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ASSIGNMENT

STRUCTURAL ADJUSTMENT LENDING AND NATIONAL DEVELOPMENT: WHICH DEVELOPMENT?-A REVIEW OF IMF AND WORLD BANK MACRO-ECONOMIC REGIME AND THEIR POVERTY REDUCTION STRATEGIES IN ZAMBIA

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Abbreviations and Acronyms

CAS- Country Assistance Strategy

CBE- Citizens for a Better Environment

CEP- Copperbelt Environment Programme

CSO- Central Statistics Office

EA- Environmental Assessment

ECZ- Environmental Council of Zambia

FDI- Foreign Direct Investment

GDP- Gross Domestic Product

GNP- Gross National Product

GRZ- Government of the Republic of Zambia

HIPC- Highly Indebted Poor Country

IDA- International Development Agency

IFC- International Finance Corporation

ILO- International Labour Organization

IMF- International Monetary Fund

KCM- Konkola Copper Mines

LDCs- Least Developed Countries

MCM- Mopani Copper Mines

MDGs- Millennium Development Goals

NCDP- National Commission for Development Planning

NDF- Nordic Development Fund

NGO- Non Governmental Organization

OD- Operational Directive

OP- Operational Policy

PIM- Project Implementation Manual

PRSP- Poverty Reduction Strategy Paper

SA- Social Assessment

SFIA- Strategic Framework for IDA's Assistance to Africa

SAL- Structural Adjustment Loan

SAP- Structural Adjustment Programme

SAPRI- Structural Adjustment Participatory Review

Abbreviations and Acronyms Continued

SI- Statutory Instrument

UNDP- United Nations Development Programme

UNIP- United Independence Party

UNPF- United Nations Population Fund

WBG- World Bank Group

ZAMTEL- Zambia Telecommunications Corporation

ZCCM- Zambia Consolidated Copper Mines

ZCCM-IH- ZCCM Investment Holdings

ZIC- Zambia Investment Centre

ZPA- Zambia Privatization Agency

1.0 Introduction

Since independence over 40 years ago, cocktails macro-economic regimes and poverty reduction strategies have been tried and applied in Zambia. At independence, it was liberal policies that were adopted and applied. Then four years down the line, a mixture of liberal-socialist-communist orientations in the fashion of Humanism was preferred. And finally from the 1980s forward, neo-liberal policies were prescribed and imposed onto the country by the International Monetary Fund (IMF) and World Bank.

The regimes and strategies have had their own success stories, failures, problems and legacies. However, the major macro-economic problem faced by the country since independence is impact and legacy of Structural Adjustment Programme (SAP). Prescribed and imposed by IMF and the World Bank over 20 years ago, SAP has been used as a tool to recover Zambia's external debt. The major problem with SAP is that it has significantly increased poverty and reversed most post-independence socio-economic gains. It has facilitated exploitation and wastage of financial, natural, social, human and physical capital instead of the same being of benefit to the country.

This paper is uplifted from some preliminary Chapters of my Mphil Draft Thesis for this course. The Chapters outline macro-economic policy regimes and poverty reduction strategies in Zambia. The objective of the Chapters is to set ground and backstop my thesis arguments on remedies required to reverse Zambia's macro-economic wretchedness and high poverty levels.

Although focus of discussion both in the Draft Thesis Chapters and in this paper is on macro-economic and poverty reduction strategies post 1980, highlights of national economic planning from independence to 1980 have also been included for the purpose of bringing out background details on the subject matter.

This paper in the main discusses impacts of Structural Adjustment Loans (SAL) and SAP in detail at global and national levels. It outlines how government without success has religiously followed the SAP regime notwithstanding negative growth and increased poverty recorded. The paper demonstrates how SAP has caused paid job losses and increased poverty levels both in rural and urban areas and why national sustainability has been elusive hence write-off of its debt burden by donor countries.

In view of debt-write offs and potential to fall back in the debt trap, this paper begs better understanding of the SAP macro-economic regime, national priorities and donor support. It is this understanding of these aspects which will be sought in my Thesis proper.

2.0 National Development Planning Perspectives

2.1 Development Planning Prior to Fully Fledged SAP Implementation

At independence in 1964, government adopted a planned path of development along developmental state lines. Typical of developmental states of the time, there was negligible donor influence or cohesion. A home-grown one-year Emergency Plan was developed immediately after independence for the period 1964-1965. This was followed by another one-year Transitional Plan (1965 to 1966) and from 1966 forward, government adopted a system of implementing five-year National Development Plans.

The first five-year plan (or First National Development Plan as it was called) was launched in 1966. It was implemented for a period 1966 to 1970 while the Second National Development Plan was implemented for the period 1972 to 1976 as 1971 was a period of programmes and projects consolidation.

When the Second National Development Plan was being implemented, the economy passed through great stresses and strains. Firstly it was the 1973 oil crisis which literally affected the whole world and shortly afterwards it was the 1975 precipitous fall of copper prices. Both shocks considerably affected economic growth and largely due to these factors, no national plan was implemented for period 1977 to 1978.

In 1979, the Third National Development Plan was launched. This Plan was designed to represent a crucial phase in Zambia's march towards socialism. At that time, President Kaunda's government was implementing its egalitarian national Philosophy of Humanism. The Plan lay, to use Kaunda's words "pre-conditions for the decade of transition from capitalism to socialism in order to emancipate Zambians from poverty and its offshoots of hunger, ignorance, disease, crime, corruption and above all, exploitation of man by man" (NCDP, 1979).

National Development Plans before 1980 were designed to provide the basic economic and social infrastructure as well as initiate measures to diversify agriculture and industrial base of the economy. This was envisaged as a means to ‘promote self-reliance and self-sustained growth’ as wider objectives.

Despite numerous constraints and problems between 1964 and 1980, Zambia’s economy was able to make impressive advances in several directions through long-term development planning. Advances in national development during that period is particularly evident in the spread of educational and health services, networks of roads built, completion of a vital rail link between Zambia and Tanzania (following the abrupt closure of the Rhodesia/South Africa link), self sufficiency energy through construction of hydro-power stations and coal mining, as well as general progress recorded in the agricultural sector (NCDP, 1979).

