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Zambia: Condemned to debt

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By Lishala C. Situmbeko and Jack Jones Zulu
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Contents

Executive Summary 7

1. Introduction 14
1.1 Background and purpose of this report 14
1.2 Zambia and its people 15
1.3 Debt and the HIPC initiative 17

2. Unsuccessful – The history of IMF and World Bank intervention in Zambia 20
2.1 Pre-structural adjustment 1964-1983 20
2.2 The first Structural Adjustment Program 1983-1987 21
2.3 The privatisation programme of the 1990s 25
2.4 The trade liberalisation programme of the 1990s 30
2.5 The agricultural liberalisation programme of the 1990s 34
2.6 The legacy: Economic collapse 35
2.7 The legacy: Increased poverty 38

3. Undemocratic 42
3.1 HIPC undermines democracy – Case Study: The privatisation of ZNCB 42
3.2 HIPC undermines democracy – Case Study: Public sector pay 45
3.3 From PFP to PRSP: Old Wine in New Casks 48

4. Unfair 51
4.1 Undermining Zambia in the WTO 51
4.2 Locking-in deregulation 52

5. Conclusions 54

Appendix 1: Chronology of IMF programmes 1973-2003 57

Appendix 2: Chronology of World Bank programmes 1970-2002 60

Appendix 3: List of abbreviations 62

References 64

Tables

1. Debt statistics 18
2. Post-1991 conditions in IMF and World Bank programmes 24
3. Number of privatisations completed 1994-2001 26
4. Paid employment 1990-2000 33
5. Macroeconomic indicators 36
6. Current account balance 37
7. Trade balance 38
8. Human development indicators 38
9. Progress in achieving the Millennium Development Goals 41

Boxes

1. Case study: Luanshya/Baluba mine 28

Graphs

1. Real GDP per capita 1960-2000 35

Executive Summary

Despite the disadvantage of being land-locked, Zambia was once one of the wealthiest countries in sub-Saharan Africa. This began to change in the early 1970s. After the oil crisis (increasing the price of imports) and relative commodity price collapse (reducing the revenue from exports), Zambia had to turn to the International Monetary Fund (IMF) and World Bank for assistance. So began some thirty years of Bank and Fund intervention in the Zambian economy. In return for loans, Zambia was required to implement Bank and Fund endorsed economic policies over three decades. Unfortunately, this period is a sad story of increasing debt, economic stagnation or collapse, and social crisis.

After the external economic shocks suffered in the early 1970s, Zambia's total external debt rose from US$814 million to US$3,244 million by the end of the decade. The situation then further deteriorated with Zambia's external debt more than doubling to US$6,916 million by the end of the 1980s. By the late 1990s the debt crisis in countries such as Zambia led to the creation of the much vaunted Heavily Indebted Poor Countries (HIPC) initiative.

Unfortunately, the relief that Zambia is getting under the HIPC initiative is proving to be inadequate in removing its debt burden. By the start of 2003, Zambia had received only 5 per cent of the debt service reduction committed to it under HIPC. Even when it has reached completion point, Zambia's debt service will continue to rise. As Zambian Finance Minister Peter Magande has pointed out, “Zambia's current levels of debt even after it receives its full quota of debt relief as defined in the decision point document under HIPC initiative will continue to be unsustainable.”[1]

Just as worrying as Zambia's continuing debt crisis is the fact that the HIPC initiative is being used as another lever with which the IMF and World Bank can wield influence over Zambia's economy. In return for debt relief, Zambia must implement economic policies, such as privatisation and cuts in public spending, that meet with Bank and Fund approval. The conditions tied to the HIPC initiative are just the latest in a long line of ‘free market’ policy interventions that have included: trade liberalisation; investment deregulation; privatisation; cutting or abolishing subsidies;

laying-off civil service staff; public sector wage cuts or freezes and reduced state intervention in the agricultural sector.

Yet a close examination of economic and social indicators suggests the kind of policies being foisted on Zambia by these institutions over the past twenty years have been a dismal failure.

For example, trade liberalisation, a key plank of Bank and Fund economic orthodoxy, has been disastrous for Zambia's manufacturing sector. Textile manufacturing has been one sector particularly badly hit. The lowering of tariffs on textile products, and particularly the removal of all tariffs on used clothes, led to large increases in imports of cheap, second-hand clothing from industrialised countries. The Zambian textile industry could not compete with these imports, and the sector has all but vanished. There were more than 140 textile manufacturing firms in 1991, but this had fallen to just eight by 2002. Ramesh Patel, director of SWAPP Ltd commented, "We used to have factories everywhere, but Ndola is a ghost town now. We are one of the lucky ones who have managed to survive, but there's no comparison. We used to supply retailers with 3.5 thousand tons of clothing annually; we're down to less than 500 tons now. We had 250 employees eight years ago; we're down to 25 now."[2]

Agricultural liberalisation has had a similarly poor record. A 2000 World Bank study acknowledged that the removal of all subsidies on maize and fertilizer under World Bank/IMF structural adjustment loans led to "stagnation and regression instead of helping Zambia's agricultural sector."[3] And the United Nations Conference on Trade and Development (UNCTAD) concluded that, in Zambia, "Agricultural credit and marketing by the private sector turned out to be uneven and unpredictable, and once market forces had eliminated the implicit subsidies to remote and small farmers, many farmers were left worse off."[4]

Privatisation was one of the strongest features of IMF and World Bank conditionality from 1992 onwards. But despite attracting praise from the Bank for the 'success' of its privatisation programme, the reality is that privatisation has had a very mixed record in Zambia. Although some failing state run enterprises have been transferred into private hands and are now operating more effectively; post-privatisation, many companies have collapsed, jobs have been lost and welfare programmes originally performed through a parastatal have not been continued by private companies.

The patchy record of past sell-offs has resulted in the one-size-fits-all privatisation programme being doubted even at the highest levels. In 2003, the Zambian President, Levy Mwanawasa, said, "[The IMF's privatisation programme] has been of no significant benefit to the country … privatisation of crucial state enterprises has led to poverty, asset stripping and job losses."[5]

The real impact of these core IMF and World Bank policies: trade liberalisation, agricultural liberalisation and privatisation, can clearly be seen in Zambia's economic and social performance.

Zambia's economic record since the oil price shocks of the 1970s has been woeful. Real GDP per capita fell from US$1455 in 1976 to US$1037 by 1987, an average of –3.6 per cent per year. This decline stabilised or even reversed from 1987 to 1991, before the economy entered a massive recession again in 1992, the year an extensive reform programme began. By 2000, real GDP per capita had fallen to US$892.

The IMF has even failed to achieve one of its core aims for intervention – to stem temporary balance of payments problems. Statistics from the United Nations Development Programme (UNDP) suggest that Zambia's trade deficit has actually increased through the 1990s. At the start of the decade the difference between imports and exports was around –5 per cent of GDP, but since 1994 its range has tended to be between –9 and –15 per cent.

Not surprisingly, employment has suffered. Formal manufacturing employment fell from 75,400 in 1991 to 43,320 in 1998. Paid employment in mining and manufacturing fell from 140,000 in 1991 to 83,000 in 2000. Paid employment in agriculture fell from 78,000 in 1990 to 50,000 in 2000 and employment in textile manufacturing fell from 34,000 in the early 1990s to 4,000 in 2001.

Economic decline has been mirrored by a social decline. For example, the proportion of the population classed as undernourished, having a calorie consumption below their minimum energy requirement, has increased from 45 per cent in 1990 to 50 per cent in 2001. Without radical change, it looks increasingly unlikely that Zambia will achieve most of the Millennium Development Goals (MDGs) by the globally agreed target date of 2015. In fact, the indicators for eradicating hunger, achieving universal

primary education and reducing child mortality are actually in reverse, so, if current trends continue, these goals will never be met.

Overall, Zambia's level of human development has been in freefall in comparison to other countries. In 1990 it was ranked 130 on the UNDP's Human Development Index, falling to 163 in 2001. Although very poor in 1990, Zambia was ranked as one of the most developed countries in sub-Saharan Africa. It is now one of the poorest.

Such a dismal performance has led to widespread dissatisfaction with Bank and Fund policies. Yet time and again public protest has simply been ignored while 'more of the same medicine' has been prescribed. This exposes the fundamental lack of democracy in World Bank and IMF intervention in Zambia.

A recent example of this democratic deficit is the required privatisation of Zambia's state electricity company (ZESCO) and state bank (ZNCB) in return for debt relief. The Government initially agreed to implement these measures, but the prospect of these privatisations provoked large scale public resistance. Following a major protest march in Lusaka, the Zambian Parliament voted for a motion urging the government to rescind their decision to privatise ZNCB.

Following this opposition the Government decided to reverse its earlier commitment to sell off these companies. The IMF responded immediately by announcing that Zambia risked forfeiting US$1 billion in debt relief if it did not go ahead with the privatisation. IMF resident representative Mark Ellyne said, "If they [the government] don't sell, they will not get the money."[6] The Government was forced to ignore its own Parliament and go back on its decision not to privatise ZNCB.

Another condition for receiving debt relief has been to curb public spending. This has forced the Government to abandon plans to provide a living wage to public sector workers. The IMF will not let the Government increase its budget deficit from 1.55 per cent to 3 per cent.

By way of comparison, the projected 3 per cent Zambian budget deficit contrasts with a 2003 US budget deficit of 3.4 per cent (projected to rise to 4.1 per cent in 2004) and a projected UK budget deficit of 3.4 per cent. In fact the IMF recently criticised the UK government for planning to increase its budget deficit to this level, which met with a curt response.

A UK Treasury spokesman said, "We are not going to accept a stability pact from the IMF, the European Commission or anybody else" and that the IMF had an "ideological opposition" to public spending.[7] Unfortunately, Zambia does not have the same luxury of being able to ignore the IMF.

Recent criticism of the undemocratic nature of IMF and World Bank policies has been met – both by these institutions and the UK government alike – with the response that the Zambian people chose these policies through their 'participatory' Poverty Reduction Strategy Paper (PRSP) process.

But the incorporation of civil society viewpoints in the final PRSP did not extend to the macroeconomic policies in the PRSP. Despite its poor record, the IMF and World Bank were unwilling to backtrack or renegotiate the macroeconomic framework that had been imposed on Zambia throughout the 1980s and 90s. The IMF's existing Poverty Reduction Growth Facility (PRGF) programme formed the basis of this aspect of the PRSP, and so in effect overrode any macroeconomic discussions within the PRSP process. The result was the so-called 'participatory' PRSP 'endorsing' a predictable mixture of wholesale privatisation, trade liberalisation and fiscal stringency.

Despite the relatively receptive attitude from civil society regarding the PRSP process in Zambia, it is still clearly influenced by donors in its inception and development and by the fact that the Bank and Fund Boards have the final sign-off to 'approve' it. Also, the PRSP is not the only document that defines conditionality. Zambia cannot access the HIPC initiative unless its government has negotiated a 'Decision Point' document with the IMF and World Bank and has agreed a 'Letter of Intent' for an IMF PRGF programme.

