	ZAMBIA	CAN	CANADA	15,346	1,024	12,68	5,245	10,732	2,023	0,846	0,482	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	CEC	Commission of the European Communities	0	0	0	0,141	0,114	1,453	0	0	0,95	0	0	0,885	0,583	0,408	0,233	0	0
ZMB	ZAMBIA	DEU	GERMANY	26,012	6,577	10,674	18,982	9,313	6,871	12,25	19,929	39,67	8,627	0	16,938	7,674	0	0	0	0
ZMB	ZAMBIA	DNK	DENMARK	0	0,599	4,3	2,429	2,403	1,646	7,568	1,296	0,51	0,027	0	0	0	0	0	0	0
ZMB	ZAMBIA	FIN	FINLAND	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	FRA	FRANCE	0	0	0	0	0	0,712	2,316	0	0,514	0	0	18,747	0	0	0	0	0
ZMB	ZAMBIA	GBR	UNITED KINGDOM	53,845	24,862	11,564	3,497	28,609	16,396	7,053	25,145	2,407	3,279	0,264	5,927	0	0	0	0	0
ZMB	ZAMBIA	ITA	ITALY	0	0	0	0	0	0	7,644	3,059	61,685	25,607	5,157	12,105	4,973	0	0	0	0
ZMB	ZAMBIA	JPN	JAPAN	14,654	28,814	2,791	3,454	8,535	23,034	25,651	10,764	0,914	0	0	0	0	0	0	56,744	0
ZMB	ZAMBIA	NLD	NETHERLANDS	20,809	7,435	1,675	0,311	0	0,036	0	2,904	0	1,333	2,502	0	0	0	0	0	0
ZMB	ZAMBIA	SWE	SWEDEN	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZMB	ZAMBIA	USA	UNITED STATES	99,584	35,006	20,731	12,281	19,235	22,595	10,72	1,197	12,395	0,497	2,26	0	0	0	14	0	0
ZMB	ZAMBIA	WB	World Bank	42,508	32,692	35,266	28,351	56,225	113,026	116,63	55,26	13,734	4,168	2,827	209,668	173,696	174,187	186,062	208,942	181,098
		IMF		25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1265	na
		TOTAL		307,187	141,897	106,507	86,922	140,391	210,642	224,822	147,51	178,121	50,358	103,055	301,128	239,81	209,324	232,245	1557,63	202,485

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Source: World Bank

Table A1.6: TOTAL DISBURSEMENT BILATERAL and MULTILATERAL (\$US mn)

Cred Name lvl 1	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
BILATERAL	563,6	270,7	178,5	134,8	253,0	386,4	394,8	245,8	269,8	85,2	116,1	547,6	418,5	383,5	432,3	3088,3	383,6
MULTILATERAL	2543,6	2251,7	2160,5	2117,8	2237,0	2371,4	2380,8	2232,8	2257,8	2074,2	2106,1	2538,6	2410,5	2376,5	2426,3	5083,3	2379,6
TOTAL	3107,2	2522,4	2339,1	2252,6	2490,0	2757,9	2775,7	2478,7	2527,5	2159,5	2222,1	3086,2	2829,0	2760,0	2858,6	8171,6	2763,2

Table A1.7: ZAMBIA: EXTERNAL DEBT 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 est.
(In millions of U.S. dollars)									
Total external debt	6898	6827	4981	5102	6397	7041	7085	6971	6613
Medium and long term debt	6517	6435	4738	4858	6156	6817	6880	6924	6613
Multilateral	2969	2843	2714	2734	3127	325	3381	3397	3412
IMF	1362	1326	1238	1188	1216	1239	1198	1138	1132
Other	1607	1517	1476	1546	1911	2086	2182	2259	2280
Bilateral official	3265	3348	2117	2107	2945	3272	3345	3431	3141
Paris Club	2508	2362	1583	1674	2361	2863	2936	3022	2732
Other	757	986	434	433	584	409	409	409	409
Suppliers and other	283	244	7	17	84	220	155	95	60
Short-term debt	381	392	243	244	241	224	205	47	0

Source: Bank of Zambia

Table A1.8: ZAMBIA: GOVERNMENT EXPENDITURES 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998
(In millions of kwacha)									
Total expenditures and net lending	37,3	87,7	212	531	854	1000	1213	1406	1943
Current expenditure	30,3	63,9	155	390	624	727	869	1017	1262
Interest due	8,9	18,5	49	183	260	259	322	326	421
Agricultural expenditure	0	5,3	16,8	35,6	31,9	25,6	30,3	3,1	15,3
Capital expenditure	7,1	23,8	57	141	230	273	345	390	680
Financed by GRZ	4,0	6,3	9,7	18,2	36,7	58,2	40,6	70,0	113
Foreign financed	3,1	17,5	47,3	123	193	215	304	319	567