Generally, the trend for Zambia has been one of rapid early development immediately after independence, followed by a period of stagnation in the 1970s and early 1980 and thereafter, decline and decay; high poverty levels, unsustainable external and internal debt aggravated by unfavourable SAP conditionalities imposed by the donor community has been the state of affairs (UNPF, 1996; GRZ, 2004).

When IMF and the World Bank introduced SAP worldwide in 1980, Zambia was at that time running a centralized planning and controlled macro-economic regime. As mentioned above, Zambia was in fact implementing its plan for ‘a decade of transition from capitalism to socialism’ as envisaged in the Third National Development Plan. The socialist orientation of the Plan was in principle at variance with IMF and World Bank neo-liberal policies.

Zambia’s failure to design and implement in 1980 a SAP neo-liberal reform package acceptable to the two institutions led to a noticeable reduction in external support particularly from the bilateral donor (GRZ, 2000: 8). As a result of this, pre-conditions for the ‘decade of transition from capitalism to socialism’ set in the Third National Plan were rendered a non-starter.

In 1983, government decided to abandon its socialist path and embrace SAP. From this point forward, donor finance was given to Zambia with conditionalities divided in two broad categories; economic conditionalities and non-economic (governance) conditionalities. Donor countries and multilateral agencies particularly the World Bank and IMF became big role players in national development planning affairs.

Through SAP, major economic reforms of 1983 as a trade-off for development finances, Zambia was 'rewarded with appreciable increase of external assistance' (GRZ, 2000). As will be discussed in detail below, economic conditionalities required government to remove subsidies including on food stuffs. The removal of food subsidies led to widespread food riots on the Copperbelt and Lusaka in the December of 1986. Tension in the country increased. This led in May 1987 (barely five months after the Copperbelt food riots) Kaunda's government to reject SAP and severe ties with World Bank and IMF.

In retaliation, a number of donors reduced their support to Zambia. Grant element support declined from 46.7% to 22.6% and the status was only changed in 1991 when Grant element support was increased to 76.2% after the new government of President Fredrick Chiluba reversed Kaunda's stand on SAP and introduced a fully fledged SAP programme (GRZ, 2000).

2.2 Development Planning Post-Fully Fledged SAP Implementation: Introduction of Hand-to-Mouth Planning

Although the Fourth National Development Plan was supposed to be implemented from 1989 to 1993 and set the platform to move towards full liberalization, its implementation was curtailed 1991 after elections and Kaunda's Party got removed from government.

In place of Five Year Development Plans, Chiluba's government opted for the new IMF and World Bank approach of three year Policy Framework Papers. The Framework Papers were shallow, cash-budget based documents unlike Kaunda's detailed Five Year Development Plans that provided figures based on resource projections.

Whilst Five Year National Development Plans had no room for annual review in the intervening period, Policy Framework Papers were reviewed annually. But by their nature, Policy Framework Papers left too much to be desired because the Ministry of Finance ignored them and instead preferred budget circulars which in the end gained greater prominence to run the cash-budget system whose major focus was to reduce inflation (GRZ, 2000; CSO, 1997).

3.0 SALs and SAPs Framework

3.1 Origin and Theoretical Perspectives

Structural Adjustment Loans (SALs) were devised because of two oil-price shocks of the 1970s which led to global depression. The shocks became the primer to developing countries' debt crises. Concern over indebtedness of Least Developed Countries (LDCs) fuelled SALs.

With the first one implemented in 1980, SALs were designed to expedite debt recovery through tailored 'Big Bang' or accelerated approach to structural adjustments, which is favoured by the IMF and the World Bank. According to Guzetta and Jones (1997, page v as cited in Muller, 2005), this involves a restructuring of both macro-economic and micro-economic regimes through privatization, decentralization and deregulation, support for entrepreneurship and free-market competition, all of which ought to be achieved as quickly as possible.

SALs were designed to expedite debt recovery through tailored IMF's programmes that tended to follow a narrower, 'one-size-fits-all approach' (Goodland, 2003). Goodland (2003) says SALs were liked donor countries for the following reasons:

- They were considered 'efficient' in the sense that they involved lending large sums of money with much less staff effort as opposed to infrastructure development projects that usually require a lot more staff effort

- They were found to be an effective option to rescue commercial banks, which had imprudently recycled petrol-dollars (especially in Latin America) by converting these commercial banks private loans into public debt through SALs frameworks

- Conditionalities that went with SALs opened economies of developing countries to exports of products and exploitation of capital by creditor nations

SALs were structured along Washington Consensus economic policy arrangements. According Williamson (1990, 2002 as cited in Muller, 2005), the term Washington Consensus was coined by the US economist John Williamson in 1989 to describe what Washington (meaning the "political Washington of Congress, senior members of the administration, technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board and the think tanks" mean by economic policy reform.

Williamson (1990, 2002 as cited in Muller, 2005) identified 10 policy instruments about whose deployment Washington can muster a reasonable degree of consensus which include:

- Fiscal discipline
- Reordering public expenditure priorities from indiscriminate subsidies to targeting the poor
- Tax reform to combine a broad tax base with moderate marginal tax rates
- Liberalizing interest rates (or financial liberalization)
- Competitive exchange rate
- Trade liberalization
- Liberalization of inward foreign direct investment liberalization but excluding capital account and balance of payment support
- Privatization
- Deregulation to ease barriers to entry and providing the informal sector with the ability to gain property rights at acceptable costs

He (1990, 2002 as cited in Muller, 2005) says the three big ideas behind the Washington consensus are macroeconomic discipline, a market economy and openness to the world in respect of trade and Foreign Direct Investment (FDI) and considers policy instruments where the state taking a leading role in industrialization and import substitution as being contrary to the Washington consensus.

The Washington Consensus promotes Trickle-Down theory of development. According Todaro (1989, p651 as cited in Muller, 2005) Trickle-Down theory is the notion that development is a purely economic phenomenon in which rapid gains from the overall growth of GDP and per capita income would automatically bring benefits to the masses in the forms of jobs and other economic opportunities.

The Dictionary of Economics (2000 as cited in Goodland, 2003) considers Trickle-Down as a theory of economic development which asserts that "development follows the tradition growth patterns with the richest benefiting first and most, with prosperity coming only gradually and last to where it is needed most-the poorest members of society."

