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## **Zambian Policy-making and the Donor Community in the 1990s**

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### **Abstract**

The move towards multiparty democracy in Zambia in the early 1990s was heralded as the beginning of a new era of more pluralist politics in Africa. The new government's willingness to adopt economic reforms and policies, hitherto resisted, was also seen as a sign that henceforth African governments would be willing to 'own' reforms. A decade later, the optimism seems unjustified. The political reforms floundered, while economic adjustment proved to be much slower than the earlier signs had indicated. Growth ground to a halt and poverty increased in this once rich country. The country's overall dependency on aid increased as well.

To increase reform ownership in Zambia, there is need to shift some of the burden of behaviour during adjustment to the government, not just donors. There is scope for the government to take more responsibility for its reforms, including the internal mobilisation of resources for investment. Ultimately, policies enforced from outside will only lead to policy reversal when the conditionalities are removed.

Keywords: Zambia, resource booms, economic reforms, policy reversal

JEL classification: O10, O20, O55, P26, Q33, Q38

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## 1 Introduction

During the 1980s, and not less so in the 1990s, Zambia's economy went down a virtually uninterrupted spiral towards extreme poverty and very high levels of human deprivation, aid dependence and debt distress. In stark contrast with the high expectations held in 1991 when a new Movement for Multiparty Democracy (MMD) led government, with a large majority in Parliament and a strong mandate to re-invigorate the economy through policy reform, was elected. Despite much policy reform in the 1990s, despite the heavy injection of what became palliative external assistance and despite modest external debt relief, the MMD government failed to reverse the country's economic decline. Painfully, the economy deteriorated further. After per capita GNP had already fallen from US \$650 in 1980 to US \$449 in 1990, it fell by another 28 percent in the 1990s, to US \$322 in 1999. The Zambian economy contracted in absolute terms over the past two decades, a period in which the country's population rose by 80 percent to over 10 million people today, while per capita income was halved. Zambia became the only developing country for which the UNDP's Human Development Index showed a negative trend in the 1990s.<sup>1</sup>

Whilst at Independence in 1964, Zambia was the second richest country in Africa, today it ranks amongst the continent's poorest nations. Since 1996 the incidence of extreme poverty has risen from 53 percent to 58 percent. Infant mortality increased from 90 per 1,000 live births in 1980 to 113 today. Zambia is one of the few countries in the world where the under-five mortality rate increased in the 1970–1997 period, and one of only two countries in the world where infant mortality rose in that period.<sup>2</sup> Contrary to the widely-held view that this phenomenon is almost exclusively the result of the effects of the spreading HIV/AIDS virus, increased poverty was a major cause as well: the incidence of child malnutrition went up from 6 percent in 1980 to 29 percent in 1995.<sup>3</sup> All major indicators of nutrition adequacy—the percentage of underweight children, infants with low birth weight, daily supply of calories, protein or fats—are now below the Sub-Saharan African average, which they were not before. In short, during the past two decades, virtually all social and economic indicators that should have gone up, went down in Zambia. And those that should have gone down, went up.

Summing up development in Zambia, the World Bank noted that with a decline in per capita GNP in excess of 30 per cent in the 1980s, the country held 'one of the worst records of economic decline of any country not engaged in internal or external warfare'.<sup>4</sup>

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<sup>1</sup> UNDP, *Human Development Report 1999*

<sup>2</sup> Iraq is the other country

<sup>3</sup> The incidence of HIV/AIDS among the adult population has been estimated at close to 30 percent.

<sup>4</sup> World Bank (1993)

In the 1990s, development performance was virtually as bad, despite the adoption by the MMD government of an ambitious economic reform programme, which improved financial stability<sup>5</sup> and brought economic liberalisation to the country through far-reaching reforms of the trade and exchange regime, privatisation and de-regulation. Zambia's persistent and virtually uninterrupted long-term decline was not an Act of God, however. Other factors were at work, centering on (1) the incompleteness of the economic reform programme and (2) its inadequate implementation. They were the result of the government's only half-hearted commitment to the pursuit of broad-based economic development, a weakness that the donor community unsuccessfully tried to assuage through persuasion and by the exercise of financial leverage.

Zambia's development record is one of its post-Independence governments, be they United National Independence Party (UNIP) or MMD, putting the achievement of non-economic objectives well ahead of those of raising the income and wellbeing of Zambians. There was pursuit of party or personal interests, as opposed to those of the nation as a whole. Clearly, both the UNIP and the MMD governments put far too little political effort and energy into the pursuit of sustainable and widespread economic and human development in the country.

Overhauling the economy of Zambia involved not only a radical change in Zambia's long-established command approaches to economic management. It also required a significant adaptation of hardened attitudes of key personalities in Zambia. Many Zambians had benefited from the command economy of the 1980s, and were still doing so in 1991. They could be counted on to resist radical reform, and they did. They could be found in the universities, many within the MMD itself, in the management of the parastatal holdings, the trade unions and among the managers and miners in the Copperbelt. Overcoming their strong resistance to reform was to be the crucial task of political management in the nineties. After almost ten years of opportunity to change attitudes, Zambia's political leadership did not succeed in convincing the Zambian nation to embrace fundamental policy reform in full, so that—despite the MMD Government's overwhelming support in Parliament and its strong mandate to reverse economic decline in Zambia—only a partial and fragile consensus on policy reform appeared to have emerged. The fragility of this consensus continues to hold back further reform: strong resistance to reform continues to be exercised by the civil service, managers of large parastatal enterprises and by several groups in both the MMD and the opposition parties. Only very recently was resistance to reform overcome to privatise Zambia Consolidated Copper Mines (ZCCM).

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<sup>5</sup> Zambia succeeded in bringing inflation down from over 100 percent in 1991-1992 to 25 percent in 1998. However, inflation rose again in 1999 and stubbornly remained at double-digit levels, reaching close to 30 percent in 2000, reflecting weaknesses in macro-economic management and fiscal adjustment. Zambia's current account deficit increased from 1.8 percent of GDP in 1991-1996 to 6 percent in 1996-1999.

The effect of the resistance to reform within ZCCM and by its supporters in the Cabinet, as well as by the civil service and parastatal managers, and which lasted through much of the nineties, was to negate to the people of Zambia much—if not all—of the benefits of policy reform, donor aid and debt relief that was provided to Zambia in that period<sup>6</sup>. If the recently renewed resistance to economic reform is not overcome as a matter of urgency, it will continue to further negate the benefits of external assistance and debt relief in the current decade. Thus, a significant agenda of further reform is still under threat. It includes measures to implement the remainder of the privatisation programme, the vigorous implementation of the Public Service Reform Programme, measures to raise public savings, improving the development relevance of Government expenditures and much more energetic efforts to develop Zambia's non-copper economy, including the agricultural and tourism sectors. It may also include the rolling back of the recently-introduced administrative controls on foreign exchange earnings and payments.

## **2 Strategic errors led to increased dependency on donors and creditors**

### **2.1 Failure to Reverse Decline of the Copper Sector and to Diversify the Economy**

A tragic fact of policymaking in Zambia has been the governments' failure to maintain, let alone strengthen, the country's engine of economic growth, i.e. the copper mines which in earlier decades, when still in private hands, had brought prosperity to Zambia. This neglect was a serious strategic error. It led to a virtually uninterrupted decline in copper production, from 825,000 tonnes in 1969 to 252,000 tonnes today. It was this fall in copper production, and not the often-mentioned decline in international copper prices that led to the dramatic decline in copper export earnings, and to the evaporation of the economic and social advances achieved in the post-independence decade.<sup>7</sup>

Rather than adopting a pro-active response to declining earnings from copper, namely to invest in the rationalisation and expansion of more efficient copper production, Government withdrew resources from the copper sector and converted ZCCM into a milking cow<sup>8</sup> that was used to finance what for Government were programmes of higher political priority. This approach of not looking to the copper sector as part of the solution to reverse Zambia's economic decline but, rather, as a problem,<sup>9</sup> must be seen to have been a strategic error of Zambia's post-Independence Governments, an error which the two MMD Governments repeated throughout the 1990s until, finally, ZCCM's privatisation was reluctantly completed in the year 2000.