Source: IMF

Table A1.9: ZAMBIA: EMPLOYMENT BY ECONOMIC SECTOR, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998
(In number of employees in thousands)									
Agriculture	79	77	82	83	79	69	68	58	57
Mining	65	65	62	58	51	52	48	45	39
Manufacturing	77	75	74	68	57	56	47	47	43
Electricity	7	7	8	6	5	5	4	5	5
Construction	33	33	27	22	17	10	13	17	18
Transp./Commun.	34	34	31	29	29	36	47	49	50
Distr./trade	55	53	51	49	50	41	38	46	46
Finance/insurance	33	36	39	37	34	42	37	38	38

Public admin.	159	162	171	168	174	173	176	170	168
All sectors	543	544	546	520	497	485	479	475	465

Source: Central Statistical Office, Zambia

Table A1.10: ZAMBIA: MARKETED PRODUCTION OF SELECTED CROPS

	1990	1991	1992	1993	1994	1995	1996	1997	1998
(In metric tons)									
Maize	601	603	259	930	476	345	668	315	182
Tobacco (Virginia)	2,7	0,8	1,2	4,1	5,0	2,2	1,9	3,5	3,8
Tobacco (Burley)	1,5	0,8	1,0	2,5	1,1	1,6	1,9	0,9	5,1
Sugarcane	1137	1126	1136	1255	1222	na	na	na	na
Mixed beans	0,4	6,0	11,7	15,9	13,7	13,7	13,0	6,9	7,4
Groundnuts	4,2	8,8	8,0	23,1	13,7	13,2	14,5	17,6	24,1
Cotton	33,5	48,7	25,8	47,8	33,0	16,5	40,8	74,6	100
Soya beans	7,0	24,3	23,5	27,3	20,6	17,3	37,5	23,1	13,1

Source: Central Statistical Office, Zambia

Table A1.11: ZAMBIA: SOCIAL INDICATORS 1986-1995

Year	GNP per capita \$	Total population (1,000)	Population growth rate (%)	Life expectancy (years)	Infant mortality rate per 1,000	Per capita supply of calories (per day)	School enrolment rates (%)		Energy consumption per capita. (kg of oil equivalent)
							Primary	Secondary	
1986	470	6.429	3.2	51.6	84.8	n.a	94	17	422.2
1987	300	6.945	3.3	52	84	2,126	100	17	412
1988	240	7.196	3.3	53	93	2,126	103	19	412
1989	290	7.490	3.7	53.1	80	na	104	19	379.4
1990	390	7.840	3.7	53.7	76.6	2.026	97	17	379.4
1991/92	420	8.110	3.7	49.7	82.1	2.007	95	20	378.8
1993	460	8.319	3.3	49	106	na	na	20	379
1994	450	8.272	3.0	48	107	na	na	20	159
1995	380	8.936	3.3	48	103	na	na	37	149