3.2 Critique of Trickle-Down Theory and Washington Consensus Policy

Goodland (2003) says Trickle-Down has been used to suggest that the spending of the rich raises the income of the poor. He (2003) says this suggestion prevailed almost unquestioned until about the 1980s when it was realized that while it may occasionally have worked to a limited extent, it was exceedingly indirect in alleviating poverty. He (2003) observes that poverty alleviation has been stagnant or barely reduced by Trickle-Down until the early 2000s in many developing countries and he (2003) cites Asia as the only exception. In addition, he (2003) says that Trickle-Down did nothing to reduce income inequality and makes a suggestion that it may even have exacerbated it.

A Report of the United Nations Conference on Trade and Development (2002: 4 as cited in Muller, 2005) is of the opinion that while economic growth is considered essential for poverty reduction, it must be recognized that growth may not automatically trickle down to the poor hence justification for the current approach which emphasize policies that facilitate the access of the poor to human, physical and financial assets to improve their earning capacity and why particular attention is paid to public provision of education and health services.

Trainer (2002: 55 as cited in Muller, 2005) claims failure of trickle down led to acknowledgment that a concern for redistribution must be included. He (2002: 55 as cited in Muller, 2005) pin-points the Brundtland Report (Brundtland, 1987 as cited in Muller, 2005) on its call for efforts to be made to attend to the plight of the poor and the World Bank (1994 as cited in Muller, 2005) on its position to begin to talk about 'growth with redistribution' as examples of acknowledgement.

Because of the above, Goodland (2003) says development economists began to modify development goals to include more direct measures to help the poor, such as 'growth with equity' and later 'growth with basic needs' in the 1980s/1990s. He (2003) says in the mid 1990s even those 'growth with modification' mechanisms were judged not to reduce poverty adequately , so direct poverty reduction measures were adopted , such as maternal and child health care immunizations , infectious disease control education , water supply , and sanitation . He (2003) says development lending to these so called 'soft sectors' therefore proliferated in the early 2000s.

Goodland (2003) say the most recent nails in the coffin of the Trickle Down theory are the Millennium Development Goals .He (2003) says the WBG prioritizing 'MDGs' to which 189 countries are now committed to halving 2000 poverty rates by 2015, reducing child mortality by two-thirds majority ,and ensuring universal primary education suggests that the WBG no longer champions the Trickle-Down theory and that direct poverty reduction has now become the WBG ‘s priority , rather than the indirect and questionable Trickle Down .

Post-Washington consensus advocates led by the former World Bank Chief Economist dismiss the World Bank and IMF driven Washington consensus neo-liberal policies as being flawed in that they focus too narrowly on pursuing economic growth through deregulation of markets yet these policies have failed to eradicate poverty and bring about sustainable development (Parkins, 2004; Stiglitz, 2005; Stiglitz, 1998a; Stiglitz, 1998b). Instead, the Stiglitz’s camp calls for the need to have a ‘new paradigm for development’ and ‘new financial architecture, where globalization is governed and poverty eradication and debt management HIPC initiative re-orientated around genuine locally defined poverty reduction strategies.

Williamson (1990, 2002 as cited in Muller, 2005) argues that the problems of many third world countries cannot be blamed (totally) on the Washington consensus, as the process of reform in these countries was often incomplete. He (1990, 2002 as cited in Muller, 2005) says these countries neglected certain first generation reforms (such as labour market and fiscal reforms) and also did not follow through with second generation reforms such as strengthening institutions. However, Williamson (1990, 2002 as cited in Muller, 2005) identifies lack of policies to improve income distribution to be problematic in the Washington consensus. He (1990, 2002 as cited in Muller, 2005) say focus is on accelerating growth notwithstanding the worsening income distribution.

Williamson (1990, 2002 as cited in Muller, 2005) also objects to critics of the Washington consensus that seem to imply that other policies not mentioned are also part of the Washington consensus. According to him (1990, 2002 as cited in Muller, 2005) the following aspects from the Washington consensus should be excluded:

- Capital account
- Liberalization
- Monetarism
- Supply-side economics
- A minimal state without welfare provision

- And income re-distribution

According to him (1990, 2002 as cited in Muller, 2005), there is a big difference between the term "neo-liberalism" and the term Washington consensus, and accuses Joseph Stiglitz in particular for misusing the term Washington consensus.

3.3 Harvard Economists and their dosage for Sub-Sahara Africa drawn from Asian Experience

Harvard economists, after reviewing legacies and opportunities in development in Asia and Africa (Lindauer and Roemer, 1994), argue that in order to "send clear signals to investors at home and abroad", sub-Sahara African governments that want to reduce poverty in their countries need to manage programmes that accelerate growth by adopting the following reforms:

- Ensure macroeconomic stabilization which the duo (1994) argue is foundation for everything else provided there are realistic and flexible managed exchange rates and reduced budgets deficits
- Investment in primary production, especially smallholder agriculture which the duo (1994) argue directly contributes to growth and broaden the economic foundation for gradual industrialization
- Investment in education, which the duo (1994) argue has potential both to improve quality and ensure attainment of universal education as this makes possible the 'productivity gains needed to sustain in the long term'
- Reform financial markets by freeing interest rates to be determined by banks and the market, ending credit controls, and opening new banks and other financial institutions which the duo (1994) argue creates competition which in the long run are necessary to finance investment in newly profitable export industries
- Trade and investment reforms by eliminating import controls, make uniform and reduce tariffs, remove barriers to domestic and foreign investment which the duo (1994) argue turns economies away from exclusive inward focus
- Promote exports by putting in place such instruments as export zones, bonded warehouses, duty drawbacks, and exemptions which the duo argue is less important but may still be help.

4.0 SALs Implementation: Global Strategy and Impacts

Goodland (2003) says although each SAL is tailored to the country in question, most SALs have much in common with each other in that they tend to create a foreign exchange surplus- sometimes from increased oil, gas and mining receipts and thus raising the national exchange rate. He (2003) says this effect makes other sectors become less competitive resulting in price competitiveness of traditional sectors such as agriculture being harmed. This he (2003) says results in abandonment of agriculture and cutting of forests thus exerting pressure on other biodiversity habitat as these resources become a means of survival for populations.