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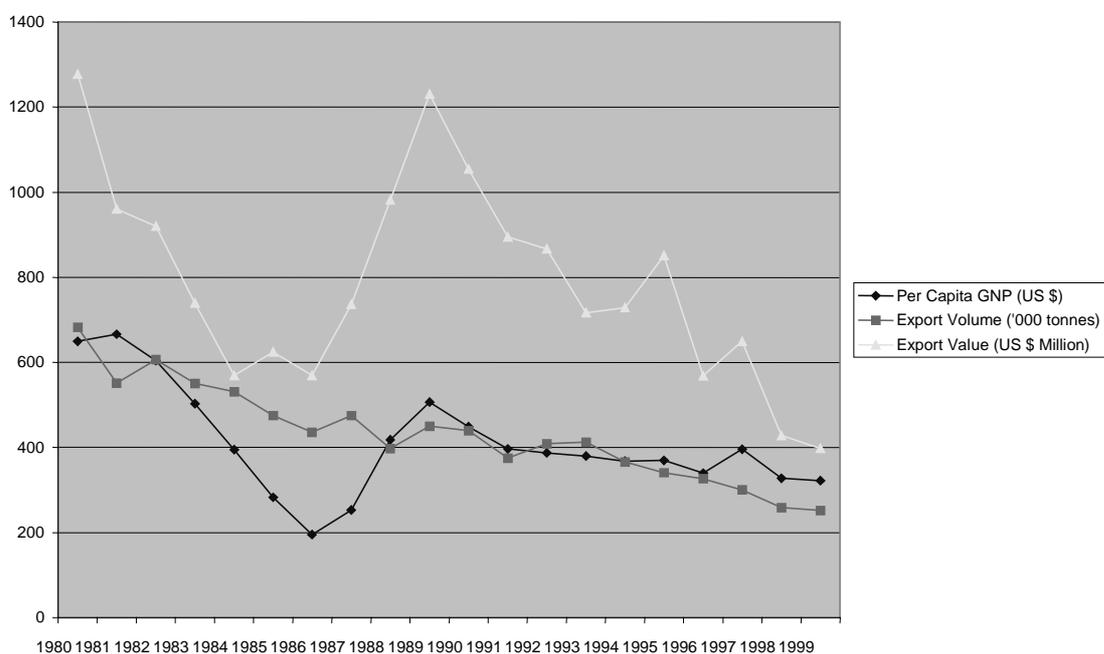
<sup>6</sup> This may happen again in 2001 if Government persists in its recently-announced intention not to privatise Zambia's major public utilities (ZESCO, ZAMTEL and ZNOC) and the Zambia National Commercial Bank

<sup>7</sup> Copper prices rose over the 1980-1999 period.

<sup>8</sup> In 1999 ZCCM's losses were equivalent to 6 percent of GNP

<sup>9</sup> Often Zambia's ills were wrongly described as arising from an 'excessive dependency on copper' and on several occasions solutions were proposed to diversify 'away from copper', rather than to strengthen the copper sector through cost cutting, productivity increases and early privatisation.

Figure 1  
Copper and GNP per capita 1980-1999



Thus, despite the MMD's undertaking, included in its Manifesto of 1991 that it would 'ensure the development of a self-sustaining mineral-based industry',<sup>10</sup> the decline of Zambia's copper sector accelerated in the 1990s. Admittedly, copper prices fell as well in the second half of the 1990s but the negative effects of that fall could have been mitigated, if not overcome, if the government and Zambia Consolidated Copper Mines (ZCCM) had addressed the company's increasingly serious production and efficiency problems with vigour.<sup>11</sup> Not a single one of several emergency programmes, meant to address the mounting problems at ZCCM, was implemented effectively. This led to the escalation of production costs and, thus, to large and growing losses for the company.

In addition to the negative income effects of the deteriorating copper sector, governments failed to halt the dramatic erosion of the country's savings, investment and tax efforts. A consumption boom resulted, but which benefited mostly the richest 20 percent of the population, with an average per capita income of US \$2,800. The poorest 20 percent of the country's population, whose average per capita income barely exceeds US \$200, benefited little, if at all, from the consumption boom.

<sup>10</sup> 'Movement for Multi-Party Democracy: Manifesto', Lusaka, 1991.

<sup>11</sup> The obvious approach would have been to privatize ZCCM at the earliest possible opportunity.

Table 1:

Zambia: indicators of macro-economic performance 1980-1999 (tonnes and per cent)

	1980	1990	1995	1999
Copper Exports (1000 tonnes)	682	440	341	252
<i>% of GDP:</i>				
Government Revenue	25.5	20.3	19.9	17.5
Public Savings	...	5.5	3.6	0.4
Gross Domestic Savings	19.3	16.5	7.3	4.7
Consumption	80.7	83.5	82.7	94.6
Gross Domestic Investment	23.3	17.3	13.1	13.8

Source: Ministry of Finance and Economic Development

The second strategic error of the MMD governments was their failure to implement a growth-oriented diversification strategy. This would have required the carrying out of a determined programme for raising internal savings to finance higher investment in the non-copper sector of the economy, in economic infrastructure and in human development programmes. However, savings declined instead—public savings virtually disappeared—and investment fell below its replacement level. This nullified the benefits that came from the substantial progress that was made in the nineties with structural reform of the parastatal sector, with far-reaching adjustments to external trade policy and in market liberalisation, and explains why Zambia's development performance in the nineties was in stark contrast with the expectations held in 1991 by the people of Zambia and the donor coalition that began to support Zambia generously.

## 2.2 Increased vulnerability and dependency

The two strategic errors named above implied that Zambia's Economic Reform Programme would remain incomplete. This led, in turn, to the postponement of the country's access to significant external debt relief in the 1990s, to high levels of external debt distress and to an extraordinarily high dependency on the resources and goodwill of external creditors.

Table 2

Zambia: indicators of debt distress 1990-1999

	1990	1999
Debt Distress:		
External Debt as % of Exports of Goods and Services	506	691
Scheduled Debt Service as % of Exports of Goods and Services	47	63
Net Debt Service as % of Exports of Goods and Services	6	20
Net Debt Service as % of GDP	2	5

Source: Ministry of Finance and Economic Development

Zambia's dependency on the goodwill of international creditors was already high in the early 1980s. It would have been normal to expect that in these circumstances Zambia's government would have sought to design and implement policies that conformed to the wishes of the donor and creditor communities in order to ensure adequate debt relief. This was not the case. Largely at the behest of the IMF and the World Bank, and in return for pledges of external assistance and debt relief, the government had adopted several economic reform programmes in the late 1980s.<sup>12</sup> However, none were implemented fully and consistently, and external debt relief was thus postponed. This happened again in the 1990s when, once again, the government failed to meet its commitments.<sup>13</sup> Thus, by 1999, the ratio of Zambia's external debt to GDP had reached 691 per cent, one of the highest debt distress ratios in the world (Table 2). Scheduled debt service rose to 63 percent of total export earnings, while net debt service absorbed 5 percent of GDP, that is equal to the whole of Zambia's savings in 1999.