na= not available

Source: Bonnick 1997: 56

## Appendix 2: Chronology of Political and economic events

**Table A2.1: Zambia: Chronology of political and economic events (1964-1991)**

1962 (October)	Self-government under UNIP/ANC coalition
1964 (October 24)	First Republic of Zambia inaugurated. UNIP forms government, lead by Kenneth Kaunda
1965 (November)	Unilateral declaration of independence by Rhodesia, road and rail links to Zambia affected
1966 (July)	United Party (UP) formed
1968 (April)	Mulungushi economic reforms
1968 (August)	Presidential and parliamentary elections
1969 (August)	Matero economic reforms. Government purchases 51 % controlling share of mining corporations
1971 (August)	United Progressive Party (UPP) formed, Simon Kapwepwe leaves UNIP to head UPP
1972 (February)	UPP banned, Kapwepwe and 122 party members detained
1972 (December)	Legislation passed introducing a One Party Participatory Democracy constitution
1973 (August)	Second Republic (one-party state) inaugurated
1973 (December)	First presidential and parliamentary election in the Second Republic
1974 (summer)	Beginning of copper price fall
1977 (October)	Kaunda addresses emergency meeting of the National Assembly on the state of the economy. Dissidents organise within UNIP opposed to the governments economic management
1978 (January)	Austerity budget introduced
1978 (September)	UNIP General Conference amends constitution excluding Nkumbula and Kapwepwe from contesting the Presidency
1978 (October)	Presidential and parliamentary elections
1980 (October)	Coup attempt (failed) involving business and labour
1981 (July)	Detention of labour leaders followed by strikes
1983 (October)	Presidential and parliamentary elections
1984 (August)	Third National Convention of UNIP. The restructuring of the economy and the announcement of an 'Economic Crusade'
1985 (October)	Government announces a foreign exchange auction and import liberalisation
1986 (April)	Kaunda changes the economic team negotiating the 1985 economic reforms
1986 (December)	Copperbelt riots
1987 (January)	Labour unrest
1987 (May)	Labour Day speech. Kaunda announces the break with IMF and the World Bank and the introduction of New Economic Recovery Programme (NERP)
1988 (December)	Presidential and parliamentary elections
1989 (June)	Agreement between the government and IMF/World Bank on Policy Framework Paper involving devaluation of the Kw. and the removal of price controls
1990 (June)	Riots in Lusaka and Kitwe following announcement of increasing maize prices. 27 people killed
1990 (June 30)	Coup attempt
1990 (August)	The forming of the opposition alliance, Movement for Multiparty Democracy (MMD)
1990 (August)	Constitutional change, lifting article 4 of the 1973 Constitution which banned opposition parties
1991 (October 25)	Presidential and parliamentary elections involving opposition parties and presidential candidates

**Table A2.2: Chronology of Adjustment Programmes in Zambia 1973-1991**

Year	Programme
1973	One-year stand-by-agreement with IMF
1976	One-year stand-by-agreement with IMF
1978	Two-year stand-by-agreement with IMF
1981	Three year Extended Fund Facility (EFF) with IMF
1982	IMF plan cancelled as objectives are not met
April 1983	Return to the IMF after failure to find alternative sources of funds, one-year stand-by-agreement
May 1984	Consultative Group meeting on external aid
July 1984	Paris Club agreement on debt-rescheduling
July 1984	Twenty-one-month stand-by-agreement
December 1984	London Club Commercial Bank rescheduling
April 1985	IMF agreement suspended for non-compliance
June 1985	Consultative Group meeting on external aid
December 1985	Consultative Group meeting on external aid
February 1986	'Shadow programme' transformed into twenty-four-months stand-by-agreement with IMF
March 1986	Paris Club agreement on debt rescheduling
December 1986	Consultative Group meeting on external aid
January 1987	Kaunda backs away from reform measures and IMF and World Bank programmes are suspended
March 1987	Discussions with IMF to get the programme back on track
May 1987	Kaunda announces the suspension of the IMF reform effort and introduces the New Economic Recovery Programme
1988	Informal talks with the IMF and World Bank
August 1989	Policy Framework Paper 1989-1993 announced
February 1990	Zambia reaches preliminary agreement with the IMF and World Bank
September 1991	The IMF and World Bank suspend agreement in response to Zambia's failure to make payments in July

Sources: Nelson 1991; Gertzel 1984; West 1991; Graham 1994; Jones 1994.

**Table A2.3: Chronology of main economic reforms in Zambia 1991-1996**

**1991**

**November**

First comprehensive set of Zambia's external debt data produced.

**December**

Priority programme to rehabilitate infrastructure commenced.

MMD announces that the responsibility for the privatisation process is handed over to the Ministry of Commerce Trade and Industry from ZIMCO.

Substantial reductions of maize meal and fertiliser subsidies announced.

**1992**

**January**

Non-traditional exporters allowed 100 per cent foreign exchange retention.

Official exchange rate devalued by 30 per cent (155 per cent through 1992) .

Subsidies on maize meal removed.

Programme to reduce military expenditure in real terms over the period 1992-1994 announced.

Commitment to limiting net borrowing by government from the banking system to zero announced.

Subsidies, loans and loan guarantees eliminated for all parastatals, except Zambian Airways and ZCCM.

Import preferences (except for PTA) revoked.

Debt Management Task Force created within Ministry of Finance to co-ordinate all issues related to external debt.

Zambia's arrears to the World Bank cleared.

**February**

An agreement reached between the Zambian government, the IMF and the World Bank on a Policy Framework Paper 1992-1994, focusing on subsidy removals, privatisation of the parastatal enterprises and liberalisation of markets.

**March**

First evidence of major failure of maize crop due to drought. Efforts to mobilise increased donor support started.