Goodland (2003) has clustered SAL conditionalities on account of their overlapping adverse impacts as follows:

- SAL conditionality 1: Reduce the size of the public sector: reduce budgetary expenditure.
- SAL conditionality 2: Privatization.
- SAL conditionality 3: Liberalization
- SAL conditionality 4 : Removal of subsides
- SAL Conditionality 5: Reduced public sector environmental regulation

Goodland (2003) argues SALs changed the WBG's historic primary focus from promoting development projects to macro-economic policy reforms. According to Goodland (2003), the shift can be observed from the nature of first generation SALs whose primary aim was policy adjustment of economies over short and medium term stabilization or suppression of inflation. Ordinarily he (2003) says, this would have been IMF's focus. With the introduction of SALs, the distinction between the role of IMF and that of the World Bank has become blurred. Instead of supporting infrastructure development Goodland (2003) says, SALs financial support often went towards balance-of-payment support.

Since primary focus of SALs was on fiscal and economic issues in the short-term, Goodland (2003) says they were wrongly thought not to pose any social or environmental impacts. Hence, he (2003) claims SALs were exempted from following the then newly developed and adopted Safeguard or Social and Environmental Impact Assessment Policies.

The Environmental Assessment (EA) and Social Assessments (SA) Operational Guidelines[1] (or Safeguard Policies as they are sometimes referred to) which include OP 4.01 (Environmental Assessment), OP 4.12 (Involuntary Resettlement), OP 4.37 (Safety of Dams) OP 11.03 (Physical Cultural Resources) and OP 4.04 (Natural Habitats) were formally adopted around the same time SALs took-off. But soon after the first years of SALs implementation, Goodland (2003) says, major negative social and environmental impacts arising from SALs became inescapable leading to economically weak nations losing out to powerful ones.

Goodland (2003) attributes the long campaign by civil society for the recognition and acknowledge that WBG SALs imposed major impacts on the poor and on the environment. In recognition of this fact, the WBG began participating with civil society in a major five year review of social and environmental impacts of SALs in the form of the 'Structural Adjustment Participatory Review Initiative' (SAPRI) in 1997. The review was completed in 2002. Following this review, the WBG came up with its own voluminous literature documenting impacts of SALs from late 1990s. The literature acknowledges the fact that SALs were responsible for the increase in poverty and influenced the WBG to begin retrofitting Social Safety Nets to SALs in some cases, although application of EA and SA to SALs was postponed (Goodland, 2003).

Furthermore, largely due to recognition and acknowledgement that SALs increased poverty and environmental impacts, the WB's 'Adjustment Lending Policy' (OD 8.60) which generally promotes the Washington Consensus including privatization, abolishing state marketing boards, liberalization, real devaluations and disinflation fiscal and monetary policy, was put to scrutiny in order to adjust from structural lending to development policy support lending

4.1 SAL Conditionality 1: Reduce the size of the Public Sector; Reduce Budgetary Expenditure.

The most targeted 'soft sectors' where expenditure is most often cut are Ministries of Education, Health, Social Security and Environment. Such cuts have impacted mostly on the poor who cannot afford private schooling or private medical care. Weakening of environment regulation has led to

[1] Safeguard Policies available on web at: **www.worldbank.org/safeguards**

natural resources becoming less accessible to the poor. Pollution control has been less enforced; hence air and water quality and the number of fish have declined, also harming the poor.

Rationalization of the civil service through the so called Public Sector Reform Programme has seen some significant job losses and fuelled brain-drain of critical professionals like doctors, nurses, teachers and engineers who have migrated to developed countries like. Most professional that have migrated are UK, USA, Canada and Australia among developed countries in search of greener pastures.

4.2 SAL Conditionality 2: Privatization

Most SALs strongly benefit the private sector, often at the expense of the poor. Privatization primed by SALs has led to substantial unemployment, mainly of lower paid workers, often without retaining or social security, thus increasing poverty. Mining codes and other laws have been made more attractive for the private sector, leading to extraction being permitted inside indigenous people's lands and national parks .Environmental regulations have been weakened and enforcement has declined .Tax holidays and reduced rates of royalties have meant that governments have had less money to protect their citizens.

The WBG has emphasized export industries, often foreign enclaves, in which forward and backward linkages with the rest of the economy have been weak or absent. This has tended to fragment integration of economic sectors .Although most enclave assembly jobs have gone to women, these jobs have been unskilled, low wage, sometimes even below the minimum wage of the nation, with no social security, and little or no other benefits.

4.3 SAL Conditionality 3: Liberalization

According to Goodland (2003), liberalization often led to surges in cheaper imports, which have displaced small producers and small farmers and as such small producers could not compete, thus resulting in many of them moving to urban slums to seek work. The main result Goodland (2003) says has been job losses and surges in unemployment and cites a well documented case that involved cheap US grain exported to Mexico, and which almost halted maize farming there and led to major rural emigration as an example.

Through this conditionality, Goodland (2003) says import barriers were removed before complementary steps were in place to help local enterprises become competitive thus making the SALs focus on export led liberalization to damage domestic productive capacity, especially small and medium sized enterprises that employ most of the workforce. According to Goodland (2003), women, indigenous peoples, and rural poor have often borne the brunt of these impacts of liberalization in that the conditionality tends to raise interest rates, hampering access by the poor to micro-credit.

4.4 SAL Conditionality 4: Removal of Subsides

According to Goodland (2003), removal of subsides under SALs has intensified impoverishment while at the same time asymmetrically benefiting private corporations that received 'subsidy' in the form credit guarantees tax incentives and financial bailouts. Goodland (2003) argues that removal of subsides on electricity, cooking gas and food staples has mostly affected urban population, and the most poor in that removal of subsidies on staple supplies has raised their prices – which could benefit farmers, except they have been undercut by imports of cheap supplies such as grains. Women and indigenous people and children have suffered most by the removal of subsidies.

Bread riots have been sparked upon implementation of IMF -inspired removal of flour subsidies. According to Goodland (2003), higher prices paid for kerosene have led to increased use of fuel-wood and deforestation while higher prices of fertilizers have led to lower production, depletion of soil and expansion cultivation to inappropriate soils and slopes, deforestation and soil erosion have

4.5 SAL Conditionality 5: Reduced Public Sector Environmental Regulation

According to Goodland (2003), reduced regulation and a more "investor friendly ‘’ and generally more general approach to corporations led to mines and hydrocarbon extraction been permitted – or at least not prevented – inside no go zones such as national parks and old growth tropical forests including inside indigenous peoples "territories .Goodland (2003) since much extraction uses large volumes of water, this has led to decreases in fish on which the poor depend and has caused to the cost water supply for the poor to rise.