With government policies geared at maintaining unsustainable levels of consumption in a period of declining production, Zambia's own savings fell spectacularly in the 1980-1999 period (Table 3). Thus, after an initial slow decline from some 19 percent of GDP in 1980 to 16.5 percent in 1990, savings declined precipitously in the 1990s, to less than 5 percent of GDP in 1999.<sup>14</sup> Despite the doubling of external financing in that period, reaching 9.1 percent of GDP in 1999, the large decline in Zambia's own savings caused investment to fall by almost 10 percent of GDP, down to 14 percent of GDP, a level that was insufficient to maintain Zambia's capital stock. In this sense, over the 1980-1999 period, the national contribution to investment fell from four-fifths of the total in 1980 to barely a third in 1999. Public savings, a variable directly under government control, virtually disappeared in the 1990-1999 period (Table 3). It accounted for only 9 percent of domestic savings in 1999 as opposed to 33 percent in 1990.<sup>15</sup>

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<sup>12</sup> See for instance: Government of Zambia; New Economic Recovery Programme—Economic and Financial Policy Framework 1989-1993

<sup>13</sup> In fact, Zambia could have qualified for HIPC benefits already in 1998, if the ESAF programme had been implemented.

<sup>14</sup> Zambia's very low savings rate of 4.7 percent of GDP compares to an average 14 percent for the countries of Sub-Saharan Africa, and to an average 19 percent for all low-income countries.

<sup>15</sup> These numbers suggest that the government was attempting to pursue economic 'growth from donor resources', rather than primarily from Zambia's own.

Table 3

## Zambia: financing of investment (% of GDP)

	1980	1990	1991	1993	1995	1996	1997	1998	1999
Gross Domestic Investment (GDI)	23.3	17.3	11	15	13.1	14.8	13.6	14.4	13.8
Resource Gap	4	0.7	2.6	3.8	5.8	6.2	5.5	9.2	9.1
Domestic Savings	19.3	16.5	8.4	11.2	7.3	8.5	8.1	5.2	4.7
- Public savings	-	5.5	2.5	2.9	3.6	2.6	3.2	2.4	0.4
-Private savings	-	11	5.9	8.3	3.7	5.9	4.9	2.8	4.2
Public as % of domestic savings	-	33	30	26	49	31	40	46	9
Domestic Savings as % of Gross Domestic Investment	83	95	76	75	56	57	60	38	34
Resource Gap as % of Gross Domestic Investment	17	5	24	25	44	42	40	62	66

Source: Ministry of Finance and Economic Development

Zambia's dependency on external assistance also increased markedly in the 1990-2000 period: from 1990 the contribution of external assistance to Zambia's economy rose by 30 percent, to 13 percent of GDP in 1999. By then, net external assistance financed over 60 percent of all investment, as opposed to only half of that in 1990. Donor aid itself accounted for 37 percent of foreign exchange earnings in 1999, up from 22 percent in 1990. By the end of the 1990s, the donor community was financing not less than 34 percent of all government expenditures (current and capital). Donor financing also accounted for 62 percent of all expenditures in the economic sectors and for 49 percent in the social sectors. In fiscal 2000, not less than 90 percent of public capital expenditures were being financed by donors (see Table 4).

Zambia's donor coalition, which normally met annually in Paris as the 'Consultative Group for Zambia' under the Chairmanship of the World Bank, had been led to believe by the MMD leadership that under its stewardship of the economy external aid would only supplement and not substitute for the country's own development efforts, as had happened in the 1980s.<sup>16</sup>

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<sup>16</sup> President Chiluba made this a key point in his first address to donors in December 1991.

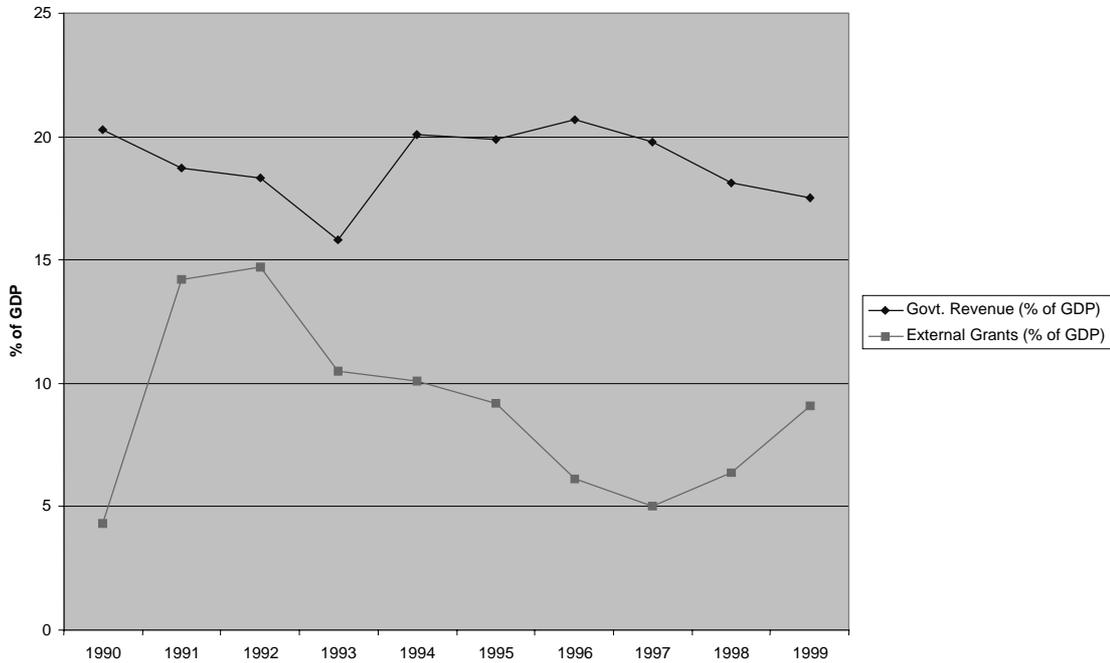
Table 4  
Zambia: Dependency on external assistance

	1990	1999	2000
External Assistance as % of GDP	10	13	...
External Assistance as % of Foreign Exchange Resources	22	37	...
Net External Assistance as % of Gross Domestic Investment	35	62	
Fiscal Dependency			
Percent of <u>all</u> Expenditures Financed by Donors	32	34	34
Economic Sectors			62
Social Sectors			49
Administration and Non-Supply			16
Percent of Capital Expenditures Financed by External Grants	69	90	90
Percent of Public Investment Financed by Public Savings	81	5	

Source: Ministry of Finance and Economic Development

However, in the wake of receding domestic resource mobilisation this did not happen in the 1990s, so that external assistance did no more than substitute for Zambia's own receding development performance, with the result that donor aid and debt reduction did not relieve the savings constraint to investment and economic growth in the country. Similarly, in the wake of falling copper production, aid did not supplement Zambia's own foreign exchange earnings, but substituted for these earnings and, thus, did not relieve the foreign exchange constraint to investment and growth either. That this did not happen was not the result of the government finding it difficult to obtain political support for its programmes in Parliament where it commanded a four-fifth majority. Rather, the commitment of Government itself to economic and political reform weakened progressively in the nineties as it became increasingly clear that the MMD was not a homogeneous formation in support of broad-based economic reform but, rather, an alliance of forces that had come together principally for the purpose of ousting President Kaunda in 1991. Zambia's fading self-help efforts which was largely made up by rising external assistance—which is illustrated in the following figure—inevitably led to a heavy and growing donor involvement in the design and management of Zambia's public sector programmes, including those directed at sector investment.