The undemocratic imposition of policies on Zambia has also undermined its ability to engage effectively in multilateral fora such as the World Trade Organisation (WTO). As the WTO was being created in 1994 through the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), Zambia was already being required to unilaterally reduce its tariff barriers, rendering meaningless some of the results of the WTO process.

Zambia's bound rates on goods at the WTO, agreed as part of the Uruguay round, are all in the range of 35 to 60 per cent. The vast majority

are 40 to 45 per cent. Yet the actual tariffs practised since the Bank and Fund required trade liberalisation in the early 1990s are: 0, 5, 15 and 25 per cent, well below what was negotiated in the WTO. Most of this liberalisation happened before 1994, and none as part of a multilateral process. None of the WTO negotiated rates will ever be applied under the four tariff line system devised with the IMF.

In contrast to industrialised countries, which wait for trade rounds to reduce their tariffs as part of a multilateral process, the IMF and World Bank require poor countries such as Zambia to liberalise unilaterally. This effectively takes away their bargaining chips in any subsequent negotiations. So there is little point in developed country Ministers – such as the UK Trade Secretary or the UK Development Secretary – telling poor countries such as Zambia to make the most of the multilateral system and stand up for their rights in the WTO when, through the IMF and World Bank, these same developed countries are unfairly pushing poor countries into unilateral liberalisation.

In conclusion, while there is no doubt that pre-IMF/World Bank Zambian economic policy would have had its flaws, and while it is possible to lay some of the blame for Zambia's post-IMF/World Bank economic and social problems at the door of government corruption, there is no escaping the responsibility the IMF and World Bank, and their political masters, must shoulder for their interventions.

This report clearly demonstrates that the IMF and World Bank's involvement in Zambia has been unsuccessful, undemocratic and unfair. The evidence suggests that the past twenty years of IMF and World Bank intervention have exacerbated rather than ameliorated Zambia's debt crisis. Ironically, in return for debt relief, Zambia is required to do more of the same. The country has been condemned to debt.

If the downward spiral is to be broken, and the MDGs are to be achieved, radical action must be taken. The evidence presented in this report points to two obvious conclusions. It is time to cancel Zambia's debt. And it is time to fundamentally rethink the role of the IMF and World Bank. It is not acceptable that these institutions have effective control over policy-making in countries like Zambia. Policies need to be developed which are genuinely home grown alternatives that put the Zambian people, especially the poor, first.

The responsibility for this change lies with industrialised country governments such as the UK. The UK Development Secretary (Hilary Benn) sits on the Board of the World Bank and the UK Chancellor of the Exchequer (Gordon Brown) sits on the Board, and Chairs the Finance Committee, of the IMF. Fundamental change in these institutions can only come from these political decision-makers. As the holders of power in the IMF and World Bank, it is the industrialised countries who must take action if they are to turn their development rhetoric into meaningful results.

1. Introduction

1.1 Background and purpose of this report

Zambia joined the International Monetary Fund (IMF) on 23 September 1965, a year after gaining independence from the UK. As in many other developing countries, high import prices (eg, oil and manufactured goods) and low export prices (eg, agricultural commodities and copper) in the early 1970s led Zambia to seek assistance from the IMF. And true to its Articles of Agreement, the IMF stepped in with finance aimed at buffering the country from this temporary balance of payments crisis.

Although, in theory at least, this should have marked a short-term intervention by the Fund it was, in reality, the start of a thirty-year and increasingly influential relationship between the IMF and Zambia. Similarly, while the World Bank had been involved in Zambia for some years previously, the oil crisis in 1973 also marked a change in the country's relationship with the Bank due to the significant increase in World Bank funding for Zambia (from an average of US$12 million up to US$55 million per year)[8] and the policy leverage this has entailed.

Poverty and unpayable debt in Zambia have made the country dependent on the International Financial Institutions (IFIs) and have allowed these institutions a huge degree of control over economic policy. For at least twenty years, this has involved a radical free-market restructuring of Zambia's economy. Yet, contrary to the IMF's stated purpose of short-term intervention and the World Bank's aim of development, and despite the degree of control these institutions have had over Zambia's policies, the country has suffered a long-term economic crisis, including spiralling debt, and two lost decades of development.

In the past few years, the response from the international community has been the Heavily Indebted Poor Countries (HIPC) initiative – an attempt to reduce the debt burden in the world's poorest countries. But for Zambia, like many other HIPCs, the process has not only been of minimal value to date, it has been used as a lever with which to push further free market policy reforms.

While there is no doubt that pre-IMF/World Bank Zambian economic policy would have had its flaws and while it is possible to lay some of the

blame for Zambia's post-IMF/World Bank economic and social problems at the door of government corruption, there is no escaping the responsibility these institutions must shoulder for their interventions. This report intends to explore the conditions that the IFIs have attached to loans, and more recently debt relief. More specifically, after briefly describing the country and its people (section 1.2) and the debt problems it faces (section 1.3) the report will demonstrate how IMF and World Bank intervention has been unsuccessful (section 2), undemocratic (section 3) and unfair (section 4).

1.2 Zambia and its people

Located in Southern Africa, Zambia is a landlocked country occupying 752,614 square kilometres and surrounded by eight neighbours.[(i)] Historically very peaceful, Zambia is a former colony of the UK and gained independence on 24 October 1964. Zambia is named after the mighty Zambezi River, which begins in Zambia and cuts through Southern Africa into the Indian Ocean. Zambia also shares Lake Kariba, the famous Victoria Falls (named after Queen Victoria of the UK) and the Zambezi River with Zimbabwe to the south. With a population of 10.3 million according to the census of 2000, Zambia is ethnically very diverse. English is the official language while 73 other languages are spoken around the country. However four languages, encompassing many dialects, are usually spoken by the majority of Zambians: Bemba; Lozi; Nyanja and Tonga. Other languages in official public media are: Kaonde; Lunda and Luvale.

Over two-thirds of Zambians live in urban areas and survive on wage employment while the rural dwellers rely on subsistence agriculture. Urban areas mostly lie along what is referred to as the 'old' railway from the tourist capital of Livingstone in the south to Nkana Kitwe in the heartland of Zambia's mining region, the Copperbelt. The 'new' railway (the TAZARA) runs from Kapiri Mposhi in central Zambia to Nakonde, bordering Tanzania, in the north. Out of the 10.3 million Zambians, 5.1 million (49.5 per cent) are male while 5.2 million (50.5 per cent) are female.

Politically, Zambia is a multiparty democracy fashioned on a blend of Westminster and American constitutional democracy based on universal adult suffrage. The Movement for Multiparty Democracy (MMD) came to power in 1991 having won landmark elections that ended one party rule.

(i) Angola, Botswana, Democratic Republic of Congo, Malawi, Mozambique, Namibia, Tanzania and Zimbabwe

Separation of powers between the legislature, judiciary and executive is practiced. However, it would appear from casual inspection that the executive carries the day in most decision-making situations. The ruling party occupies 49.7 per cent of elected parliamentary seats with other parties having the following proportions: 29.3 per cent United Party for National Development (UPND); 8.8 per cent United National Independence Party (UNIP); 8.2 per cent Forum for Democracy and Development (FDD); 1.4 per cent Patriotic Front (PF); 1.4 per cent Heritage Party; 0.7 per cent independent candidates and 0.7 per cent Zambia Republican Party (ZRP). Nominated members of parliament are 5.2 per cent of the seats. The last elections, held in December 2001, were contested by opposition parties who have challenged the election results as invalid. The election petition is currently being adjudicated by the Supreme Court.[9]

Traditionally the Zambian economy has been heavily dependent on copper mining for its foreign exchange earnings; a legacy of the pre-independence era. The collapse in international copper prices and the oil-price shocks of the mid-1970s, coupled with extensive state intervention in economic activity, periodic droughts and a lack of investment have had catastrophic effects on the economy over most of the landlocked country's history.

Zambia participates in regional trade organisations such as the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). COMESA is partly a Free Trade Area. Zambia is also a member of the African Caribbean Pacific (ACP) group with strong trade ties to the European Union (EU) and participates in the US government's African Growth and Opportunity Act (AGOA) initiative.

Zambia exports a variety of commodities, but in terms of earnings only a few exports are significant: copper, cobalt, electricity, tobacco, flowers and cotton. Although Zambia has tried to diversify its export profile with some success, in value terms, copper still earns the bulk (63 per cent) of the country's foreign exchange. The country's main export partners in 2001 included the UK, taking up 56.2 per cent of Zambia's exports and South Africa, which took 29.5 per cent.

Zambia's main imports are machinery, transportation equipment, petroleum products, fertilizer, foodstuffs and clothing. To a large extent,

the country's import composition reflects Zambia's heavy dependence on copper activities, and to some extent, significant activity in agriculture. The economy's main sources of imports in 2001 were South Africa (60.2 per cent), the UK (10.1 per cent) and Zimbabwe (8.9 per cent).

One of the key development concerns facing Zambia is the HIV/AIDS pandemic. Current estimates from the Zambia Demographic and Health Survey 2001 – 2002 indicate that 15.6 per cent of Zambians between the ages of 15 to 49 years are infected with HIV. HIV is more prevalent among women (17.8 per cent) than men (12.9 per cent). In urban areas the age group 15 to 49 has an HIV prevalence rate of 23.1 per cent while for rural areas it stands at 10.8 per cent.[10] Estimates indicate that despite the HIV/AIDS pandemic afflicting the adult population, malaria remains the major cause of mortality for the population. Further, infant mortality is estimated at 112 deaths per 1000 live births while life expectancy overall is estimated at 33.4 years.[11] Zambia's urgent need for resources to fight disease, hunger and exclusion from the enjoyment of basic rights such as food, shelter, good health and education makes rapid debt cancellation even more critical.

1.3 Debt and the HIPC initiative

"The suffering of the majority of Zambians is definitely ignored by the western bilateral and multilateral donors when they make a decision to deny us debt relief. What this means is that money that could have gone towards poverty reduction will now be going towards debt servicing, and poverty reduction [programmes] will suffer again because the West has changed the goal posts."
Gregory Chikwakwa, Civil Society for Poverty Reduction[12]

"Zambia's current levels of debt even after it receives its full quota of debt relief as defined in the decision point document under HIPC initiative will continue to be unsustainable."
Finance Minister Peter Magande[13]

The 1970s and the 1980s saw Zambia's debt spiral out of control. After the external economic shocks suffered in the early 1970s, Zambia's total external debt rose from US$814 million to US$3,244 million by the end of the decade (see Table 1). The situation then further deteriorated with Zambia's external debt more than doubling to US$6,916 million by the end of the 1980s.

By 1998, each Zambian citizen owed US$781 or more than twice the average person's per capita income (GNP). By way of comparison, if the UK had accrued a similar proportion of external debt, each UK citizen would have owed over £30,000 in 1998.[14] This appalling situation set the stage for Zambia's entry into the IMF and World Bank's HIPC initiative aimed at bringing poor countries' debt down to 'sustainable' levels.