5.0 Implementation of SAP in Zambia and its Impacts

From 1985 when SAP was introduced in Zambia, lots of problems have been created by its implementation. Its early years of implementation resulted in one of the unprecedented and bloodiest riots witnessed in Zambia post-independence when in December 1986, widespread rioting erupted following government's withdrawal of subsidy on Zambia's main staple food- mealie meal (maize meal) as part of SAP conditionality on tightening of public expenditures (GRZ, 2000).

Following the riots, Kaunda's government abandoned SAP and severed ties with IMF and the World Bank. Outlined in Table 1 below is Zambia' macro-economic regimes from independence to date.

Table: 1

PERIOD	**MACRO-ECONOMIC REGIME**
1964-1968	Liberalized economy
1968-1982	Centralized planning and controlled regime
December 1982- October 1985	Partial decontrols and deregulation
October 1985- April 1987	Structural Adjustment Programme (SAP) introduced
May 1987- November 1988	Rejection of SAP
November 1988- June 1989	Partial Relaxation of some controls
July 1989- April 1991	Towards full scale liberalization
May 1991- October 1991	Political transition with both govt. and opposition express support for liberalization
31st October 1991	(Elections and) introduction of multi-party govt.
November 1991 to 2005	Fully fledged SAP

Source: Adapted from GRZ (2000) and CSO (2004)

As it will be noted from the table 1 above, SAP was introduced between 1985 and rejected less than two years later following food riots. Although the Kaunda government re-instated SAP in 1988, it was only partially applied.

5.1 Phase 1 of SAP Implementation: Privatization and Rationalization

Following elections that removed the Kaunda government in 1991, the incoming administration of Fredrick Chiluba embarked on one of the most ambitious SAL led economic reform programmes in

Africa. According to a Report[2] by Kenny Tom and Patricia Feeney (2000), the first phase of SAP was from 1991 to 1994. With the backing and approval of the World Bank and IMF, two major types of programmes concerned with structural adjustment and macroeconomic stabilization were implemented. The structural adjustment sought to change the basis of the Zambian economy through expansion of agricultural production, liberalization of trade and industry, privatization of the 'loss making' parastatal sector and the rationalization of the public sector.

Tom and Feeney (2000) and GRZ (2000) say the allied stabilization programme was a set of policies designed to bring the Government's finances under control, reduce inflation, and balance the Government's accounts including the control of public expenditure and to rationalize and consolidate the financial sector.

5.1.1 Liquidations and Job-Losses

Under Kaunda's government, Zambia became one of the most heavily nationalized economies in Africa. In all government parastatal numbered 330 separate parastatal companies or units. A Privatization Act was introduced in 1992 which facilitated the creation of the Zambia Privatization Agency (ZPA) was established. ZPA sold off some companies and liquidated others. To date, only a handful has survived the sale. These include Zambia National Commercial Bank (ZNCB), Zambia Telecommunications Corporation (ZAMTEL) and Zambia Electricity Supply Corporation (ZESCO). There survival is due to pressure by civil society not to privatize following disastrous consequences of privatization in Zambia.

Tom and Feeney (2000) and (GRZ, 2000) say competition associated with liberalization and the rationalization due to privatization triggered both business closures and mass formal sector redundancies in Zambia.

Liberalization and rationalization were done in pursuit of low inflation.

[2] This Report compiled and edited by Kenny Tom and Patricia Feeney is a complaint filed in 2001 against the Zambia government, IMF, World Bank and Anglo American Corporation to the United Nations Commission for Human Rights in Geneva for the role these institutions allegedly played to breach the UN Convention on Economic, Social and Cultural Rights. Three organizations involved were the Rights and Accountability in Development (RAID) based at Oxford University in the UK, two Zambian NGOs –Afronet and Citizens for a Better Environment (CBE) based in Lusaka and Kitwe respectively. CBE was founded and is headed by this author. The Report can be accessed on the web at: www.reliefweb.int/library/RSC_Oxford/data/RSC%20Reports%5CDeregulation%20and%20Human%20Rights%20Zambia.pdf

Stringent control of public expenditure, at the insistence of the World Bank and IMF resulted in implementation of a wide-ranging Public Sector Reform Programme that saw massive job losses both in the public and private sector. As a result of the UNIP initiated Fourth National Development Plan (which was abandoned by the Chiluba government as outlined above), formal sector employment in Zambia stood at a record high of 545,000 in 1992. Preliminary figures put the number at 465,017 in 1998 meaning 80,000 jobs had been lost in six years as a direct result of liberalization, privatization and reform of the public sector.

Tom and Feeney (2000) Report says in the public sector alone, by October 1998, the total number employees had been reduced by almost 20,000 to 117,166 from a workforce of 136,984 in June of the previous year, with total cuts in the public sector workforce of 57,000 planned.

The cost of rationalization program at Zambia Consolidated Copper Mines (ZCCM) was loss of some 17,000 positions between 1992 and 1997; at least another 12,500 lost their jobs by 2000 in the form of redundancies, termination or non-renewal of contracts, and early retirement job losses in the formal mining sector.

Job losses had not been replaced by the creation of new posts as anticipated in the privatization rationale. According to Tom and Feeney (2000), the International Labour Organization (ILO) Committee of Experts, in its examination of compliance with the ILO Employment Policy Convention, concluded that the Zambian Government had neglected to produce a national employment policy and issued four consecutive observations on Zambian government conduct.

Further, Tom and Feeney (2000) say the same Committee criticized government for not taking measures to place employment objectives within an economic and social policy framework, and in the light of public sector job losses and the fact that job creation has been impeded under privatization, for not seeking to examine how adjustment measures have impacted upon employment.

The Tom and Feeney (2000) Report says the ILO Committee had repeatedly found it necessary to publicly remind the Zambian government of its obligation under the ILO convention to provide available data on the employment situation, to report on any progress in establishing a labour market information system, and to rectify omissions from its reports.