Figure 2  
Government revenue and external grants 1990-1999



### 2.3 Loss of policy autonomy or failure of development co-operation?

With the increase in ‘financial dependency on donors’, as exemplified by the extraordinarily high cost-sharing ratios mentioned earlier, the concept of ‘national ownership’ of Zambia’s development programme was quickly becoming illusory. It should not have come as a surprise then that, as Zambia’s external partners began to finance a progressively larger portion of the costs of its development, the government found it difficult to maintain its ‘policy autonomy’ or full ownership of the design and implementation of its programmes. It could not do so<sup>17</sup> and it did not do so.

Thus, by the second half of the nineties Zambia’s policy autonomy had become seriously circumscribed by the numerous commitments on macro-economic policy which the government had entered into with the IMF, the World Bank as well as the African Development Bank.<sup>18</sup> On top of this Zambia made numerous commitments on sector development policies and programme with the World Bank in agriculture, manufacturing, energy sector, road transport, the environment and the social sectors,

<sup>17</sup> In this connection, the existence of the following African proverb is worth mentioning: ‘If you have your hand in another man’s pocket, you must move when he moves’. See also Van der Heijden (1987).

<sup>18</sup> This was in the context of the IMF’s Rights Accumulation Programme, the Enhanced Structural Adjustment Facilities, as well as the more recent Poverty Reduction and Growth Facility. There were also commitments with the World Bank and the African Development Bank in the context of their annual structural adjustment operations (see IMF 1994, 1999 and 2000 and World Bank 1996).

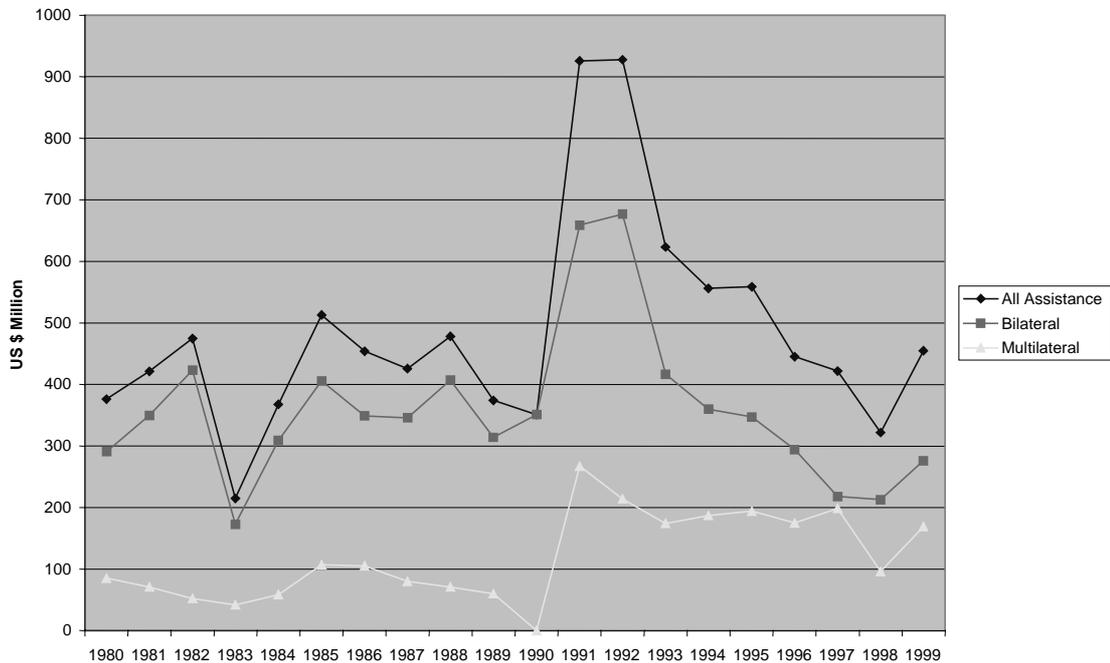
water supply and sanitation. Besides there were also programmes for public service reform, privatisation and governance. It is no exaggeration to say that by the end of the 1990s any significant modification to Zambia's macro-economic or sector policies required prior consultation with, if not approval of, the donor community, whether from the IMF, the World Bank, the African Development Bank or from major bilateral donors. The immediate consequence of this was that the locus of decision making on Zambia's policies and programmes shifted out of Lusaka and towards Washington DC (IMF and World Bank), Abidjan (ADB), Paris (the Paris Club), as well as to the capitals of donor countries.

This is a disappointing outcome of development cooperation for a nation that, some ten years ago, aspired to become a model for the rest of Africa through its pragmatic attempts to bring about positive economic growth and reduced poverty within a democratic framework. It is also a disappointment from the point of view of the donor community. It had hoped that development cooperation with Zambia would show that a combination of economic reforms, democratic governance and generous donor and creditor support could provide the basis required for broad-based and self-sustaining economic and human development in Sub-Saharan Africa.

The experience of the past two decades in Zambia shows that donors did, indeed, attempt to induce changes in or to respond to the 'performance' of the Zambian Government, by adjusting the volume and composition of their aid to fluctuations in its policies. However, the effectiveness of these responses as inducements to strengthen Zambia's development performance was limited. First, because successive governments in Zambia were relatively insensitive to aid adjustments. Second, because the process by which inducements were applied was not conducive to achieving better policy implementation.

Feeling that Zambia's reform efforts were inadequate, the Bretton Woods institutions had in the eighties reduced and eventually suspended their aid to Zambia. Yet, bilateral donors continued to maintain a high level of financial support, and even increased it in some cases. In the nineties these positions were reversed: during several years the Bretton Woods institutions expanded, and subsequently largely maintained their aid, while bilateral donors curtailed their assistance and phased out their balance-of-payments support because of what they perceived to be inadequate concern for governance issues. The final result was that the efforts of the divided donor coalition to induce the government to strengthen its economic and political governance were not successful, be it with respect to the economic area in the 1980s or political governance in the 1990s. Clearly, the lack of harmonisation of donor postures contributed to the low effectiveness of the exercise of leverage in Zambia. The Zambian experience ( and, quite likely, the overall experience in Sub-Saharan Africa) shows that no amount of aid-supported government policies to promote poverty reduction can be successful if the country's own development efforts are receding.

Figure3  
Bilateral and multilateral assistance 1980-1999



### 3 Policy dialogue and conditionality

#### 3.1 Reaching agreement with donors

In reaction to Zambia's receding development performance in the 1990s, which donors highlighted time and again in their dialogue with the government, but which they failed to stem, the donor community cut back its aid to the country significantly. On several occasions creditors also reduced and postponed the provision of debt relief. By 1998, aid disbursements to Zambia had dropped to US \$322 million, the lowest annual aid inflow in twenty years,<sup>19</sup> and a far cry from the donor euphoria which greeted the government's burst of policy reforms in the early 1990s. Disbursements of balance of payments support—the most eloquent indicator of 'donor fatigue'—would fall to zero by 1998, leaving Zambia on its own to confront its debt service. Still, these cutbacks and postponements failed to induce improvements in economic and political governance, with most development indicators continuing to reflect negative trends.

Thus, for over ten years or so, donors collectively engaged the government of Zambia in an interactive process towards reaching a consensus on the focus of economic reform, including its objectives, instruments and timetable for implementation. The World Bank, in its capacity as the Chairperson of the Consultative Group for Zambia, became

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<sup>19</sup> With the exception of 1993.

the spokesman for the entire donor coalition on development strategy issues *vis-à-vis* the government. In this capacity it also undertook policy dialogue with the government on the basis of ‘collaborative’ economic analysis. However, while the Bank’s own economic work on Zambia, as well as that of the other donors, greatly contributed to the understanding of the economy and the constraints to poverty reduction, there were serious gaps in the coverage.<sup>20</sup> One being the lack of focus on the urgency of consolidated public sector accounts. If done on time, they would have revealed that throughout the nineties the financial performance of the public sector had deteriorated dramatically, with a highly negative impact on internal savings and investment. In addition, a more in-depth analysis of national accounts data could have shown much earlier than turned out to be the case that the policies that were being pursued were increasing consumption at the expense of savings and investment, and thus were undermining the sustainability of the country’s development efforts. This was leading the country towards increased financial dependency on the donor community.