Unfortunately, the relief that Zambia is getting under HIPC is proving to be inadequate in removing its debt burden. By the start of 2003, Zambia had received only 5 per cent of the debt service reduction committed to it under HIPC. Even when it has reached completion point, Zambia's debt service will continue to rise. Assuming that it has reached completion point, debt service paid will be US$227 million and US$215 million in 2004 and 2005 respectively, compared to US$142 million and US$138 million in 2001 and 2002.[15] Zambia's debt service as a percentage of GDP will rise from 3.9 and 3.7 per cent in 2001 and 2002 to 5.9 and 5.2 per cent in 2004 and 2005. Zambia's decision point document says that this rise is "unavoidable".[16] Also, these projections are based on a predicted GDP per capita growth rate of around 4 per cent per year. Given that Zambia's growth rate was minus 1.7 per cent per year in the previous decade, Zambia's debt burden may well be even more costly than predicted by the IMF and World Bank.[17]

Table 1: Debt statistics[18] (US$million. Estimates from 2002 on)

	1970	*1980*	*1990*	*1995*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
External debt	814	3,244	6,916	6,967	5,731	5,671	–	–	–	–
Long term multilateral debt	61	393	1,400	2,127	2,409	2,435	–	–	–	–
Long term bilateral debt	59	1,091	2,708	2,960	2,009	1,929	–	–	–	–
Debt service paid each year	76	410	202	2,613	139	142	138	178	227	215
GDP spent on debt service (per cent)	–	–	–	–	4.3	3.9	3.7	4.8	5.9	5.2

Not only is HIPC inadequate in delivering debt cancellation, it has also extended the ability of the IMF and World Bank to impose conditions on Zambia. In order to qualify for debt relief under HIPC (ie, reach 'completion point'), Zambia has to: implement conditions as set out in a 'decision point document' by the IMF and World Bank; formulate a Poverty Reduction Strategy Paper (PRSP) setting out the policy direction

of the country, approved by the IMF and World Bank; and be on track with an IMF Poverty Reduction and Growth Facility (PRGF) programme. If any of these conditions are not met, debt relief can be withheld. Zambia is currently not reaching 'completion point' because of failure to implement conditions in its 'decision point document' and PRGF (see Sections 3.1 and 3.2).

One potentially persuasive argument for economic conditions attached to debt relief is that conditions are needed in order to ensure that countries do not get into further debt problems. Yet, if IMF and World Bank economic policy conditions really did work, Zambia would not be in its current mess. The IFIs have had over 20 years of significant influence over Zambia's economy – which is much more time than most governments get to turn things around – but have failed to deliver. If, like a government, IFI policies were truly subject to democratic scrutiny, they would surely have been rejected by the Zambian people long ago. The rest of this report aims to highlight these very issues; that key policy conditions attached to new loans and debt relief have not succeeded, and that the IMF and World Bank have ignored the wishes of the Zambian people. In addition, the report will show how the Bank and Fund have undermined Zambia's negotiating position in the World Trade Organisation (WTO).

2. Unsuccessful – The history of IMF and World Bank intervention in Zambia

2.1 Pre-structural adjustment 1964-1983

After independence in 1964, the Zambian government practiced an interventionist approach using policies such as import substitution, price controls over commodities and nationalisation of the manufacturing, mining and agricultural marketing sectors. The nationalisation process began in 1968 with 28 companies and the policy of nationalising the mining sector was introduced in 1969.[19] The banking sector was not heavily affected, but the government did create three new banks, including the Zambia National Commercial Bank (ZNCB). Because the ZNCB had a monopoly on the business of parastatals it became Zambia's largest commercial bank.[20] Until 1980, the World Bank was largely supportive of Zambia's development strategy.[21]

Zambia's collaborative arrangements with the Fund can be traced back to the 1971 Mufulira mine disaster and the subsequent minor collapse in copper prices. A Compensatory Financing Facility (CFF) was negotiated to last one year. The CFF was aimed at enabling Zambia to moderate the impact of the mining disaster.[22] It was a typical IMF facility providing temporary assistance to a balance of payments problem, although in order to qualify the government had to agree to modify its economic policies through removing selected price controls. This could be described as the first steps 'walked' by conditionality on Zambia's economic landscape. Further balance of payments problems (ie, imports costing more than the revenue gained from exports) occurred with the oil shock in 1973 resulting in negotiation of a one year Stand-by Agreement with the IMF (Appendix 1 summarises Zambia's financing arrangements under IMF programmes).

The advent of the deeper copper price collapse and the oil price spiral of the mid-1970s entrenched Zambia's reliance on IMF support. At the time Zambia was not 'poor enough' to borrow through the International Development Association (IDA) arm of the World Bank but instead had to resort to the International Bank for Reconstruction and Development (IBRD), with less favourable terms on all loans. A second Stand-by Facility was negotiated with the IMF in 1976 and was also fully drawn

like the first one. Economic problems followed and a further two-year Stand-by Facility was negotiated. This time, conditions became more stringent with regard to reducing the budget deficit and devaluation of the currency. When the IMF realised that Zambia's reliance on IMF resources was related to declines in copper prices, attention began to be paid to the structural side of the economy in addition to demand management policies.

The economic shocks after 1973 led to large declines in GDP. Between 1973 and 1984, real GDP fell by an average of 1.5 per cent a year. This was a total fall in per capita GDP of 35 per cent.[23] In order to overcome the rise in oil and other industrial import prices, and the collapse of copper export prices, Zambia had to undertake heavy external borrowing. Total external debt increased from US$800 million in 1970 to US$3.2 billion by 1980.[24] Most of this debt was owed to bilateral creditors. Long term multilateral debt was US$400 million in 1980.[25] This meant a rise in the ratio of debt to GDP from 43.7 per cent in 1974 to 94.7 per cent in 1977.[26] The debt crisis in Zambia meant it had to resort to more comprehensive programmes with the IMF and World Bank in order to gain access to their resources. Following negotiations beginning in 1981, an Extended Fund Facility with the IMF and Structural Adjustment Program (SAP) with the World Bank were agreed in 1983.[27]

2.2 The first Structural Adjustment Program 1983-87

A full SAP was introduced between 1983 and 1987. Through it the Zambian government had to implement a broad range of policy measures, including:

- export diversification through an active foreign exchange policy;
- the replacement of the crawling exchange rate system with the 'Dutch' auction system (in October 1985);[(i)]
- the abolition of quantitative import restrictions resulting in the liberalisation of the import licensing system;
- the removal of price controls;
- interest rate liberalisation;[(ii)]

(i) In the 'Dutch' auction as practiced in Zambia from 1985 to 1986, available foreign currency would be put to a bidding process such that firms wishing to import goods from outside Zambia would bid indicating how much Zambian Kwacha they were willing to pay for a US dollar. The rate that would exhaust the amount of foreign currency available for the auction would be the ruling rate for transactions between the Zambian Kwacha and foreign currencies.
(ii) In practice, this meant that the government of Zambia through the Bank of Zambia ceased to impose how much lending institutions needed to charge borrowers of funds. As such, lending rates were kept artificially low, thus benefiting investments with little or no return.

- restrictions on government expenditure in order to reduce the government budget deficit, including reduction of subsidies on food and fertilizer, and a wage freeze.

GDP growth in the 1983-86 adjustment period was zero, inflation rose and the budget and trade deficits widened.[28] The World Bank argued that "inflationary pressure continued to build since the expenditure-switching expected from the exchange rate policy was not adequately supported from both the monetary and public sectors via tight monetary and fiscal policy. As such reductions in absorption could not filter through to supply-side effects operating through exports."[29] In other words, the Bank was blaming the Zambian authorities for having too high a government budget deficit, and not having stringent enough monetary policy through high interest rates.

Yet, as in many other countries subject to structural adjustment, the unpopularity of the free market reforms made it hard for the government to do exactly as the Bank and Fund wished. There were student riots against the reform programme in February 1984 and industrial unrest across sectors in 1985. In December 1986 political discontent with the foreign exchange auction system resulted in the Copperbelt food riots. Further, political discontent was seen among wage earners who bore the brunt of the IMF/World Bank supported programme as a result of the wage freeze and exchange rate induced increase in the price level. As one group of analysts concluded, "the policies that favoured government controls were economically not sustainable while those that favoured liberalization were not politically sustainable."[30]

This situation led the Zambian government to unilaterally abandon the IMF/World Bank supported programme in May 1987 and introduce its own New Economic Recovery Programme (NERP) which ran for a year. Inflation reduced and growth resumed. In 1987, the economy grew by 3.1 per cent, rising to 5.6 per cent in 1988.[31] This was mainly on account of the re-activation of import controls; the decision to limit debt service payments to only 10 per cent of the net export earnings after the foreign exchange required by specified strategic sectors had been deducted; re-introduction of price controls and a return to fixing interest rates and the foreign exchange rate by the government.

We will never know whether such policies might have worked over a longer time period because Zambia was effectively forced back into the

IMF fold. Part of the pressure to return was applied by bilateral donors mostly under the Paris Club, the group of rich country lenders. Bilateral aid was being withdrawn by Paris Club members as Zambia had, by withdrawing from the IMF, abrogated conditions with the Paris Club which required that a country had to have a programme with the IMF in order to gain assistance.

The Zambian Government thus went back to the IMF and World Bank in August 1989 with the announcement of the Policy Framework Paper (PFP) 1989-1993. The PFP again included measures such as devaluation, higher interest rates and the removal of price controls and subsidies. A Paris Club agreement on Zambia's foreign debt followed the IMF and World Bank agreement in 1990. Zambia's total external debt had increased to US$7 billion by 1990.[32]

'Normal' relations with the World Bank were resumed in 1991, and a Rights Accumulation Program (RAP) was agreed in order to eventually regain access to IMF resources. Zambia's external debt burden meant it had no choice but to return to the gatekeepers of the international monetary system, the IMF and World Bank. The RAP was completed in 1995, Zambia paid off its arrears and consequently regained access to IMF resources. The paying of arrears appears to have cost Zambia in the region of US$2.4 billion.

During the period of negotiating new deals with the World Bank and IMF, political developments culminated in a change of government in 1991 with the election of the MMD. This coincided with agreements with the IMF and World Bank, leading to widespread changes in Zambian economic policies starting from 1992 (see Table 2). The conditions attached to the RAP, and the various Structural Adjustment Credits (SAC), were more widespread than earlier programmes. Three areas focused on in particular were privatisation, trade liberalisation and agricultural liberalisation. The context and consequences of these programmes shall be looked at in more detail in Sections 2.3, 2.4 and 2.5 below.