The Tom and Feeney (2000) Report produced widespread evidence showing that most employees from liquidated companies had not been paid wages owed to them. Their (2000) Report presented evidence that even those who were retrenched or retired following privatization of companies had not been paid their entitlement to terminal benefits or received pension payments which act constituted failure by the Zambian government to protect employees from the violation of the right to fair remuneration. Their (2000) Report also says in the case of Government employees, there has been a direct failure by the State to fulfill the right to a fair wage thus failure by government to comply to relevant articles in the ILO Protection of Wages Convention 1949 (No. 95) and the ILO Termination of Employment Convention 1982 (No.158).

5.1.2 Non- Payment of Wages, Benefits and Pension

Non payment of wages, terminal benefits, and pensions were identified in the Tom and Feeney (2000) Report to cause destitution and deny workers and their families of their right to a decent and adequate standard of living. Furthermore, the Tom and Feeney (2000) Report noted that workers in existing or newly privatized businesses that faced liquidation were particularly vulnerable as there was no protection under newly crafted Employment Act. The new Act was more concerned with interests of the investors as it 'facilitated an enabling environment for investors'.

According to the new Employment Act, workers' benefits were not secured. In case of winding up for any reason, the new Act placed workers to be last in line of receiving benefits owed to them after all other creditors are paid.

5.2 Phase 2 of SAP Implementation: Liberalization and Deregulation

The second phase of reforms is from 1994/5 to the present. In this phase, emphasis has been on supporting key economic sectors earmarked for growth, investing in infrastructure. In preparation for this phase, also key underlying laws were reformed to drive the liberalization of the economy. All forms of subsidies and price controls were removed, interest and foreign exchange rates deregulated and import control regulations eliminated. Customs duties, tariffs, corporate taxes and capital allowances were all reduced in favour of foreign investors while legislation to protect privately owned assets from expropriation were introduced as a way 'to attract investment and as a necessary measure of reassurance to foreign investors' (Tom and Feeney, 2000; ZIC, 2000).

5.2.1 Capital Flight and the Lack of Benefit Sharing

Typical of capitalist tendencies where profits are not reinvested in the local economy, but sent abroad to be added to the deposits of Western Banks (Todaro, 2000: 87 as cited in Muller, 2005), capital flight became a big problem in Zambia following liberalization and deregulation. With foreign exchange regulations abolished, foreign companies were free to bring in foreign money for investment but also took out 100% save for expenses meant for local suppliers, petty cash and workers' remunerations.

What makes liberalization and deregulation bad for the Zambian economy is that in addition to freedom of repatriation of revenue , some foreign investors especially those in the mining sector were granted to up to 20 years of tax rebates, stabilization periods and other 'financial incentives' so to 'provide investor confidence'.

Tom and Feeney (2000) Report argue that wide-ranging incentives and deregulation were wrongly believed that they would encourage private sector development. Instead, their (2000) Report says, levels of both real domestic and foreign direct investment remained low and has actually continued to be lower than anticipated.

5.2.2 Reduced Environmental Protection, and Depletion of Natural Resources

Although the Zambian government introduced a comprehensive Environmental Act in 1990 and established the Environmental Council of Zambia (ECZ) to oversee its implementation, environmental protection in respect of mining in Zambia after privatization has been rendered problematic due to wide-ranging incentives and deregulation of environmental protection in the sector.

According the Tom and Feeney (2000) Report, two major problems identified to inhibit enforcement of environmental regulations:

The first being Statutory Instrument (SI) of 2000 under the Mines and Mineral act which exclusively protects interests of mining companies privatized after 2000 by granting them trade, safety and environmental indemnities as well as transfer all such liabilities to government. Government has had to borrow from the World Bank and Nordic Development Fund US $ 50 Million to meet the cost of such liabilities (ZCCM-IH, 2002a; 200b; 2003; World Bank, 2002).

The second problem identified is delay to comply by mining companies with existing regulations, which delay is facilitated by the Development Agreements. According to Development Agreements, mining companies are explicitly exempted from liability for fines despite major environmental and social consequences of the continued operation, expansion or decommissioning of the mine pending development of their Environmental Management Plans. Although all mining investors were give timeframes in which to develop these plans, most have failed to meet their deadlines (ZCCM-IH 2002a) which act inhibits the comprehensive monitoring of their facilities.

The third problem identified by Tom and Feeney (2000) is depletion of natural resources in areas surrounding mining areas. In their (2000) Report, Tom and Feeney argue that removal of subsidies in Zambia has not only increased poverty but caused health of many Zambians to deteriorate which poverty in turn has caused excessive loss of forests. The loss of forest is mainly through charcoal burning. In the last decade, the Environmental Council of Zambia says deforestation is now estimated at between 200,000 and 300,000 hectares per year (ECZ, 2001). The indiscriminate deforestation has resulted in eight endemic species of flora of Zambia to be placed on the world list of endangered species (ECZ, 2001).

5.2.3 Increased Child Mortality Rates, Reduced Life Expectancy and Provision of Health Services

The Tom and Feeney (2000) Report noted a significant increase in infant mortality rates by 1998. According to their (2000) Report, the number of children dying before their first birthday increased dramatically to 109 deaths per 1000 live births as compared to fifteen years figures prior when the mortality rate stood at 79 deaths per 1000 live births. Furthermore, their (2000) Report noted that during 1997, immunization coverage for the main vaccinations against tuberculosis, polio, measles, diphtheria, and tetanus had fallen to an average of just 54 per cent with 1996 recording about 78% of children not vaccinated by their second birthday.

Life expectancy which in 1969 was 43 years, and rose 51 years by 1980, fell back to an estimated 40 years and 6 months in 1998 (Tom and Feeney, 2000) while United Nations and government say in their joint Report (UN, 2003) that life expectancy has fallen to 37 years.

5.2.4 Reduced Provision of Basic Education, and Increased number of Street Children

In terms of basic education, the Tom and Feeney (2000) Report says three out of ten children of primary school age in Zambia were by 2000 not enrolled in primary school and that overall, primary level enrolment ratios had fallen by 14 percentage points since 1986. Their (2000) report is collaborated by the Central Statistical Office surveys (CSO, 1997a; 1997b).