Controls on exports of petroleum eliminated.

**June**

Subsidies on maize meal (roller meal) removed.

Controls on all prices eased, most eliminated.

Fertiliser market opened up for full competition.

Pan-territorial pricing for maize eliminated, pricing to reflect differential transport costs.

**July**

Privatisation Bill passed in Parliament. Zambia Privatisation Agency (ZPA) established.

Legislation enacted to increase autonomy of Local Councils.

Investment Act amended to make incentives automatic and transparent.

The IMF approves of a restructured Rights Accumulation Programme (RAP) enabling a clearance of Zambia's arrears to the IMF.

## **August**

Agreement with Paris Club on rescheduling of bilateral debt on enhanced Toronto terms. Rescheduling and debt cancellation reduces Zambia's external debt burden by US\$ 1.5 billion.

## **September**

First phase of government redundancy-programme. 12,000 contract daily employees within civil service are made redundant.

## **October**

Bureaux de change system for foreign exchange introduced.  
Open General Licence System changed from a positive to a negative list.  
Report of Tax Policy Task Force recommending sweeping changes in the tax system.

## **December**

Joint MoF/BoZ Data Monitoring Committee established.  
Exchange rates unified (with ZCCM selling at the market exchange rate).  
First tranche of 19 state companies offered for sale.

# **1993**

## **January**

Cash budget introduced.  
Weekly Treasury bill tender commenced.  
Announcement that Exchange Control Act will be repealed.  
General reduction in tariffs and excises, shift to Harmonised Code for trade classification.  
Reduction in Corporate Tax Rate, modification of personal income tax rates and bands.  
Budget Heads established for defence and security forces.  
Elimination of import and export licences announced, import license levy abolished.  
Company tax reduced from 40 to 35 per cent.  
Special fund set up to accelerate road rehabilitation

## **March**

All bilateral (Paris Club) agreements finalised. Negotiations on interest rate reductions and additional debt write-off produce savings of \$ 100 million.

## **June**

Import and export licenses eliminated.  
Establishment of Zambia Revenue Authority (ZRA).

## **July**

Formal establishment of the Lusaka Stock Exchange (LUSE).  
Markets for maize and fertiliser opened to full competition.

## **November**

Commencement of Public Sector Reform Programme (PSRF).

# **1994**

## **January**

Exchange controls removed.  
Manufacturing-in-bond permitted.  
Duty drawback extended to include third party exporters.

Property transfer tax reduced from 7.5 per cent to 2.5 per cent.  
Monitoring of ministry's commitments commenced.  
Provision for countervailing duties if unfair trade practices can be proved.

#### **April**

Zambia Revenue Authority commenced operations.  
Privatisation Fund account established.

#### **June**

Retirement package for civil servants determined.

#### **August**

Mineral Tax Act revoked and replaced by Mineral Royalty Tax Act (bringing Zambia into line with international norms).

#### **September**

Commercial debt buy-back operation (ongoing since 1992) completed. Approximately US\$ 652 million in debt eradicated.

#### **October**

Proposed Land Act converting customary tenure to leasehold is deferred by Parliament pending further consultations.

#### **December**

Zambia Airways and United Bus Company (UBZ) put into receivership.  
The government announces that ZIMCO will be dissolved by March 31, 1995.

### **1995**

#### **January**

Conversion of most commercial banks' statutory reserve deposits to medium term government debt as a means of reducing the interest rate spread.  
Adjustment of personal income tax limits to overcome 'bracket creep'.  
Fuel levy increased to finance Road Funds (further increased in 1996 Budget)

#### **February**

Meridian Bank supported by the BoZ and the government after a major run on its deposits.

#### **March**

ZIMCO put into voluntary liquidation.

#### **May**

Sale by public flotation of shares of Chilanga Cement to the general public.  
Meridian Bank and African Commercial Bank put into receivership.  
Mid term review of ESAF delayed to December.

#### **July**

Value-added tax (VAT) introduced, sales tax repealed.  
Sale of Zambia Sugar Company Ltd.  
Revised Land Act passed by Parliament, enabling unused land to be purchased by new investors (Land Act 1995).

#### **August**

Temporary revenue measures introduced to close budget deficit created in first half of budget year: Excise duty on petroleum (from 30 to 45 per cent), increased rate on withholding tax (from 10 to 25 per cent), excise tax on electricity (from 3 to 10 per cent), and excise sugar tax (from 10 to 20 per cent).

## **September**

Cash budget moved from daily observance to monthly observance.  
Road licence taxes increased.