Table 2: Post-1991 Conditions in IMF and World Bank programmes[33]

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

IMF – 1999: ESAF	Privatisation of state enterprises; including ZCCM, Zambia Telecommunications (ZAMTEL), ZNCB, Zambia Electricity Supply Organisation (ZESCO) and Zambia Post (ZAMPOST). Refrain from intervening with the exchange rate, liberalise the strategic grain reserve and discontinue distribution of fertiliser. Tight fiscal and monetary policy.[34]
IMF and World Bank – 2000: HIPC Decision Point	Finish privatisation of key remaining state owned enterprises, especially ZESCO, ZAMTEL, Zambia National Oil Company (ZNOC) and ZNCB.[35]
IMF – 2001: PRGF	Privatisation of ZNCB and ZESCO; liberalise and privatise energy sector and ZNOC. Refrain from intervening with the exchange rate, limit government expenditure.[36]

2.3 The privatisation programme of the 1990s

"[The IMF's privatization programme] has been of no significant benefit to the country … privatization of crucial state enterprises has led to poverty, asset stripping and job losses."
President Levy Mwanawasa[37]

"The private sector has failed us."
Finance Minister Peter Magande[38]

"We have seen investors leave workers in the cold after reaping huge profits … We need investors but we don't need them at all costs."
Labour and Social Security Deputy Minister Chile Ng'uni[39]

The Zambian privatisation programme formally began in 1992 with the Privatisation Act No.21 and the creation of the Zambia Privatisation Agency. After a slow start, large numbers of parastatals began to be privatised in 1995 and 1996. At the end of 1994 15 companies had been privatised; by June 1996 this had risen to 137 and the total was 257 at the end of 2001. Since 2001, the privatisation programme has slowed down with no more privatisations being completed as of December 2003. The Zambia Privatisation Agency (ZPA) has privatised 257 of its original portfolio of 280 parastatals.[40] The privatisation of Zambia Railways Limited is almost completed, whilst negotiations are currently being undertaken with investors for Ndola Lime Company and ZNCB.

Privatisation was one of the strongest features of IMF and World Bank conditionality from 1992 onwards. The conditions included enacting a privatisation law, the retrenchment of 10,000 civil servants and the

offering for sale of 10 parastatals. In 1993, the Investment Act was proposed for reform and studies had to be commissioned for the sale of ZCCM. The privatisation of ZCCM was notoriously present as a condition in almost all the loans (see Table 2).

Table 3: Number of privatisations completed 1994-2001[41]

Date	*Companies/units privatised (cumulative total)*
By Dec 1994	15
By Dec 1995	102
By Dec 1996	164
By Dec 1997	223
By Dec 1998	236
By Dec 1999	241
By Dec 2000	252
By Dec 2001	257

Zambia has been hailed by the World Bank as having the "most successful privatization program to date [in Sub-Saharan Africa] and the experience there offers many examples of best practise."[42] The World Bank rates this success on the basis of eight indicators for assessing the performance of privatisation programmes in Africa: the extent of divestiture; fiscal impact; the efforts made to broaden ownership; the level of Foreign Direct Investment (FDI) attracted; post-privatisation performance of enterprises; the depth and quality of programme design and management; and transparency and government commitment.[43] What these indicators fail to take into account is the effect of the privatisation programme on the Zambian economy, workers in privatised industries and the communities in which the companies operate. The indicators work on the assumption that privatisation is a 'good thing', and so therefore the more privatisation that takes place, the more 'successful' the programme is. This is not a true measure of success.

The reality is that privatisation has had a very mixed record. Although some failing state run enterprises have been transferred into private hands and are now operating more effectively; post-privatisation, many companies have collapsed, jobs have been lost and welfare programmes

originally performed through a parastatal have not been continued by private companies. The dramatic drop in formal employment through the 1990s (see Table 4) is partly due to the privatisation programme. Job losses in parastatals through liquidation or redundancies made by the private company taking over have not been offset by new private sector employment. Box 1 below outlines the problems for one particular privatisation, that of Luanshya/Baluba mine.

The patchy record of past sell-offs has led to the one-size-fits-all privatisation programme being questioned even at the highest levels. Concern is becoming even more marked as the privatisation push moves from non-critical state-run industries, such as brewing, to important public services, such as transport and electricity, and sensitive sectors such as banking. As well as the concerns expressed above in February 2003 by President Mwanawasa, in August 2003 the Minister of Mines and Minerals Development, Mr. Kaunda Lembalemba said that "the benefits of privatisation have not accrued to Zambians as anticipated."[44] Such sentiments from senior government officials show that the State has lost faith in the privatisation programme. Their observations match the feelings of most Zambians, that privatisation is being used to enrich foreign investors at the expense of the ordinary people, and hence the resistance to the ongoing programme.

Key figures in the labour movement express a sense of betrayal over the outcomes of privatisation. Joyce Nonde, President of the Federation of Free Trade Unions of Zambia (FFTUZ) states that while the labour movement in Zambia generally welcomed the principle of privatisation, it did this with the understanding that the workers' interests would be protected by both government and the new investors. However, what has taken place is completely at variance with the initial expectations of the labour movement. As such, "we no longer support the privatisation programme as a panacea to our faltering economy."[45]

Nonde further notes that, in order to meet the IMF-set policy benchmarks and targets, the whole process was rushed resulting in company closures, liquidations and massive redundancies, thereby pushing up poverty levels in the country. She laments that, "We feel that Government, through privatisation of national assets, has surrendered our country into foreign hands on a silver plate and, as a union, we are prepared to stop this unfair economic arrangement … go tell the IMF that privatisation is a big disaster in Zambia. I challenge them to point at a success story of

privatisation here in Zambia – it is a tool being used by the IMF to re-colonize us. It is something being forced down our throats and therefore it is highly undemocratic."[46]

Box 1: Case study: Luanshya/Baluba mine[47]

The sale of Luanshya/Baluba copper mine in 1997 is a classic case-study of botched privatisation, nepotism, corruption, one-size-fits-all policies and the failure to take into account the broader social and economic role of large state-owned enterprises.

Since the early 1990s, both the World Bank and IMF have been pushing for privatisation of ZCCM and have been including it as a condition in loan deals (see Table 2). In 1997, the Zambian Government relented to this ongoing pressure, at least to some degree, by agreeing to privatise the Luanshya/Baluba mine which, at the time, accounted for 15 per cent of ZCCM.[48] The mine was sold to Roan Antelope Mining Corporation (RAMCOZ) owned by the Binani Group based in London.

Despite the ambitious development plans put forward by RAMCOZ at the time of privatisation, there were constant interruptions of production arising from unending liquidity problems. RAMCOZ's debts to suppliers worsened during its two and half years of operation, until finally the company was placed under receivership by ZNCB, one of its main creditors. Before then, the company suffered intermittent disruptions in supplies, with the most serious one being the drastic reduction of electricity supply because of amounts owing to the Copperbelt Energy Corporation.

The social implications of RAMCOZ's poor performance have been significant. Labour unrest and serious deterioration in social services have taken place. Although at the time the Minister of Mines and Minerals Development claimed that the Luanshya Mine was not in trouble but was the subject of negative publicity, the Roan branch of Mineworkers Union of Zambia (MUZ) catalogued a list of problems that amounted to more than just bad public relations. For example, they stated that: "Luanshya mine never used to shut down its plants as a result of a shortage of mill balls or chemicals and never ran out of

production explosives. Other problems included the delayed payment of salaries and the failure to remit workers' contributions to various institutions on time. The mines also ran out of fuel."[49]

The MUZ branch officials went on to list other problems which impacted negatively on community life in the mining townships including: the non-availability of drugs in hospitals in the Luanshya mine area; untreated and erratic supply of water; blocked sewerage and uncollected garbage in townships; and non-availability of street lighting and erratic supply of electricity.[50]

Luanshya Mine under ZCCM used to operate two hospitals, but conditions in these two institutions are reported to have greatly deteriorated since RAMCOZ took over. The hospitals have suffered an exodus of some of their best doctors and nurses. Five clinics run by RAMCOZ in the mine townships were reported to have closed in January 2000. Anxiety and fear have gripped the residents of Luanshya. The problems of RAMCOZ have spilled over into other towns in the area as industries in the district depend on the fortunes of the mines. Many industries have shut down and the municipal council is unable to provide effective social services because of its depleted tax base.

Not surprisingly the workers have reacted with unrest to the plight they have suffered under RAMCOZ. The most serious disturbances at RAMCOZ took place during October and November 1998 when over 6,000 employees downed tools and engaged the police in violent skirmishes which left two people dead.

Despite this unfortunate outcome, the government has resisted taking responsibility for the problems ensuing from the botched privatisation. It has rebuffed suggestions that sectional interests could have influenced the award of the sale to the Binani Group, at the expense of First Quantum Minerals. The official explanation is that Binani simply offered a better bid which took into consideration the broader interests of the welfare of the workforce. The reality is that the Binani Group has failed to fulfil its promises.

There have been repeated negotiations between the government and the London based Chief Executive of the Binani Group, but these have not been fruitful. The government intervened on behalf of the mine owners whenever the company's creditors threatened to discontinue business with the mine. The government was also instrumental, through the state owned ZNCB, in keeping operations running at RAMCOZ through the provision of loans. This however, could not continue indefinitely and in early 2001 ZNCB placed the company under receivership in a bid to recover money owed to it. RAMCOZ is insolvent and the only thing saving it from liquidation is the government's fear of the impact this might have on the regional economy.

It is noteworthy that parliamentarians have repeatedly implored government to repossess Luanshya Mine and sell it to a company that could resuscitate it. This view is shared by most of the population, including the workers at RAMCOZ whose future has become very uncertain. The decision to sell the mine to the Binani Group has culminated in massive suffering for the residents of Luanshya. While this cannot be blamed on conditionality alone, it is symptomatic of Bank and Fund policies that pay little heed to the wider social and economic functions of state-owned enterprises and the resulting problems associated with privatisation.

2.4 The trade liberalisation programme of the 1990s

"Zambia probably has the most liberalized economy in the world. But 30 years into our liberation, we don't have the variety of industries to penetrate other markets, and we were ill-equipped for such a competitive mode. Maybe the government should have done more to care for the people and develop industries other than mining, rather than devoting so much of its resources and energy to free trade."
Lebogang Motlana, UNDP deputy representative in Zambia[51]

"We must not rush developing countries to reduce their tariffs without recognising the effect it could have on both government revenues and the livelihoods of people working on the land."
Gordon Brown, UK Chancellor of the Exchequer and Chairman of the IMF's Finance Committee[52]

This recent quote from the UK Chancellor is perhaps in response to the experience of many developing countries where Bank and Fund instigated trade liberalisation in the 1980s and 1990s has proved to be an unmitigated disaster.

In Zambia, the major reduction of tariff rates occurred in 1993 under a World Bank PIRC II facility (see Appendix 2). The successive lowering and rationalisation of tariffs was completed by 1996. Under this system there are currently four tariff bands: 0, 5, 15 and 25 per cent. The average tariff is around 13 per cent, with 21 per cent of tariff lines completely duty free.[53] The IMF and World Bank argued that trade liberalisation would increase the number of exports as it improves the price of exports relative to imports. This completely ignored the historical evidence that in order to develop, exporting industries need protection from the world market. Most, if not all, of today's industrialised and newly industrialised countries used a wide variety of what would now be considered 'trade distorting' policy interventions during their development process.[54]

While reducing import tariffs can be beneficial to consumers of imported products, it can kill local industries, as happened in Zambia. Most recently privatised industries that used to produce import substitutes, such as Dunlop, Colgate-Palmolive, and Liver Brothers have since relocated production to neighbouring countries. The removal of import tariffs made it difficult for these companies to compete with imported products. As such, their new private owners found that it made good business sense to shift their plant and equipment to a neighbouring country and import into Zambia what they used to produce there. The government had less ability to intervene as these companies were privatised. This was a classic case of the negative interplay of trade liberalisation and privatisation.