Their (2000) Report also estimated at least 75,000 of street children were below the age of 18 in Zambia, and that over one third of street children were double orphans with both parents dead. Their (2000) Report further says the number of street children doubled over the period 1991-1996 with most of these children never having been to school at all or otherwise had dropped out of school in order to make what living they could for themselves from the streets.

This (2000) Report also as well Central Statistical Office surveys (CSO, 1997a; 1997b; 2004a; 2004b) all confirm increase in rural and urban poverty. The Tom and Feeney (2000) Report says increase in urban poverty was going to put the number of children at risk of being drawn into streets exponentially going by doubling of street children from 315,000 in 1991 to 700,000 by 1994 which in the main was fuelled by deprivations of basic needs such food, housing, health etc.

5.2.4 Decline in Economic Performance, and Increased Poverty Levels

Despite substantial aid flows, Zambia's economic performance has continued to decline as indicated by various economic indicators. The average annual growth rate of GDP in the period 1970 to 1975 was 2.6 % (CSO, 2004b). According to CSO (2004b) GDP reduced to -0.9% in the period 1975 to 1990 and reduced a further -0.3 % between 1990 and 1999. Furthermore, GNP per capita has not shown any improvement as between periods 1970 to 1975, 1975 to 1990 and 1991 to 1999, per capita GDP declined -0.8%, -0.3 and -7.2 respectively.

When government and its cooperating partners realized that a segment of the population was adversely being affected by policies vigorously implemented through SAP meant to reform the economy, the need to monitor the living conditions of people in Zambia became focused during the 1990s (CSO, 1997a; 1997b; 2004a; 2004b). According to the CSO (2004) Report, after the year 2000, the continued rising trends in poverty and deteriorating socio-economic conditions in the country prompted government and the donor community to reassess various development and assistance strategies from the point of view of poverty alleviation which re-assessment culminated into the development of the Poverty Reduction Strategy Paper (PRSP).

5.2.5 Poverty Reduction Strategies

Developed after extensive broad-based nationwide consultations, government is expected through the PRSP to meet Millennium Development Goals by 2015. Priority areas that have been identified for intervention in the PRSP (2002) are as follows:

a) Lack of Economic Growth

According to the PRSP (2002), Zambia's the lack of sustained levels of positive growth has been exacerbated by increased income inequality, the persistence of discrimination against women and the girl child, insufficient investment in economic and social infrastructure to keep pace with requirements for rapid growth, and the HIV/AIDS pandemic. Despite the comprehensive macroeconomic reforms that have been implemented in Zambia in the past ten years, there has not been any significant growth in the economy. Some measures have been proposed under the PRSP (2002) to stimulate economic growth.

b) High Inequality

High level of inequality has also been identified as another aspect that hampers prospects for growth as well as the as the subsequent impact of any growth on poverty. The PRSP (2002) says income inequality has been proven to be very high in Zambia with rural-urban, inter-provincial and inter-social strata disparities evident. Inequality quality is blamed for causing the poor not to easily access credit. According to the PRSP (2002), inequality is the reason why female headed households, small-scale farmers and small-scale miners constitute the poorest social stratum in Zambia. Their survival depends on available natural resources within their vicinity. Measures have been proposed in the PRSP (2002) to facilitate sustainable exploitation of these resources as a way to reduce their poverty.

c) High Debt Burden

Before reaching the HIPC Completion Point, debt service on average accounted for 10% of the GDP. Expenditure on all the social sectors put together accounted for only 5%. The PRSP (GRZ, 2002) says inadequate expenditures on economic and social services have contributed to the 'debilitation of the country's stock of human and economic capital and this in turn has constrained growth the need for debt relief'.

Although Zambia has benefited from debt relief agreements from the Paris Club since 1985 these 'traditional relief mechanisms have not yielded sustainable debt position (Sinkamba, 2005). Zambia reached the HIPC Completion Point in December 2004 but only confirmed by the World Bank and IMF in April 2005 (Times, 2005). With that threshold reached almost half of its debt was announced cancelled (IMF website). Redirecting resources from debt service to poverty reduction activities have been hindered in the past. It is hope under the PRSP (GRZ, 2002) that funds saved from debt forgiveness will go towards poverty reduction. It is further hoped that accruing high debt positions will be avoided in future.

d) Excessive External Dependence

According to the PRSP (GRZ, 2002), the absence of growth and the huge debt burden have made external funding a necessity. External funding constituted, for instance, 89 % and 84 % respectively of the total spending in the water and sanitation sector in 1995 and 1996, compared to 31 % in 1990. In 2001, 53 % of the national budget was sought from outside. The PRSP (GRZ, 2002) notes that in recent years, despite international calls to meet the MDGs, aid to basic social needs such as water and sanitation, health and education, as a proportion of total bilateral disbursements has been declining. It is hoped under PRSP (GRZ, 2002) that excessive external dependence will be minimized.

e) Burden of Diseases

Both the PRSP (GRZ, 2002) and MDG Report (UN, 2003) mention the fact that diseases have worsened the poverty situation in that at the time when resources are already low, HIV/AIDS has increased the disease burden beyond the individual level, and thus adversely impacting on the economics of the family, the health system, the working environment as well as human capital and many others. It is hoped under PRSP(GRZ, 2002) that burden of diseases will be reduced.

f) Lack of Planning

The PRSP (GRZ, 2002) recognizes the fact that even with diminished resources poverty would have been less in Zambia with better planning. Superior prioritization of resource use and better governance in general is lacking. Lack of long term planning is a legacy left by former President Chiluba's government that decided to abandon long term development planning in preference for hand-to-mouth cash budgets system after his government launched fully fledged SAP (GRZ, 2000).

The current government of President Levy Mwanawasa has reverted to long term planning. At the time Kaunda's government was removed from power, it was implementing the Fourth National Development Plan. The Mwanawasa government is compiling the Fifth National Development Plan, which basically is a continuation from where Kaunda left.

g) IMF/World Bank Highly Indebted Poor Countries Initiative and IDA's emerging Strategic Framework Partnership[3]

With Heavily Indebt Poor Countries Initiative (HIPC)[4] initiative benchmarks attained, and after receiving debt relief[5] upon reaching the HIPC Completion Point[6], Zambia's external debt was reduced significantly.