The task of convincing both donors and creditors of the appropriateness of the government’s programme and that of the support that the government was requesting was arduous, however. Indeed, several CG meetings in the nineties ended without donors pledging sufficient support to implement the government’s programme. But once this task was completed, Government would be expected to implement the programme as endorsed by the CG Meeting. And donors would undertake to cover the external financing requirements of the programme, and agree to the timely delivery of their financing pledges to make the implementation of the programme possible. It was understood that if Government did not implement its programme along the lines it had indicated, donors would not implement their side of the bargain either. Thus, the provision of aid was made ‘conditional’ on the government’s implementation of the agreed-upon programme. The government normally expected donors not ‘to change the goal posts’ during the implementation period of the programme, which meant that it expected donors not to deviate from the ‘conditionalities’ that had been agreed upon, and to deliver their financing in magnitude, composition and timing as had been agreed. Meanwhile, donors expected the government not to change the goal posts either.

It should be recalled, however, that not a single one of Zambia’s successive adjustment programmes, implemented in the 1990s, were carried out in full accordance with their design and intention.<sup>21</sup> Frequently, policy commitments were made that reflected excessive optimism regarding the timing of the policy reform. There was also excessive optimism with respect to the magnitude of policy change, for example with respect to the number of civil servants to be retrenched. This excessive optimism was most damaging to the reform effort, with respect to the copper sector and in the macro-economic areas of public and private savings, public and private investment and

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<sup>20</sup> The results of the economic work featured prominently in the discussions of the Consultative Group for Zambia and also helped in the design by Government of its adjustment strategy.

<sup>21</sup> Howard White (1999) in a recent SIDA Evaluation Report states that:

whilst there has undoubtedly been reform in Zambia, there have been sufficient departures from the donor’s agenda for many in the donor community to feel that that the Government is not seriously committed to reform.

economic growth more generally.<sup>22</sup> Donors, on their part, did not implement their programmes in a timely manner either, which often reflected their internal administrative bottlenecks. Nor did they deliver fully their pledged financial support. Sometimes, as when economic governance and political conditionalities would leapfrog, it looked like donors were changing the goal posts as well.

To deal with the problem of insufficient trust, and in order to induce the government to implement its programme in accordance with its design, donors made certain that there would be a direct link between programme implementation and the provision of financial support. To realise this, donors applied several inducement techniques. Sometimes, they would formulate quantitative or 'qualitative' or 'structural' but 'time-tabled' benchmarks for the government action, the meeting of which would demonstrate to donors that programme implementation was on track.<sup>23</sup> An example is the inclusion in Policy Framework Papers of 'time-tabled' policy reform commitments. This technique was also employed by the IMF under its programmes and the World Bank in its 'policy-based operations'. It made for very explicit 'conditionalities'. Sometimes conditionalities would also be formulated in more general and qualitative terms such as 'making progress with strengthening governance', which left much room for interpretation. And sometimes there would be no conditionality at all, because the government had already taken all policy measures. But the general principle was that donors would make certain that they could adjust the implementation of their aid programmes to changes in programme implementation by the government. Sometimes also, and this happened in 1990/1991, the government had to adapt its pace of programme implementation in response to delayed aid delivery by donors.

The abandonment in the eighties of nationally prepared development plans and programmes, and their replacement by tripartite Policy Framework Papers (PFPs), had two unfortunate effects. First, there would be less national 'ownership' of the country's development strategy and programmes. While the substituting PFPs were formally agreed-upon between the government, the IMF and the World Bank, they were mostly drafted by IMF and World Bank staff in consultation with the Ministry of Finance and the Bank of Zambia, but they would not usually involve the very active participation of many other institutions of the government.<sup>24</sup> In 1998, the draft PFP 1998-2001, which in late 1997 had been discussed and agreed upon with the then Finance Minister Ronald Penza, was described by the succeeding Minister of Finance, Edith Nawakwi, as having been 'drafted in Washington', and was thus 'disowned' by her. Second, compared with national development plans, their content was less comprehensive, and their coverage

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<sup>22</sup> This is not a new phenomenon in Zambia nor was it limited to the 1990s. In 1991, when reviewing the history of economic reform in Zambia in the 1980s, Phillips and Burrell (1991), CIDA-provided economic advisers to former President Kenneth Kaunda, made the following point:

the whole process by which these programmes are negotiated tends to encourage all parties to go beyond what is probably realistically possible, and then express surprise when it cannot be pulled off.

<sup>23</sup> And thus, that the release of financial support was justified.

<sup>24</sup> Which, therefore, would not always feel committed to implement the policy undertakings included in the PFPs.

largely concentrated on financial issues<sup>25</sup> and with comparatively less attention being given to overall macro-economic and sectoral development issues and to national investment plans. While in the nineties there was a strong movement towards Sector Investment Programmes, this did not make up for the loss of the Public Investment Programme, which faded away in the nineties.

### **3.2 A question of reform ownership**

Zambia's ownership of reforms has shifted markedly over time. At the beginning of the 1990s, the government had stressed repeatedly that there was genuine Zambian ownership of reforms, and that the policies and programmes that had been adopted and articulated had been designed by the government itself. Thus the MMD's New Economic Recovery Programme of 1992-1994 required much less negotiation with the IMF and the World Bank. The MMD wished to implement reform faster than had been possible under the previous government. At that time, there was also strong national ownership of the programme, not just government ownership.<sup>26</sup> Thereafter, there would be little, if any, consultation with non-governmental stakeholders. But the degree of government ownership remained high during the first MMD government, in the first half of the 1990s. However, Zambian ownership diminished rapidly after the mid-1990s. The government became increasingly unwilling to undertake far-reaching policy packages, even when fully agreed upon between the IMF, the World Bank, the Ministry of Finance and the Bank of Zambia, in particular those that related to privatisation and public service reform.

A similar development occurred with respect to the Letters of Development Policy (LDPs) that the government submitted to the World Bank and which constituted the basis for the Bank's policy-based operations, but for a different reason.<sup>27</sup> In fact, several LDPs of the first half of the nineties were initially drafted by staff in the Ministry of Finance,<sup>28</sup> but as the Ministry's macro-economic analysis capacity diminished over time, LDPs would thereafter typically be drafted in Washington DC—World Bank staff would also then suggest the areas of policy action that needed to be stressed in the policy reform programmes, with staff of the Ministry of Finance subsequently providing only comments. At times that would cause problems. For instance, in early 1998, agreement had been reached within the government that the focus of the 1998 policy-based operation from the World Bank should be on measures to stimulate investment, exports and economic growth, and specific proposals had been developed for this purpose. However, at the behest of World Bank staff the focus was re-directed towards public service reform, social sector development and, to a very limited extent, towards export development. In the event, the government yielded to Bank pressure, but later in

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<sup>25</sup> This came out starkly in the Matrices for Policy Action which were attached to PFPs. See for example: International Monetary Fund: Policy Framework Paper—Zambia: Enhanced Structural Adjustment Facility Policy Framework Paper, 1999-2001, March 1999.