Trade liberalisation has been disastrous for Zambia's manufacturing sector. Formal manufacturing employment fell from 75,400 in 1991 to 43,320 in 1998.[55] Paid employment in mining and manufacturing fell from 140,000 in 1991 to 83,000 in 2000 (see Table 4).[56] The collapse of the manufacturing sector has left tens of thousands of Zambian families without incomes. Heads of households have been laid off or retired. De-industrialisation has also been reflected in the country's export performance. Exports of goods and services as a percentage of GDP fell from 36 per cent in 1990 to 27 per cent in 2001.[57] Other sectors have also been in decline during this period; paid employment in agriculture fell

from 78,000 in 1990 to 50,000 in 2000 (see Table 4).[58] It is also worth noting that Zambia's labour force is estimated to have grown from around 3.2 million in 1991 to 4.7 million in 1998.[59] This means that the formal sector employed 17 per cent of the labour force in 1991, but this fell to 10 per cent by 1998.[60]

Commenting in his private capacity, Mr. Jonathan Simwaba, Senior Marketing Officer of the Export Board of Zambia, observed that Zambia has one of the most liberalised economies in the world. "The USA, which is several times more developed than Zambia, still has restrictions on external trade in order to protect its industries and local jobs. Yet Zambia, through external pressure, decided to open up its economy entirely and the results are there for everyone to see. Industries collapsed over night."[61]

Textile manufacturing has been one sector particularly badly hit by trade liberalisation.[62] The lowering of tariffs on textile products, and particularly the removal of all tariffs on used clothes, led to large increases in imports of cheap, second-hand clothing from industrialised countries. The Zambian textile industry could not compete with these imports, and the sector has all but vanished. There were more than 140 textile manufacturing firms in 1991, but this had fallen to just eight by 2002. Employment in textile manufacturing fell by 30,000 from 34,000 to 4,000. Ramesh Patel, director of SWAPP Ltd commented, "We used to have factories everywhere, but Ndola is a ghost town now. We are one of the lucky ones who have managed to survive, but there's no comparison. We used to supply retailers with 3.5 thousand tons of clothing annually; we're down to less than 500 tons now. We had 250 employees eight years ago; we're down to 25 now."[63] Moses Simemba, Africa manager of the African Growth and Opportunity Act, has acknowledged that the influx of cheap clothes, along with under investment in modern machinery, has led to the deterioration of the industry.[64]

Table 4: Paid employment 1990-2000[65]

Year	*Public*	*Mining and manufacturing*	*Agriculture*	*Other*	*Total*
1990	159	142	80	162	543
1991	162	140	78	164	544
1992	171	136	82	158	546
1993	168	126	83	143	520
1994	174	108	79	136	497
1995	173	108	69	135	484
1996	176	95	68	140	479
1997	170	92	59	155	475
1998	174	86	59	157	467
1999	184	85	60	148	477
2000	185	83	50	158	476

The liberalisation of trade also adversely impacted on government revenues. With a weak tax base, tariffs were an important source of government finance before liberalisation. During the 1990s, total income from tariffs fell by more than 50 per cent. Tariffs as a percentage of tax revenues fell from 37 per cent in 1990 to 26 per cent in 1998.[66] Such reductions have to be financed by either increased taxation on the domestic population (which is often harder than tariffs to administer and collect), or cuts in government spending. With declining GDP after 1993, overall government revenue fell by more than 30 per cent in real terms between 1990 and 1998.[67] At the same time, the IMF was pushing for fiscal stringency; wanting the government to reduce its domestic debt by running budget surpluses. Consequently, real government expenditure in the domestic economy (excluding interest on debt) fell by almost half through the 1990s.[68] Spending on important economic infrastructure, such as transport and communications, was heavily cut.

This double blow to the economy from trade liberalisation – de-industrialisation causing increased unemployment and thus increased need for social spending coupled with reduced government tax revenue to pay for it – helped cripple Zambia's economy. Despite this, unilateral trade liberalisation is still a key plank of Bank and Fund economic orthodoxy.

2.5 The agricultural liberalisation programme of the 1990s

"Liberalisation of [agricultural] markets has not delivered the expected results because markets don't function smoothly or, in some cases, even exist."

UK Department for International Development[69]

Prior to 1991, the government was involved in the provision of agricultural credit to farmers, marketing of all agricultural inputs such as seed and fertilizers, and marketing agricultural produce such as maize grain, sunflower and cotton. With the poor performance of the economy, the provision of subsidies in this process was deemed unbearable for the government budget. Thus, the state moved out of the agricultural sector in an attempt to let market institutions take over and run the sector more efficiently. With the help of the World Bank, the Agricultural Sector Investment Programme (ASIP) was designed.

This reform of the agriculture sector has been controversial. Efforts initiated in 1991 under a World Bank Economic Reform Credit (ERC) facility were broadened further into ASIP. ASIP was part of the agricultural liberalisation reforms which entailed the replacement of previously state-supplied agricultural services (notably credit, inputs supply and agricultural marketing) by private sector provision. Despite all the money spent on ASIP, the rural poor did not benefit. A 2000 World Bank study acknowledged that the removal of all subsidies on maize and fertilizer under World Bank/IMF structural adjustment loans led to "stagnation and regression instead of helping Zambia's agricultural sector."[70]

Oxfam argues that the failure of donor-supported agricultural policy is a key factor in the rise in poverty and food insecurity in Malawi, Mozambique and Zambia. Their report concludes that "the international financial institutions designed agricultural reforms for these countries without first carrying out a serious assessment of their likely impact on poverty and food security. Far from improving food security, World Bank and IMF inspired policies have left poor farmers more vulnerable than ever."[71]

Similarly, the United Nations Conference on Trade and Development (UNCTAD) concluded that, in Zambia, "Agricultural credit and marketing by the private sector turned out to be uneven and unpredictable, and once market forces had eliminated the implicit subsidies to remote and small farmers, many farmers were left worse off."[72]

Despite the difficulty locating data on the number of poor peasants before and after the ASIP policy, reactions from citizens indicate a high level of discontent with the policy outcome. Zambia continues to pay heavily for the reform process. Although the broad rationale of government withdrawal from some aspects of the agricultural market can make sense if state provision is failing, some of the actual policies, plus the methodology and speed with which they have been implemented, suggest an approach based on ideology rather than on what works in the real world.

As with other sectors of the economy, employment in agriculture has declined during the period of liberalisation, falling from 80,000 in 1990 to 50,000 in 2000 (see Table 4).[73]

2.6 The legacy: Economic collapse

"The policies that we have been pursuing have put us in a worse off position than we were before."
Editorial in The Post newspaper[74]

Graph 1: Real GDP per capita 1960-2000[75]

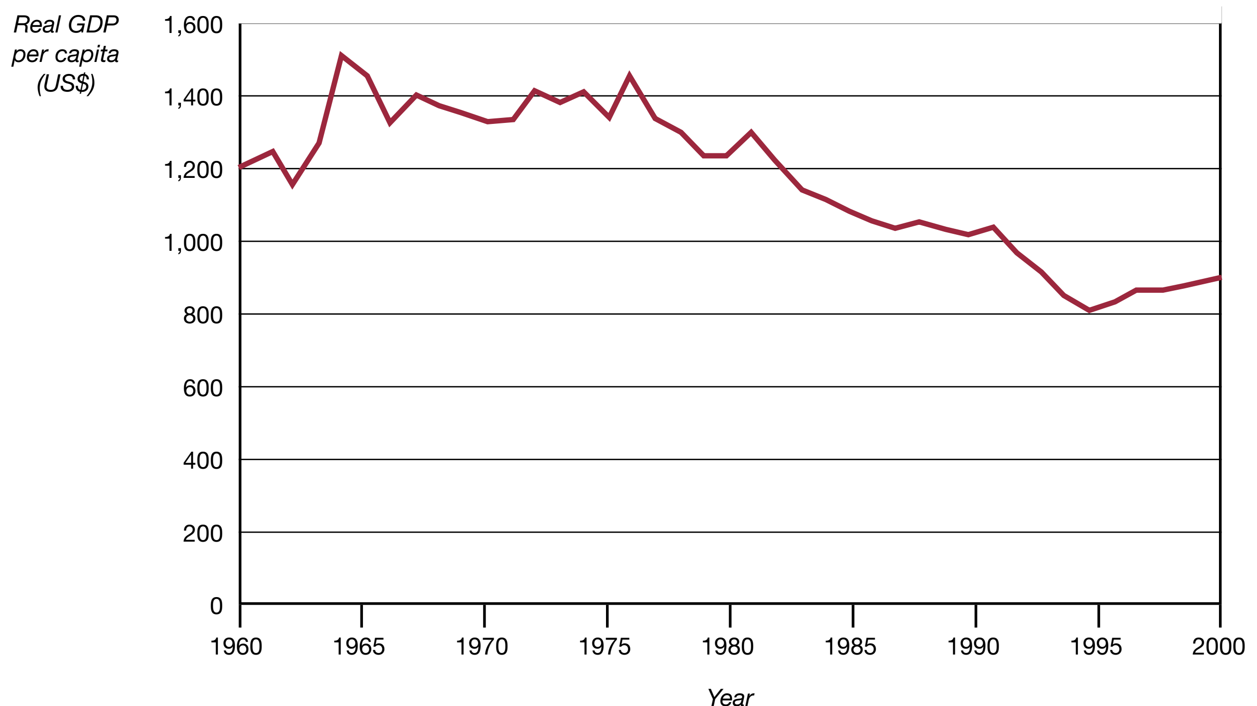

Table 5: Macroeconomic indicators[76]

	1960	*1970*	*1980*	*1990*	*1995*	*2000*
Real GDP per capita (US$)	1,207	1,335	1,239	1,021	814	892
Real domestic income (Adjusted for terms of trade changes) (US$)	2,325	3,089	1,546	1,154	844	786
Government share of real domestic income (Adjusted for terms of trade changes) (per cent)	25.9	47.7	50.7	41.8	19.2	10.2
Exports as per cent of GDP	–	–	–	36	31	27
Imports as per cent of GDP	–	–	–	37	40	37
FDI inflows (US$ millions)	–	–	–	203	97	122

Zambia's economic record since the oil price shocks of the 1970s has been woeful. Real GDP per capita fell from US$1,455 in 1976 to US$1,037 by 1987, an average of –3.6 per cent per capita per year. This decline stabilised or even reversed from 1987 to 1991, before the economy entered a massive recession again in 1992, the year an extensive reform programme began.[77]

In its 2003 Human Development Report, the United Nations Development Program (UNDP) reported that 54 countries are poorer now than they were in 1990.[78] Of these, 20 are in Africa. Zambia was the fourth worst performing economy in Africa with a 'growth' rate of –1.7 per cent per capita per year. The three African countries with a worse economic performance in the 1990s were the Democratic Republic of Congo, Sierra Leone and Burundi. All these have suffered from large scale conflict. Zambia has been the worst performing economy in Africa that has not suffered from conflict.