Now Zambia's has an opportunity to reverse the damage caused by World Bank and IMF-led reforms that have resulted in an increase in the poverty gap and the weakening of the provision of the country's social services and undermined its efforts to tackle the HIV/AIDS crisis whose numbers of persons infected by the year 2000 continued to rise above one million (Booker, 2000).

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[3] Strategic Framework for IDA's assistance to Africa (SFIA)lays out the strategic framework for IDA's work over the next several years. Primarily it is an internal document to help IDA define "core priorities and future direction" for its work in Africa, its goal is to provide strategic for country and regional strategic not a rigid template. The framework will be discussed in detail in my Thesis proper

[4] The HIPC Initiative was first launched in 1996 by the IMF and World Bank, 'with the aim of ensuring that no poor country faces a debt burden it cannot manage'. The Initiative entails coordinated action by the international financial community, including multilateral organizations and governments, 'to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries'

[5] Per IMF and World Bank press release of December 8, 2000 and Times of Zambia of 10th April 2005

[6] HIPC Completion Point is when a country has passed Decision Point, and has established a track record of good performance under IMF/World Bank supported programmes before they reach Completion Point. At Completion Point, the full debt cancellation which was committed at Decision Point is provided

According to some studies (Booker, 2000), HIPC initiatives and debt relief mechanisms have been found to be more beneficial to donor nations rather than the indebted nations that they are supposed to serve. The IMF also concedes on its website that the HIPC Initiative is not a panacea as even if all of the external debts of these countries were forgiven, most would still depend on significant levels of concessional external assistance, since their receipts of such assistance have been much larger than their debt-service payments for many years[7].

If the above positions are to go by, then unless outright debt cancellation, Zambia's remaining debt may still be unsustainable and the HIPC initiative may not significantly contribute towards its poverty reduction program. Neither may those initiatives likely to stimulate economic growth to the extent that Zambia meets the MDGs by 2015.

h) G8 Highly Indebted Poor Countries Initiative

In July 2005, the G8 announced total debt cancellation for selected highly indebted poor countries. Zambia was among the countries earmarked to be beneficiaries. Total debt cancellation has positive implications on Zambia.

6.0 Conclusion

Like is the case for most sub-Sahara African countries, the need for poverty reduction in Zambia, is real and urgent. Affected and interested parties e.g. governments, communities, donors and civil society alike, have engaged to turn the poverty wheel the other way round. Hence there is mobilization of resources and participation in initiatives such as SFIA, PRSPs, HIPC and G8 all targeted to reduce poverty especially in sub-Sahara Africa.

Debt relief for some countries like Zambia has gained ground through both the HIPC framework and G8 debt initiatives. With proper harnessing of benefits from these initiatives, chances of poverty reduction in Zambia are bright. Therefore, harnessing these initiatives in order to reduce the ever pervasive and increasing poverty does only need understanding but is imperative as well. Harvard economists have outlined a strategy for countries in sub-Sahara Africa like Zambia drawing their

[7] IMF Website, Fact Sheet on Debt Relief Under Highly Indebted Poor Countries (HIPC) posted March 2005 and accessed 1st June 2005. www.worldbank.org/debt

conclusions from the Asian experience. Meanwhile, legacies of SALs frameworks are still intact and active. Is their a difference between Harvard strategy and the SAP regime?

My **Thesis** to be entitled ***NATIONAL DEVELOPMENT AND EXTERNAL DEBT MANAGEMENT DILEMMAS POST HIPC AND G8 DEBT INITIATIVES*** where Zambia is a case study endeavours explore on these issues in order to establish the implications of proposed initiatives and strategies.

To be reviewed will be SFIA, HIPC and G8 initiatives, priorities and initiatives set-out in the PRSP in relation to 2015 MDGs commitments relation to SAP regime and the Harvard strategy. Better understanding of these initiatives and strategies as well as their implications is not only pertinent but warranted. Lessons drawn from this case study may assist re-thinking of poverty reduction strategies in heavily indebted poor countries of the sub-Sahara region like Zambia where legacies of SALs and SAPs have played a leading role to under-development, and may continue to do for sometime to come.

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APPENDIX 1 : CHECKLIST FOR SUBMITTING ACADEMIC PAPERS

SCHOOL OF PUBLIC MANAGEMENT AND PLANNING

This checklist must be completed and added to any written assignment submitted for a course done at the School of Public Management and Planning . It serves as a guide for submitting academic papers (assignments) to lectures for evaluation . Please tick (   ) in the apportioned box your answer on these statements . Sign the checklist and add it as page 2 before it the lecturer . An assignment without a completed checklist will not be evaluated , while non compliance with the compulsory requirement contained in the checklist , will result in lower marks.

STATEMENT ABOUT MY ASSIGNMENT : I have :

	YES	NO
Done research and visited the library (**Compulsory**)	**x**	
Checked that my topic is currently formulated as given by the lecturer (**Compulsory**)	**x**	
Consulted guide lines for writing academic and scientific papers **(Compulsory**)	**x**	
Compiled a formal cover page containing the title of the assignment , course details student name and number (**Compulsory**)	**x**	
Formulated a clear problem statement , research question and hypothesis and considered appropriate research methodologies (**Compulsory**)	**x**	
Written an introduction outlining the scope and approach of the assignment (**compulsory**)	**x**	
Structured the paper into suitable paragraph headings (**Compulsory**)	**x**	
Read , edited , checked and double – checked the paper for typing , morphology and other technical errors (**Compulsory)**	**x**	
Made use of relevant figures , tables maps and other appropriate visual exposition (**Highly compulsory**)	**x**	
Made use of Harvard system of reference throughout my paper in the text (**Compulsory**)	x	
Not committed plagiarism (e.g. substantially producing the paper self and having included text and bibliographical references to all contents obtained from or taken over from other sources (**Compulsory**)	**x**	
Written a concise summary / conclusion at the end of the paper (**Compulsory**)	**x**	
Compiled a bibliography that meets the criteria of academic and scientific writing (**Compulsory**)	**x**	
Submitted the assignment on/before the due date (**Compulsory**)	**x**	
Learned more about the subject matter as a result of conducting scientific research	**x**	
Gained more self-confidence	**x**	
Any other comments?...		

SURNAME AND INITIALS:……Sinkamba, P.…………………………………………………………….
STUDENT NUMBER:……………………………………………………………………………