<sup>26</sup> Finance Minister Kasonde mentioned in his Budget Speech of 1992 that the first MMD programme 1992-1994 had benefited from consultation with the private sector.

<sup>27</sup> And occasionally to the African Development Bank.

<sup>28</sup> See: Ministry of Finance: Gearing for High Export-Led Growth, 16 January 1997.

the year it became abundantly clear that the core conditionalities regarding public service reform were premature and, thus, did not constitute a suitable basis for this policy-based balance-of-payments support operation. The result was that this operation shifted into 1999 with a painful postponement of balance-of-payments support from the World Bank in that year.

With regard to governance, the programme for strengthening it was largely ‘foreign-owned’, even though at the end of 1993 the government had distributed an ‘Action Programme for Strengthening Governance in Zambia’ to donors. A very weak aspect of the policy dialogue with the government was that there was no lead agency for the dialogue on governance issues. That also meant that the analysis of these issues was not always adequate and with conclusions that the bilateral donor community as whole could not endorse. This led to uncoordinated and ad hoc interventions by the donor community.<sup>29</sup> If there had been such a lead agency, and this function could possibly have been exercised by the European Commission, the bilateral aid community could have approached the challenge of strengthening political governance in Zambia along the lines of a sector investment operation, linking disbursements to the execution of an agreed-upon governance sector programme. This may still be possible on the basis of the government’s own National Programme for Building Capacity in Governance, distributed to donors at the CG Meeting in July 2000.

### **3.3 Exercising donor leverage in the 1990s**

What has been the experience in the nineties with the use and impact of conditionalities in Zambia? As noted earlier, there have been several instances when government failed to implement key portions of the agreed-upon programme, to which the donor community then reacted by curtailing or postponing a portion of its committed financial assistance.<sup>30</sup> Such curtailment had at times little or no inducement effect on the government to get back on track with the implementation of its programme. Thus, for example, the Kaunda Government accepted aid curtailment in September 1991 as a logical, albeit regrettable, consequence of its disagreement with donors on reform implementation. It was apparently willing to bear the costs of aid curtailment, which at that time took the form of a suspension of balance of payments support. In addition, as the latter led to defaults by Zambia on its external debt payments, this also provoked a suspension by World Bank of disbursements on its projects portfolio.

Similarly, in several instances the MMD Government failed to adhere to the timetable for implementing the policy reforms that had been agreed upon with the IMF, knowing fully well that this could lead to costly sanctions.<sup>31</sup> These implementation delays—as well as those which occurred under the ESAF programme itself—were incurred in the full knowledge of the government that they would lead to delays in Zambian access to funds under the HIPC programme and, therefore, to the avoidable prolongation of the excessive burden of indebtedness on the economy and people of Zambia.

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<sup>29</sup> A point made by Finance Minister Ronald Penza in his Budget Speech of 1998.

<sup>30</sup> Typically applied only to disbursements of balance of payments support and provision of debt relief.

<sup>31</sup> This occurred in 1991, 1992 and 1994 and, in fact in 1998 which could have been the year for Zambia accessing the benefits of HIPC, as Uganda and Mozambique did in the 1990s.

Yet another example of the aid embargo was in 1996 when bilateral donors withdrew balance of payments support in efforts to force the government to rescind the exclusion of Kenneth Kaunda from standing in the elections. This aid embargo had serious consequences for stabilisation and growth. However, the government argued that the donors had introduced a new and not-earlier-explicitly-agreed upon conditionality—thus the goal posts had been moved. This led to serious adversity between the government and part of the bilateral donor community. But it failed to stop the constitutional amendment.

Thus in all three cases the government had, rather than take action to implement the agreements reached with the donor coalition and to maintain access to the financing that donors had committed, accepted the negative implications of the postponement on economic growth, poverty alleviation and debt reduction. What is telling, however, is that on these occasions the government failed to take compensatory domestic action to offset the costs of the aid cutback which, if it had been taken, would have at least demonstrated the government's commitment to reform.

However, there have also been cases where the inducement effect of actual or potential aid curtailment stimulated the government in taking corrective policy action. Examples include the taking by the UNIP Government of corrective, albeit insufficient, policy action to get back on track with the Economic Recovery Programme prior to a special meeting with donors that was held in Paris in July 1991, just after the government had decided not to move ahead with the agreed-upon reduction in consumer subsidies on mealie meal, the country's staple, in order to prevent the imminent curtailment of donor support. Another example is the corrective policy action which the MMD Government took in the middle of 1995 to ensure the completion of the Rights Accumulation Programme by the end of 1995, as well as the special fiscal and monetary policy action taken in the middle of 1996 to correct significant slippages in the implementation of the ESAF programme 1995-1998.<sup>32</sup>

What does the Zambian experience reveal about the effectiveness of the application, by donors, of leverage for the purpose of inducing governments to improve policy performance? First, the magnitude of the immediate cost to the country of not receiving external assistance has a strong effect on the government's response.<sup>33</sup> In the nineties, that immediate cost was not always high in Zambia. The responses of the donor community were measured and, on the whole, took the form of curtailment of balance-of-payments support only, which constituted a small and progressively less important portion of the financial assistance received. For example, when in 1996 bilateral donors cut their balance-of-payments support in response to what they perceived to be inadequacies in the governance area, aid curtailment, at about US\$ 100 million, was only one-eighth of the total volume of external financing to the country. This was so because the other main components of external financing, project financing, balance of payments support from the World Bank and external debt relief, continued to flow.

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<sup>32</sup> Inter alia the introduction of a temporary 5 percentage import declaration fee as part of a package to compensate for the unanticipated government unsuccessful bail-out of the Meridien Bank.

<sup>33</sup> It would probably be more accurate to describe this as the political cost to the government of Zambia.

Although the leverage effect of IMF programmes is strong, in the case of Zambia it was not that strong, for several reasons. First, a key objective of Zambia's New Economic Recovery Programme of the late 1980s and early 1990s, was the normalisation of the country's debt servicing to the IMF and the World Bank.<sup>34</sup> This was important to keep Zambia eligible to further multilateral funding. This objective continued to command high priority during the remainder of the nineties. Thus, ensuring that Zambia was able to meet its debt service requirements superseded the need of using aid curtailment to induce further reforms or to force the government to make up for shortfalls in policy implementation. This, while reflecting a form of residual pragmatism, also had the effect of diluting the Fund's leverage.<sup>35</sup>

A second factor reducing the Fund's leverage was that virtually all the IMF's US \$1.3 billion coming from ESAF facility was released up-front to refinance Zambia's indebtedness to the Fund. Only a small amount was available for government operations, to be drawn on in quarterly installments over a three-year period. Thus the direct leverage of the IMF in the 1995-1998 period was small, and remained small because in 1996 bilateral donors suspended all balance-of-payments support on governance grounds, and the World Bank did not consistently support the IMF in the matter of disbursing its funds when performance shortfalls arose under ESAF. Thus, during the entire implementation period of the ESAF programme, there was virtually no other balance of payments donor who supported the IMF in exercising its leverage. Thus, the government's performance lapses in 1996 and 1997, mostly on its macro-economic component, the slow rationalisation and privatisation of ZCCM, as well as of other parastatals and the failure to forcefully pursue public service reform, did not translate immediately into an urgent external financing problem for the government. The World Bank continued to provide Zambia with significant amounts of balance-of-payments support, mainly for the purpose of preserving economic reforms, undertaken up to that time, and to allow for improvement in the policy dialogue. It was only in 1998 that the World Bank postponed its balance-of-payments support on economic performance grounds (see the figure on page 18).