Yet this disastrous economic performance has occurred at the same time as Zambia has been congratulated by the World Bank over its privatisation programme[79] and praised by the IMF for making "great strides … notably in freeing markets and by eliminating government intervention and control."[80] Elsewhere it is acknowledged as having "one of the most liberal foreign exchange regimes in Sub-Saharan Africa" and

implementing government expenditure reduction which has been "virtually unmatched in Africa."[81]

That said, a more recent World Bank report criticises the Zambian government for "uneven implementation and limited commitment to policy reform" since the mid-1990s.[82] However, they also recognise that the commitment to reform "waned over time, in part because the reforms achieved so little in terms of stemming the continued economic decline."[83] The economic policies that Zambia has implemented at the behest of the IMF and World Bank have failed. They were promoted by the IFIs as 'sound macroeconomic policies' to bring 'sustainable economic growth'. Instead they have brought economic collapse.

The original aim of the IMF in lending to Zambia was to help it cope with temporary balance of payments problems, including its unsustainable trade deficit. However, throughout the period of IMF intervention, Zambia's current account balance (which includes the balance of trade and other financial transfers) has not improved. From 1980, for years for which figures from the World Bank are available, the yearly deficit has on average remained around 15 per cent of GDP (See Table 6). The IMF has failed even in its original aim of remedying Zambia's balance of payments difficulties.

Table 6: Current account balance[84]

	1970	*1980*	*1985*	*1990*	*1991*	*1997*	*1998*	*1999*	*2000*
Current account balance (US$million)	108	–537	–399	–594	–306	–152	–570	–386	–553
Current account balance (as percentage of GNP)	6.9	–12.1	–15.1	–19.7	–10.2	–4.1	–18.9	–13.0	–17.9

More specifically on Zambia's trade balance, statistics from the UNDP suggest that the country's trade deficit has actually been increasing through the 1990s. At the start of the decade the difference between imports and exports was around –5 per cent of GDP, but since 1994 its range has tended to be between –9 and –15 per cent (see Table 7).

Table 7: Trade balance[85]

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Exports of goods and services (percentage of GDP)	36	28	29	32	34	31	–	33	29	22	31
Imports of goods and services (percentage of GDP)	37	33	34	24	46	40	–	38	38	41	46
Trade balance (percentage of GDP)	-1	-5	-5	8	-12	-9	–	-5	-9	-19	-15

2.7 The legacy: Increased poverty

"Poverty levels in most of the critical dimensions increased during this decade [the 1990s]."
Zambia Poverty Reduction Strategy Paper[86]

"The IMF are killing us, especially women and children … SAPs cause poverty."
Emily Sikazwe, Women for Change[87]

Table 8: Human Development Indicators[88]

	1960	*1970*	*1980*	*1990*	*1995*	*2001*
UNDP Human Development Index	–	–	0.470	0.461	0.414	0.386
Position in UNDP Human Development Index	–	–	–	130/173 43rd bottom	146/174 28th bottom	163/175 12th bottom
Life expectancy at birth	41.6	49.7	–	54.4	42.7	33.4
Infant mortality rate	–	109	–	108	112	112
Child (under-5) mortality rate	–	181	–	192	202	202
Adult illiteracy rate (per cent age 15 and above)	–	42	24 (1985)	32	22	21

With the economic decline and loss of paid work outlined in Sections 2.4, 2.5 and 2.6, it is not surprising that poverty has increased in Zambia during the reform programme. One set of researchers found that poverty grew by 20 per cent using a food-only poverty line and by 16 per cent using a general poverty line, between 1991 and 1996.[89] The Zambian

PRSP reports that the percentage of the population living below the poverty line increased from 69.7 per cent in 1991 to 73 per cent by 1998.[90] This poverty line is based on the income needed to buy a minimal food basket and does not include factors such as: shelter, education, health care, clothing and transport. Zambia's value in the UNDP's Human Development Index, which takes a variety of indicators into account, fell from 0.470 in 1980 to 0.461 in 1990. The decline since 1990 has been even worse, decreasing to 0.386 in 2001.[91] The proportion of the population classed as undernourished, having a calorie consumption below their minimum energy requirement, has increased from 45 per cent in 1990 to 50 per cent in 2001.[92]

HIV/AIDs has devastated the lives of the people of Zambia. 15.6 per cent of Zambians between the ages of 15 and 49 years are estimated to be infected with HIV[93] and 150,000 children carry the disease.[94] The pandemic has had an enormous effect on life expectancy, which has fallen by 20 years from 54.4 in 1990 to 33.4 in 2001. Zambia now has the lowest life expectancy of any country in the world.[95] Whilst poverty itself may not directly cause AIDS, families and individuals struggling for survival are more vulnerable to contracting HIV. Reduced access to health care, poor nutrition, increased likelihood of migrating in search of work and the reduced status of women are all poverty influenced factors affecting the spread of HIV.[96]

User fees were introduced for health services, along with many other government services, through the 1990s. These have been incompatible with the poverty being experienced by most families. With incomes falling, and unemployment rising, fees are beyond the reach of many families. One local organisation estimated that up to 45 per cent of people in the Copperbelt province, one of the wealthiest regions of the country, could no longer afford to take their children to the doctor as a result of user fees and the job losses from the privatisation of ZCCM.[97] The World Bank reported in 1994 that following the introduction of user fees, "outpatient attendance fell by about 60% and delivery services by over 20% … in urban Lusaka. At the same time, vulnerable groups seem to have been denied access to health services."[98] Despite this, a new World Bank health project called on the Ministry of Health to "pursue improvement in cost recovery through user fees."[99] The OECD acknowledges that whilst user fees have increased revenue, they have "driven many away from the health service because of lack of funds."[100]

Cuts in government spending have affected the ability of the state to provide resources and structures with which to tackle the AIDS pandemic. One UK Doctor, after visiting Zambia, commented that, “It is not simply anti-retroviral agents which are inaccessible to the many but treatment for infections and symptoms, health education, distribution of condoms and effective health promotion.” The burden of debt servicing taking money away from the government has meant that, “It is no coincidence that the HIV crisis has gone hand in hand with the debt crisis.”[101]

Overall, Zambia’s level of human development has been in freefall in comparison to other countries. In 1990 it was ranked 130 on the UNDP’s Human Development Index, falling to 163 in 2001. Although very poor in 1990, Zambia was ranked as one of the most developed countries in sub-Saharan Africa. It is now one of the poorest.[102]

If current trends continue, it will be impossible for Zambia to meet the Millennium Development Goals (MDGs) by the globally agreed target of 2015. The indicators for eradicating hunger, achieving universal primary education and reducing child mortality are in reverse, so they will never be met: the number of people below the minimum level of dietary consumption has increased between 1990 and 2001; the net enrolment ratio in primary education has fallen between 1995 and 2001; and the under-five mortality rate has risen between 1995 and 2001. It is likely that the goal to improve maternal health is also not on track to ever be met as the percentage of births attended by skilled health staff has been falling (see Table 9).[103]

From the available statistics, the only goal that currently has a possibility of being reached is Goal 7, ensuring environmental sustainability. Carbon dioxide emissions, one indicator of this goal, are falling, but this offers little measure of sustainability in the context of falling economic output. At the current rate the target to halve the proportion of people without access to an improved water source, another indicator of Goal 7, will have been met by 2012.[104] However, the use of improved water source statistics has been criticised by UN-Habitat as the definition of ‘improved’ is very limited. This can include “water from public standpipes, boreholes and protected dug wells (with no guarantee that this water is safe to drink) provided that at least 20 litres per person per day is available from a source within 1km of the person’s home … ‘Improved’ provision for sanitation can include shared pit latrines, with no guarantee that these are easily accessed or clean.”[105]

Table 9: Progress in achieving the Millennium Development Goals[106]

	1990	*1995*	*2001*
Goal 1 – Eradicate extreme poverty and hunger			
Population below minimum level of dietary energy consumption (per cent)	45	–	50
Goal 2 – Achieve universal primary education			
Net primary enrolment ratio (per cent of relevant age group)	–	75.8	65.5
Goal 4 – Reduce child mortality			
Under-5 mortality rate (per 1,000)	192	202	202
Infant mortality rate (per 1,000 live births)	108	112	112
Goal 5 – Improve maternal health			
Births attended by skilled health staff (per cent of total)	50.5	46.5	–
Goal 7 – Ensure environmental sustainability			
Forest area (per cent of total land area)	53.5	–	42.0
CO2 emissions (metric tonnes per capita)	0.3	0.3	0.2
Access to an improved water source (per cent of population)	52.0	–	64.0
Access to improved sanitation (per cent of population)	63.0	–	78.0

3. Undemocratic

"In fact, us in FFTUZ pray to the day the IMF and World Bank detach themselves from giving us aid because only then will we have creativity and priority by our leaders."
Joyce Nonde, President of FFTUZ[107]

"If I had a way of not depending on the IMF, I would not care but we need the IMF whether we like or not."
President Levy Mwanawasa[108]

The IMF and World Bank have a large say in Zambia's economic policies. Donor financing is needed both to bring finance to the economy and keep international creditors happy. As described earlier, Zambia had to return to IMF and World Bank programmes at the start of the 1990s because of pressure from Paris Club members. And Zambia now needs to implement economic conditions in order to receive debt relief through the HIPC initiative. The country has little choice but to accept the Bank and Fund's policy prescriptions, leaving little or no room for national democratic decision-making. At the same time, despite their influence over Zambia's economic policies, the World Bank and IMF have no direct responsibility for, or accountability to, the Zambian people. The Zambian public have no say on how these two institutions are run. Sections 3.1 and 3.2 below provide two case studies of how HIPC conditionality has overturned democratic processes.

In response to such criticisms, the Bank and Fund have created PRSPs to set the policy framework in countries undertaking their programmes. These are supposed to be heavily dependent on participation from civil society groups within the country. Section 3.3 analyses the process for creating Zambia's PRSP and demonstrates that the reality is far removed from the rhetoric.