## **December**

The IMF recognises Zambia's successful completion of the Rights Accumulation Programme (RAP) and approves of a three year Enhanced Structural Adjustment Facility (ESAF).

## **1996**

### **January**

Customs duty exemptions, including government purchases, eliminated. Customs duty tariffs reduced on most goods by 15 per cent.

### **February**

IMF finds a number of year end benchmarks (6 out of 10) to have been missed by the Zambian government. As the March ESAF targets will not be met, a delay of ESAF is proposed.

A tentative agreement reached with the Paris Club on Naples terms being applied to Zambia's external debt obligations. The agreement implies a 67 per cent debt cancellation, pending the IMF's mid term review evaluation.

### **April**

Bank of Zambia (BoZ) allows ZCCM to retain 100 per cent of its foreign exchange receipts to supply the market directly.

### **May**

Cabinet endorses plan and timetable for ZCCM's privatisation and announces the proceeds of sales to commence on February 28, 1997.

### **June**

ZCCM Board approves of the ZCCM privatisation plan.  
Increased parliamentary gratuities passed in Parliament. (Withdrawn by President in July).

### **July**

Zambia passes IMF's mid-term review of ESAF's first year.

### **October**

World Bank Board releases first tranche of US\$ 90 million structural adjustment facility.

## **1997**

### **February**

Closing date for tender for the privatisation of ZCCM in unbundled units.  
Zambia passes IMF's mid-term review of ESAF. The 1996 Paris Club agreement on debt rescheduling on Naples terms formalised.

### **July**

Consultative Group Meeting. Donors promised US\$ 150 millions in Balance-of-payments support as well as US\$ 285 for general financing. However, bilateral donors make it clear that disbursements are conditional on governance reform. The Zambian government announces the resumption of the Public Sector Reform Programme.

### **November**

The Kafue Consortium presents a bid for major ZCCM units. The bid is turned down by

the government.

## **1998**

### **March**

A new and lower bid is presented by the Kafue Consortium. The bid is again rejected by the government.

### **May**

Consultative Group Meeting. Donors pledge US\$ 530 million for balance-of-payment support, but make disbursement contingent on the sale of ZCCM and governance issues.

## **1999**

### **May**

Consultative Group Meeting. Due to regional concerns, most bilateral donors express a willingness to disburse balance-of-payments funds.

**Table A2.4: Chronology of the main political developments in Zambia 1991-1996**

**1991**

**October**

MMD wins the presidential and parliamentary elections by a clear majority.  
The inauguration of the Third Republic under the Presidency of Frederick T. Chiluba.

**1992**

**January**

Chiluba declares Zambia a Christian nation.

**May**

A pressure group, Caucasus for National Unity, is created within MMD. All members asked to leave the party.

**July**

United Democratic Party formed.  
Kaunda announces that he will be resigning from politics.

**August**

500 striking bank workers dismissed. ZCTU criticised for being too close to MMD.  
MMD ministers Baldwin Nkumbula and Aka Lewanika resigns from the Cabinet citing growing corruption within the government as reason for their departure.

**November**

UDP is dissolved and its leader, Enoch Kavindele, rejoins MMD and is immediately appointed to the MMD Party finance committee.

**1993**

**February**

The 'Zero Option Plan' to overthrow the MMD government discovered.  
26 opposition members with a basis in UNIP are detained, among them, the son of Kenneth Kaunda.

**March**

President Chiluba announces the reintroduction of state of emergency laws. Lifted after 82 days (May 1993).

**April**

Major ministerial reshuffles. 'Key reform ministers', Emmanuel Kasonde (finance), Guy Scott (agriculture), Arthur Wina (education) and Humphrey Mulemba (mines) are dismissed from Cabinet. No official explanation offered.

**June**

Roger Chongwe removed from the Ministry of legal affairs, anticipated to be connected to his criticism of the introduction of state of emergency laws.

**August**

Pastoral letter "Hear the cry of the poor" issued by the Catholic Churches criticising the social consequences of the government's economic policies.  
The National Party registered.

**November**

8 by-elections in which the National Party captures 4 seats.  
Mwankatwe constitutional commission established.

**December**

Bilateral donors threaten to withhold balance-of-payments support unless something is done to drug trafficking.

## 1994

### January

A number of Ministers attending the December 1993 Consultative Group Meeting, including the minister of Health (Kavimbe) and Deputy Minister of Finance (Mung'omba) are dismissed from Cabinet.