The overall result of this fragmented donor stance in the nineties was that through the self-imposed limitations on the exercise of leverage, donor efforts to ensure that mutually agreed economic and governance reform objectives were met became ineffective. The reduction in the inducement effect of the threat to cut off aid led to a less than diligent pursuit by the government of the key objectives of the reform programme, namely the achievement of economic growth, the early privatisation of ZCCM and the reform of the public service. This serious inadequacy in donor coordination helped delay the benefits of economic reform. It thus reduced the development effectiveness of foreign aid. The Chart on page 24 illustrates the changing composition of external assistance provided to Zambia in the nineties.

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<sup>34</sup> Government of Zambia; New Economic Recovery Programme—Economic and Financial Policy Framework 1989-1993

<sup>35</sup> The IMF found itself in a similarly difficult position by end-2000 when it had to consider granting Zambia HIPC status so as to enable Zambia to meet its large annual debt repayments to the Fund

Figure 4  
Evolution in BOP support 1990-1999

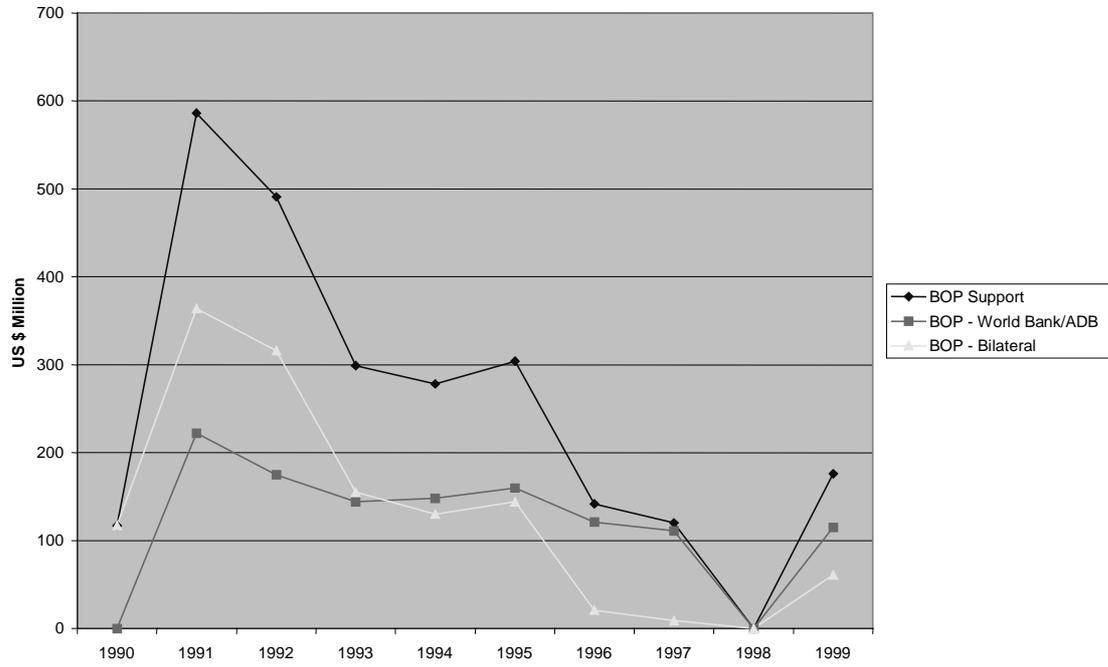
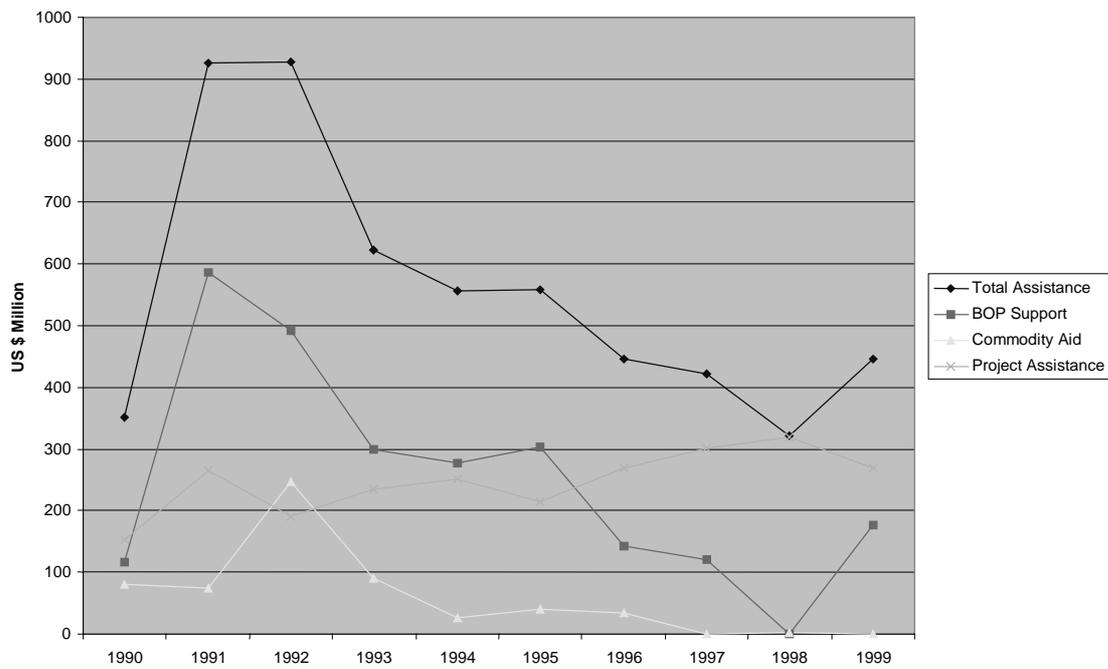


Figure 5  
The changing composition of external assistance to Zambia 1990-1999



Even though donors and external creditors reduced their financial support to Zambia, the government did not react by taking compensatory measures that would increase its own development efforts. Instead, it focused on measures that aimed at maintaining consumption, thereby reducing internal savings and compromising the basis for the longer-term development of the economy.<sup>36</sup> It also led to other serious longer-term implications for Zambia, namely the failure by the government to establish a credible record of adjustment under ESAF which, in turn, led to the postponement beyond 1998 of Zambia's access to debt reduction under the HIPC initiative.

## **4 Concluding remarks**

### **4.1 Conclusions from the Zambian experience**

Zambia's experience illustrates first that for the development dialogue between host government and donors to succeed—so that economic reform can be embraced rather than being imposed from the outside—it should focus on the central issues which stand in the way of economic advance and human development. That was not always the case in Zambia, and the economic analysis was not always focused on these key issues. Second, that a government which is not genuinely committed to economic and governance reform is not going to yield to donor pressures if it can avoid doing so.

When it assumed office in November 1991, the MMD Government announced that it would maintain and strengthen economic reforms in the country and transparency in government, uphold the rule of law and respect human rights. At that time, the government recognised the importance which the bilateral aid community attached to 'good governance'. After adopting an ambitious economic reform programme, the MMD Government announced that, unlike Zambia's previous government, it would punctually implement the agreements which it had reached with the Bretton Woods institutions. This announcement met with a positive response from donors and creditors alike. Clearly, at that time Zambia had a unique chance, in partnership with the international community, to reduce decisively the country's heavy external debt burden, the key growth-impeding factor, and to mobilise high levels of external assistance that the government felt were needed to help the country reverse economic decline and reduce poverty. However, this positive policy stance was quickly abandoned and the government soon retracted from its ambitious reform effort so that domestic resource mobilisation fell. This led to substantially reduced self-reliance and increased Zambia's dependence on the charity of aid donors and external creditors. The final result was reduced national ownership of the Zambia's economic reform programme.