3.1 HIPC undermines democracy – Case Study: The privatisation of ZNCB

"We will not force countries on our programmes."
Managing Director of the IMF Horst Kohler, September 2003[109]

"If they don't sell [ZNCB], they will not get the money."
IMF Resident Representative in Zambia Mark Ellyne, December 2002[110]

ZNCB is a government owned commercial bank with a branch network spanning all the provincial centres of Zambia. ZNCB is one of the largest banks in the Zambian financial sector and has a strong client base among low-income workers who can afford the low minimum balances required for opening savings accounts. In the past, ZNCB has provided loans to ailing parastatals such as ZNOC at conditions that were not in line with market practice. In the event that loans owed to ZNCB by other parastatals were not paid, the government would have to finance the balance sheet of ZNCB and this money had to come from taxpayers. In order to avoid this, the privatisation of ZNCB was introduced as a key condition for reaching completion point in the HIPC initiative. The privatisation of the state electricity company, ZESCO, was also included as a condition to reach completion point.[111]

The government initially agreed to implement these measures, but the prospect of the privatisations provoked large scale public resistance. In November 2002 civil society organisations, backed by the trade unions and student bodies, staged a protest march in the streets of Lusaka to oppose privatising ZNCB and ZESCO. On 4 December 2002, the Parliament voted for a motion urging the government to rescind their decision to privatise ZNCB. Matthew Mwale MP said: "Time has come for government to go and tell the IMF and World Bank that Zambians, through their elected representatives, have said no to the sale of ZNCB."[112]

According to Sara Hlupekile Longwe of FEMNET in Zambia, opposition to the sale of ZNCB does not stem from a desire to spend taxpayers money on loans to ailing state industries.[113] In fact it is well recognised that during the previous administration of President Frederick Chiluba, ZNCB was being used to provide unsafe loans which were also linked to charges of corruption. Rather, the public would like to see ZNCB focus more on functions that commercial banks fail to fulfil. This includes more branches in rural areas, more small loans, smaller minimum deposits and more risk taking loans for small businesses.[114]

Following public opposition the Government decided to abandon its earlier commitment to sell off these companies. On 9 December, President Mwanawasa announced that the privatisation of ZNCB would be halted. The IMF responded immediately by announcing that Zambia risked forfeiting US$1 billion in debt relief if it did not go ahead with the privatisation. IMF resident representative, Mark Ellyne said "If they [the government] don't sell, they will not get the money."[115] The country was

also scheduled to reach its HIPC Completion point in December 2003 following which it was to receive debt relief of US$3.8 billion, but this was postponed because of the 'failure' to implement policy conditions (ie, privatising ZNCB) linked to HIPC.

On 14 December, thousands of people joined in a demonstration in Lusaka to support the President's decision, to oppose the IMF and to call a halt to other privatisations, including ZAMTEL and ZESCO. The President of FFTUZ, Joyce Nonde, told the rally that the economic mistakes of the past 10 years had left people in abject poverty and deprivation and led to the destruction of all sectors of the economy. "We do not see any need to privatise our vital institutions when we have not taken stock of what happened in the past privatisation programme."[116] Nonde added that the privatisation policies advocated by the IMF and the World Bank had failed in many countries to produce anticipated value for money and efficiency, and that the two institutions should shoulder the blame. She said the implementation of privatisation policies had left many unemployed and that people were now wallowing in poverty: "Now let somebody out there tell us, having privatised 80 per cent of our economy, why is it that we have become one of the poorest countries in Africa and the whole world?"[117] Also speaking at the rally was Nedson Nzowa MP, who said privatisation was "unacceptable, we fought for independence so that we run our own affairs."[118]

On 25 January 2003, President Mwanawasa announced that ZNCB, ZAMTEL and ZESCO would all remain in public hands and that he had written to the World Bank and IMF inviting them to discuss the issue.[119] Talks began in February between the government and IMF, and by the end of March selling ZNCB was once again on the agenda.[120] The Zambian Government has now agreed to privatise ZNCB after all.[121] Two bids have been received by the ZPA and negotiations are underway.[122] The privatisation of ZESCO, now being referred to as 'commercialisation', is also going ahead. Like ZESCO, ZAMTEL is considered a strategic national asset and is expected to be privatised in the same manner as ZESCO, through commercialisation of certain aspects of its operations as opposed to outright sale.

Completing the privatisation of ZNCB is a key 'prior action' to be completed before Zambia can be back on course with HIPC. The HIPC process is being further delayed because of the failure to implement a PRGF programme (see Section 3.2).

3.2 HIPC undermines democracy – Case Study: Public sector pay

"Workers have a history of enduring fruitless IMF and World Bank economic experiments which have crippled the economy and left many of our citizens impoverished and hence they have the right to question them."

Joyce Nonde, President of FFTUZ and Leonard Hikaumba, President of ZCTU[123]

In wage bargaining at the start of 2003, the Zambia Congress of Trade Unions (ZCTU) threatened a nationwide strike unless the government met it's demand for a Zambian Kwacha1.5 million (around US$300) pay rise for public sector workers.[124] Eventually an agreement was reached of ZK615,000 (US$123) for the lowest paid workers, and ZK1.1 million (US$220) for the highest paid.[125] This was subsequently passed by Parliament. The basic take home salary for teachers, nurses and policemen is ZK300,000 (US$60) per month.[126] The Jesuit Centre for Theological Reflection (JCTR) carries out monthly estimates of the cost of essential needs for an average family of six in Lusaka. During 2003 the cost of monthly basic needs provision has been estimated to be just over ZK1 million (US$208) per month.[127] This covers the cost of food and some essential non-food items such as fuel and soap. It does not cover other essentials such as housing, water, education and health care.

Leonard Hikaumba, leader of the ZCTU, felt that Unions were limited in their bargaining ability because of their inability to address concerns to the IMF: "I think the problem is that when the government is negotiating certain agreements with organisations like the IMF, we are not privy to the talks. So when we make demands, they say the IMF will not allow them to do so."[128]

At the time of the agreement, the IMF expressed its concern that higher wages would increase the government budget deficit. Restricted budgets are a key element of most IMF programmes. Mark Ellyne commented: "If the government can pull some resources from within the budget and meet the workers' demands, that is alright with us because we believe good work should be well paid for. But if meeting the demands will mean going beyond what was budgeted for, our concern is that government expenditure may increase and therefore lead to heavy government borrowing and a huge deficit."[129]

In June 2003, the IMF announced that it would withhold US$100 million through the PRGF because of a government projected overrun on the budget by the end of 2003 of ZK611 billion (US$127 million).[130] Acting Finance Minister George Kunda claimed ZK200 billion of the ZK611billion overrun would be due to implementing the medium term pay reforms, whilst ZK308.8 billion would be due to the awarding of new housing allowances, also agreed for the start of April 2003.[131] With the halting of the IMF programme in Zambia, other donors also withheld funding. The EU froze US$38 million in balance of payments support for the second quarter of the year.[132] The target set for Zambia's budget deficit was originally 1.55 per cent. The estimated overrun on expenditure was predicted to raise the deficit to 3 per cent.[133]

Discussions were held between the government and the IMF in July 2003. They agreed on a "revised macroeconomic framework" for 2003 which would seek to "contain growth in civil service compensation in 2003 and set the basis for returning the wage bill to a more manageable level in 2004."[134] If these proposals were implemented, they "would provide a basis to initiate discussions on a new arrangement with the IMF under the PRGF".[135] At the same time, Unions reiterated that they would lead mass strikes with the aim of crippling the government if the wage agreement was not honoured. Mwelwa Muleya, an analyst at the NGO the Foundation for a Democratic Process commented that the government had found itself "between a rock and a hard place".[136] "It's a recipe for political upheaval, considering that the political temperature in the country is already highly charged. The government and the IMF should seriously consider the political and economic consequences of industrial strife and reach an acceptable agreement over this matter."[137]

A three day strike by public sector workers began on 11 August 2003. Martha Banda, a civil servant earning ZK200,000 a month (US$40), commented: "Surviving on such little money is tough … especially if you have a child to look after, like I do, it is extremely difficult".[138] A second strike began on 26 August; it was estimated 100,000 public sector workers took part.[139]

As the strike entered a second week, it appeared that the Government had agreed to pay the higher wages, which they had earlier claimed would be responsible for ZK200 billion of the overrun. However, they were still refusing to pay the agreed housing allowances, claimed to be ZK300 billion of the projected overrun (US$63 million).[140] Darrison Chaala,

Secretary-General of the Civil Servants and Allied Workers Union of Zambia (CSUZ) disputed these figures, claiming that implementing the housing allowances would cost US$17.2 million a year.[141] At the same time, US$175 million in loans and grants had been frozen by the IMF and other key donors, including the EU, because of the foreseen budget deficit.[142] The drop in aid is believed to have forced Zambia to divert money from areas such as drought-relief programmes in the south of the country.[143]

The IMF has forced the Zambian government to renege on a wage agreement reached with Unions at the start of the year and passed by the elected national parliament. Zambian democratic processes are being undermined because decisions reached by the elected government and parliament are being overturned in an attempt to meet the conditions attached to debt relief. The irony is that if Zambia received full, unconditional debt cancellation, it would be able to afford both the pay rise and housing allowances, even at the disputed higher estimated combined cost. This estimated cost of US$106 million (ZK508.8 billion) contrasts with the US$178 million the government paid in debt service in 2003, and US$227 million it will pay in 2004. For the year 2004, it is quite likely that whatever wage adjustments might have to be made after the government concludes wage negotiations with public sector unions, these increments will not be implemented. This will keep government expenditure within the HIPC benchmarks. Since Zambia's debt relief was delayed in 2003, the Government seems resolved to do whatever it will take to reach completion point in 2004.

Through delaying debt relief, the IMF has forced the Government to hold back from paying a living wage to civil servants in order to avoid increasing the budget deficit to 3 per cent. By way of comparison, the projected 3 per cent Zambian budget deficit contrasts with a 2003 US budget deficit of 3.4 per cent (projected to rise to 4.1 per cent in 2004)[144] and a projected UK budget deficit of 3.4 per cent.[145] In fact the IMF recently criticised the UK government for planning to increase its budget deficit to this level, which met with a curt response. A UK Treasury spokesman said, "We are not going to accept a stability pact from the IMF, the European Commission or anybody else" and that the IMF had an "ideological opposition" to public spending.[146] Unfortunately, Zambia does not have the same luxury of being able to ignore the IMF.

With the failure to agree a new PRGF, Zambia is now on a Staff Monitored Programme (SMP) on which most conditions are met monthly.

The government again had discussions with the IMF in November 2003 to initiate negotiations on a new PRGF. "Preliminary understandings" were reached on "proposed revenue and expenditure measures for the 2004 budget to limit government's domestic borrowing requirements while protecting priority social spending. Satisfactory progress under the SMP and an appropriate budget framework for 2004 would provide a basis for concluding discussions on a new PRGF arrangement … Satisfactory performance under the PRGF would also be required for Zambia to reach the completion point under the HIPC Initiative."[147]

One of the conditions now attached to reducing the budget deficit is a maximum of 8 per cent of GDP to be spent on public sector wages. Education Minister Andrew Mulenga has claimed that this has meant the government has not been able to employ 9,000 trained teachers. Close to 50,000 of an available 58,000 are able to be employed under the current constraints on public sector wages. Employing the extra 9,000 teachers would cost ZK76 billion (US$16 million). International donors are helping to meet capital costs for schools, such as purchasing desks, but the constraints mean that there are no new teachers available to staff such schools. Mulenga commented that he would prefer more teachers to be recruited than to have more desks in schools without teachers.[148]

Again, in comparison to the requirement that Zambia keep its public sector wage bill down to 8 per cent of GDP, public sector compensation as a percentage of GDP in 2000 was 13.89 per cent in Denmark, 13.1 per cent in Finland and 14.55 per cent in Portugal.[149] In France, it was 11 per cent in 1999.[150] A low public sector wage bill is clearly not a precondition for being a developed country.