Foreign Affairs Minister (Vernon Mwaanga), Community Development and Social Welfare Minister (Nakatindi Wina) and deputy Speaker of Parliament (Sikota Wina) resign their position due to repeated allegations of drug trafficking by the named ministers.

### April

The managing director (Fred M'membe) and a reporter of The Post newspaper are arrested charged with defaming the President. The legal action do not result in a conviction.

### July

Chiluba publicly criticises MMD's economic policies, arguing that unless the problems within the agricultural sector are solved, MMD will not be able to win the upcoming elections.

'The Young Turks', a group of young dissenters within MMD present their vision statement in which the governance record as well as the economic policies of the MMD government are criticised.

### August

Amendment of the Land Bill, intended to transform land from customary to tenure, is rejected by the National Assembly.

### September

Kenneth Kaunda announces his return to national politics, citing opposition to the economic policies of MMD as the main reason for ending his retirement.

### October

ZCTU's Quadrennial congress in Livingstone. Five unions leave the labour congress after losing the contested elections for leadership positions.

### December

The ZCTU leadership claims that MMD has failed workers more than Kenneth Kaunda and UNIP ever did.

## 1995

### January

The Post newspaper claims President Chiluba is not a true Zambian.

### February

Kenneth Kaunda replaces Kebby Musokwane as President of UNIP.

### March

-Fractions between the 'Young Turks' lead by Derrick Chitala and 'the old guard' lead by Michael Sata, are brought to the front.

### June

Mwanakatwe Constitutional Review Commission releases its report.  
Derrick Chitala, and Dean Mung'omba associated to the 'Young Turks' dissenters are expelled from MMD.

### **August**

Baldwin Nkumbula, the President of the National Party and former Minister of Sports in the MMD government, is killed in a car accident implicating President Chiluba's son, Castro Chiluba. The independent press link Chiluba to Nkumbula's death.

### **September**

Zambia Democratic Congress (ZDC) formed by Derrick Chitala and Dean Mung'omba. Government issues a White Paper on the procedure for adopting the new draft constitution, rejecting recommendations of the Constitutional Review Commission that the draft be adopted through a constitutional assembly and a national referendum.

### **October**

In 8 by-elections conducted, UNIP, reinvigorated by Kaunda's return, wins 3 seats. The National Party fails to win any seat .

Incidents of harassment of non-governmental organisations and their leaders increase. 17 catholic priests are arrested together with and three other civil society leaders for campaigning against the constitutional amendment process.

### **November**

An Israeli firm, Nikuv computers, is offered the contract for the Voter registration process.

## **1996**

### **February**

The first bilateral donors announce partial withdrawal of aid citing the governance situation as their main reason.

Three journalists from *the Post* are arrested and jailed on charges of libel and contempt for the Parliament by the Speaker of the House. Released without charges after three weeks by a High Court rule.

### **March**

The Minister of Finance, Ronald Penza, announces that MMD is suspending the implementation of the public sector reform programme (PSRP).

### **May**

The Government White paper on the new Constitution is ratified by the National Assembly and signed into Law by President Chiluba on May 28.

### **June**

8 opposition party leaders, including UNIP's vice-presidential candidate, are arrested charged with treason after a spate of bombings in Lusaka and the Copperbelt.

### **October**

The government announces the Second National and presidential elections in the Third Republic to take place on November 18.

UNIP and 6 smaller opposition parties announce that they will boycott the presidential and parliamentary elections due to the constitution and the voter registration process.

### **November**

MMD wins 60 per cent of national vote in the Parliamentary elections. President Chiluba wins 71 per cent of the vote in Presidential elections. Some local and international

election monitoring groups characterise the elections as flawed due to the voter registration and constitutional amendment barring Kaunda from contesting. Others, focusing on the actual voting process, endorse the elections as free and fair.

### **1997**

#### **August**

Police shoot and wound former President Kenneth Kaunda.

Bilateral donors do not disburse, citing poor performance on governance issues.

#### **October**

Failed coup by junior officers. Kaunda is detained and a state of emergency declared.

### **1998**

#### **February**

Finance Minister Ronald Penza is replaced by Edith Nawakwi. Purportedly fired on grounds of corruption.

Charges against Kenneth Kaunda dropped.

#### **November**

Ex Finance Minister Ronald Penza assassinated in his Lusaka home.

Most bilateral balance-of-payment support held back.

### **1999**

#### **January**

Trial of 77 soldiers starts in Lusaka

### **2001**

Elections scheduled. According to current constitutions, President Chiluba must resign.