Dependency on foreign support has had several effects. First, it led to the government's failure to pay for the maintenance of donor-financed capital stock. Thus, much of Zambia's social and economic infrastructure that had been built up or rehabilitated with the help of foreign aid resources was not maintained properly, and deteriorated considerably, thus requiring further large outlays on rehabilitation.

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<sup>36</sup> Thus, the MMD Government's reaction to the external aid reduction shock was similar to the reaction of the UNIP Government to the external copper earnings reduction shock

Second, it increased donor involvement in the design and management of public sector programmes, including in several instances sector investment programmes, so that the composition of expenditure increasingly began to reflect development priorities as donors saw them for Zambia, rather than as Zambia saw them for itself.

Third, enlarged financial dependency led to a reduction in ‘the engagement and commitment of government officials in the design, implementation and evaluation of aid activities’.<sup>37</sup> Thus, paradoxically, as aid dependency increased in the nineties, the quality of aid management declined.

Fourth, growth of financial dependency led to a reduction in Zambia’s ‘policy autonomy’. In the nineties an increasing share in Zambia’s ‘ownership’ of its development programme evolved towards the donor community and, ‘national ownership’ evolved towards a ‘partnership relationship’.<sup>38</sup> But as this partnership rested on the government’s high and increasing levels of ‘financial dependency’ on the resources and policy advice provided by the donor community, the government increasingly became a junior partner in the development cooperation relationship.

The Zambian experience in the nineties thus demonstrates that there is an inverse relationship between financial dependency and national ownership. It is important to note, however, that it was increased financial dependency on donors, and not the application by donors of excessive levels of conditionality, which led to a reduction in Zambia’s ‘policy autonomy’. The reduction in national ownership that occurred in the 1990s, reflected the government’s weakening commitment to broadly-based economic development. It was the latter trend which the donor community sought to reverse via the imposition of increasingly comprehensive conditionalities in the areas of political and economic governance, in the latter area through conditionalities at the macro- or the sectoral level.

The Zambian experience also indicates that while it is, to some extent, possible to substitute domestic savings by donor resources, admittedly with some loss in efficiency on account of the multiple and at times conflicting donor requirements, it is virtually impossible to fully and effectively substitute a waning government’s commitment to broad-based development by ex ante conditionalities or policy advice from donors.

Several conclusions can be drawn from the Zambian experience. First, when the national commitment to development wanes, aid cannot fully substitute for it. And, second, if the national commitment to development is genuinely there, conditionalities are not needed, and that good policy reform performance—which is reflective of basic trust—can be rewarded by unconditional aid.

While the countries copper mines have finally been privatised, at the beginning of the year 2001 many of Zambia’s key development problems remain unresolved. However, the Zambian government continues to show increasingly strong signs of adjustment fatigue. An unreformed public service continues to successfully resist efforts to make it

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<sup>37</sup> Nicolas van de Walle defines ownership as ‘the engagement and commitment of government officials in the design, implementation and evaluation of aid activities’. See Van de Walle (1999).

<sup>38</sup> Even though donor exercised relatively little of their ownership as evidenced by their reluctance to enforce the agreed upon conditionalities

cheaper, smaller and more effective, thus making it unlikely that poverty reduction programmes can be effectively implemented. A poverty-stricken population, also affected by HIV/AIDS, continues to grow at a rate that is far in excess of what the economy can bear. Besides, Zambia has an almost unsustainable external debt service burden, and its recent policy reform record is threatening access to the HIPC arrangement by delaying the reaching of the 'completion point'. Furthermore, there are strong signs of 'aid fatigue' in the international donor community. Thus, more economic, social and human distress may well be in prospect for the people of Zambia.

There are a number of lessons of experience to be drawn, if for no other reason than to prevent a similarly unwelcome result in the current decade. Clearly, there must be a radical change in the government's approach to political and economic governance. The latter should become much more energetic, results-oriented and ambitious, as well as more self-help based. These are the very attributes of 'national ownership'. Only when the national leadership begins to display demonstrable commitment to, and ownership of, its policies and programmes, can the long overdue reversal of the country's economic and social decline be initiated.

To meet the challenges of the current decade, demands a fundamentally different approach, namely one that does not attempt to achieve economic development by maximising access to external assistance and debt relief but, rather, one that aims at maximising internal development efforts in order to achieve growth.<sup>39</sup> Only then, by doing more than just helping the country to marginally slow down the pace of its persistent economic and social decline, can external assistance and debt relief become more effective and make a bigger impact on the country. Thus, there is need to link the progress, which Zambia makes towards more self-financed and faster economic growth, via genuine ownership of its economic development programmes and policies, with the provision of external support.

## **4.2 Implications for sub-Saharan Africa as a whole**

The key conclusions derived from the Zambian experience are in large measure also applicable to many other countries of Sub-Saharan Africa. Overall, the economies of Sub-Saharan Africa are characterised by declining internal savings, high levels of dependency on the charity of aid donors,<sup>40</sup> and low levels of self-reliance:

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<sup>39</sup> However, Zambia entered this millennium by not applying this principle: for the third time in a row in January 2000—as with the Budgets for 1998 and 1999—the government included in its Budget for 2000 revenue measures that provide for a net reduction in taxation, thereby extending Zambia's receding internal resource mobilisation effort by yet one more year.

<sup>40</sup> In fact, in its publication of December 2000 *Can Africa Claim the 21<sup>st</sup> Century?* the World Bank (2000a) wrote 'Africa is the world's most aid dependent and indebted region'.

Region	Domestic Savings % of GDP		Foreign Aid % of GDP	Foreign Aid Per Capita	Aid as % of Investment
	1980	1999	1998	(US \$) 1999	1998
East Asia and Pacific	35	37	0.5	4	1.5
South Asia	19	19	0.9	4	4.1
Sub Saharan Africa	16	14	4.1	21	24.1

Source: World Bank (2000b), *World Development Report 2000/2001*

As in the case of Zambia, in Sub-Saharan Africa as a whole the high level of dependency on donor financing also appears to have reduced indigenous ownership of development programmes. It is, therefore, not surprising that the World Bank concluded that in Africa the development agenda was ‘increasingly being perceived as being shaped by donors’.<sup>41</sup> Neither is it surprising that in the same publication the World Bank signals that

it remains to be seen how well partnerships can resolve the tensions between the objectives of recipients and individual donors, and how far the behavior of donors will change to facilitate African ownership of its development agenda.

But it is surprising that the World Bank puts the principal burden of behaviour adjustment on the donors’ side, rather than on the governments of Sub-Saharan African countries.

There is ample scope for African governments to take more responsibility for stepping up economic policy reform, internal resource mobilisation and investment so that dependency on foreign aid can be reduced and development efforts can be expanded. All this for the purpose of bringing up economic and human development in Sub-Saharan Africa to more acceptable levels (and to those prevailing in even poorer South Asia).

There is also great need for doing so, as the following table illustrates:

Region	Income Per Capita	Investment as % of GDP	Infant Mortality	Life Expectancy	Under 5 Mortality
	1999	1999	1999	1999	1999
East Asia	US \$1,000	33	35	71	43
South Asia	US \$ 440	22	75	63	89
Africa	US \$ 500	17	92	52	151

If Sub-Saharan Africa would genuinely assume ownership of ambitious and broad-based development efforts, foreign donors would surely support such homegrown development and policy reform programmes and refrain from imposing intrusive conditionalities. As they did in Asia where the issue of ownership hardly ever arose. Nor did it need to.

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<sup>41</sup> World Bank (2000a), *Can Africa Claim the 21<sup>st</sup> Century?*, Washington DC.

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