As well as not employing more teachers, the government is also implementing a public sector wage freeze for 2004, and rise in income tax in order to cut the budget deficit. This has again generated large-scale opposition. In February 2004, unions went on strike in protest against this policy. On 18 February, the first nationwide strike in 16 years was held.[151] Members of ZCTU and FFTUZ marched to the Parliament building in Lusaka. Sylvester Tembo, Secretary-General of the ZCTU, claimed that 90 per cent of workers in the public sector had joined the strike.[152]

3.3 From PFP to PRSP: old wine in new casks

As though to show concern for many of the World's poor countries, the Boards of the IMF and the World Bank changed their financing framework

from the Policy Framework Paper (PFP) to Poverty Reduction Strategy Paper (PRSP) and from the Enhanced Structural Adjustment Facility (ESAF) to the Poverty Reduction and Growth Facility (PRGF). While initially this seemed a laudable move, in operational terms, little if anything has changed in terms of the way the IMF and World Bank conduct conditionality. An attempt was made to ensure that 'ownership' was entrenched in their programmes by insisting on a participatory approach. This appears to be a fallacy.

For example, as one analyst concludes, "There is no doubt that the PRSP process is a top-down exercise. Born in Washington, brought to Africa, there is a strong initial top-down element. Then of course each country can choose to involve different levels and parts of the country at different stages and in different ways. In Zambia the process has been centred on Lusaka and the governmental WGs [working groups]."[153]

Although wary of the fact that the process of formulating the PRSP had been determined by international donors, Zambian civil society, including the JCTR, attempted to actively mobilise people from both rural and urban areas to engage in the consultations. Their ability to engage was limited by the time and resources available but they did succeed in having a range of views reflected in the final PRSP document. However, the incorporation of civil society viewpoints in the final PRSP did not extend to the macroeconomic framework. Despite its poor record, the IMF and World Bank were unwilling to backtrack or renegotiate the macroeconomic framework that had been imposed on Zambia throughout the 1980s and 90s. The IMF's existing PRGF programme formed the basis of this aspect of the PRSP, and so in effect, overrode any macroeconomic discussions within the PRSP process. The result was the so-called 'participatory' PRSP 'endorsing' a predictable mixture of wholesale privatisation, trade liberalisation and fiscal stringency.

The Zambian Parliament was only involved in the production of the PRSP through accidental participation of individual parliamentarians in consultations. There was no formal mechanism for parliament as an institution to engage in the process. Parliament was only informed of important aspects of the document after it had been adopted by the government and accepted by the IMF and World Bank.[154]

Despite the relatively receptive attitude of civil society towards the PRSP process in Zambia, it is still clearly influenced by donors in its inception

and development, and by the fact that the Bank and Fund Boards have the final sign-off to 'approve' it. Also, the PRSP is not the only document that defines conditionality. Zambia cannot access the HIPC initiative unless its government has negotiated a 'Decision Point' document with the IMF and World Bank and has agreed a 'Letter of Intent' for an IMF PRGF programme.

The process by which the conditions in Letters of Intent are arrived at is not widely consultative. It is driven by the Ministry of Finance and National Planning (MOFNP) and BOZ. The MOFNP takes a lead in the overall process and concentrates more on public expenditure management and structural conditions. The BOZ takes a lead on monetary and financial policy issues. There is very little room for any stakeholder participation other than the IMF, MOFNP and BOZ. Other institutions are only invited to come and answer queries related to a condition primarily affecting their institution. To a large extent, this process is undemocratic. Further, parliament is not involved in the process of committing the Zambian tax payers to these conditions. The approval process ends with Cabinet who are generally only told what has been agreed, rather than playing an active part in decisions.

A leading academic at the University of Zambia, who is actively involved in the Heritage Party puts it this way: "Much as the PRSP formulation process was consultative by involving several stakeholders and other interested parties, however the process suffered from one technical flaw by leaving out civil society organisations at the technical stage of decision making. Given that the framework of the PRSP was already determined and set by the IMF and the World Bank even before the process began in Zambia, we can safely say that the process was undemocratic. … In fact all conditionalities embedded in the PRGF are non-negotiable and they come to a debtor country on a 'take-it-or-leave-it' basis – clearly demonstrating that the policies of the IMF are undemocratic."[155]

4. Unfair

4.1 Undermining Zambia in the WTO

"Zambia has a very weak voice in international meetings because of its poor economic status. The IMF, World Bank and the WTO have continued to take advantage of our weak economic base to dictate terms that are not in our favour … Unilateral liberalisation in Zambia was imposed on us and our bargaining power in the WTO is at best insignificant and inconsequential."

Jonathon Simwaba, Senior Marketing Officer of the Export Board of Zambia, speaking in his private capacity[156]

As the WTO was being created in 1994 through the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), Zambia was already unilaterally reducing its tariff barriers. Whilst industrialised countries only reduced tariffs at the end of negotiations in return for reductions elsewhere, Zambia had to reduce its tariffs as part of the conditions attached to Bank and Fund programmes. This left Zambia with nothing to bargain with in the negotiations, as tariffs were being reduced regardless.

Zambia's bound rates on goods at the WTO, agreed as part of the Uruguay round, are all in the range of 35 to 60 per cent.[157] The vast majority are 40 to 45 per cent. As outlined in Section 2.4, the actual tariffs practised since trade liberalisation in the early 1990s, are: 0, 5, 15 and 25 per cent. Before embarking on trade liberalisation in 1991, there were 11 tariff bands ranging between zero and 100.[158] Most of these changes happened before 1994, and none as part of a multilateral process. None of the WTO negotiated rates will ever be applied under the four tariff line system devised with the IMF; 69 per cent of tariffs are 15 per cent or below and 21 per cent are completely duty free.[159] Not only does this render the outcome of the Uruguay Round talks on tariffs meaningless, it undermines Zambia's position in future trade rounds as it has little or nothing to bargain with.

Zambia's trade protection has also been weakened in bilateral trade deals. For instance, the Cotonou Agreement, while allowing African countries to access the EU market, demands reciprocity by asking African countries to open up their economies to EU products. As most African countries are still using old technologies to run their production lines the

result is that their products are uncompetitive. Thus the EU has turned African countries into dumping grounds.

4.2 Locking-in deregulation

Another aspect of unfairness is that WTO agreements are used as a means of making liberalisation or privatisation reforms undertaken through an IMF and World Bank programme effectively irreversible. This prevents future governments from changing economic policies if they are not working.

For example, in 1993, the then Zambian Government of President Chiluba created an Investment Act improving the standard of treatment given to foreign firms, such as the repatriation of up to 100 per cent after tax profits by foreign investors.[160] The Investment Act was introduced as a condition of a World Bank privatisation and structural reform credit that year.[161] This investment liberalisation instituted under the reform programme was later 'locked-in' through commitments made by the Chiluba Government under the newly formed General Agreement on Trade in Services (GATS) in 1994.

The current Zambian Government is undergoing a revision of the Investment Act. According to the Zambian Trade Ministry, "submissions are being received from the public on what they feel should go into the act."[162] However, the kind of changes being envisaged in response to these submissions – such as joint venture requirements and setting aside certain sectors for Zambian nationals – are not consistent with the GATS commitments in business, construction, health and tourism services made by the previous government.[163] Implementing such policies would be WTO-illegal.

As a result, therefore, the Zambian government is now limited in regulating foreign investment as part of its development policy. The IMF, World Bank and WTO have worked in tandem to liberalise Zambia's economy and then, through pressure applied in the WTO, this liberalisation is made permanent, curtailing the choices of future governments. This is patently unfair.

In any case, the evidence in favour of investment liberalisation is weak. Most industrialised countries used a variety of investment controls during their development process. For example, throughout the 19th and early 20th Century, the US enacted strict controls on foreign investment. These

included federal mining laws in 1866, 1870 and 1872 restricting mining rights to US citizens and companies incorporated in the USA. The 1887 federal Alien Property Act prohibited the owning of land by foreigners, or companies more than 20 per cent owned by foreigners in the territories where land speculation was particularly rampant. Yet, despite strict Federal and State restrictions on foreign investment, the US was the largest recipient of foreign investment throughout the 19th and early 20th Century. The US was also the fastest growing economy in the world throughout the 19th Century and into the 1920s.[164]

Perhaps after encountering problems in reforming its investment act, and/or perhaps because the evidence in favour of investment liberalisation is so weak, the Zambian Trade Ministry has stated that it is; "currently very cautious in its approach to the GATS negotiations considering the hitches we are facing in attaining our developmental objectives through the adoption of other policies and regulations."[165] Unfortunately, as part of the current round of GATS negotiations the EU is requesting that Zambia make commitments in telecommunications and financial service sectors[166] to 'lock-in' reforms in these sectors, such as the privatisation of ZNCB, currently being pursued by HIPC conditionality. Given that structural adjustment reforms and the GATS have already combined in other service sectors to limit the government's development policy space, the Zambian Government is right to be cautious. It must be hoped that they are able to resist the negotiating power of the EU and preserve their future policy options.

5. Conclusions

Despite the disadvantage of being land-locked, Zambia was once one of the wealthiest countries in sub-Saharan Africa. It is now one of the poorest. The story of Zambia's decline is partly one of external economic shocks and internal mismanagement and corruption. However, it is also one of the economic influence wielded by the IMF and World Bank and the dogmatic free market approach to economic policy of these two powerful institutions. This report has examined this third aspect of Zambia's social and economic decline.

This report has described how Zambia is still in the midst of a debt crisis with no prospect of a long term solution without significant change; how the oil crisis and commodity price falls of the 1970s led the country to seek assistance from the Bank and Fund; how the past twenty years of free market policies pushed by the Bank and Fund have contributed to two lost decades of development, exacerbating, rather than ameliorating, the country's debt crisis; and how the debt relief process has been used to foist yet more inappropriate policy conditions on Zambia.

Many of the reforms instigated under IMF and World Bank conditions have been unsuccessful. Privatisation, trade liberalisation and agricultural liberalisation were rushed through in the space of a few years with little or no account taken of their potential impacts. Not surprisingly, they were followed by de-industrialisation, declines in agricultural production and job losses. Even in those cases where a policy had broad support and was thought to be in the national interest, all too often the Bank and Fund paid little heed to domestic circumstances and pushed implementation according to economic textbooks rather than local circumstances.

In Zambia during the 1990s, neoliberal economic reforms were pursued to one of the greatest extents in Africa; yet, apart from those countries suffering conflict, Zambia was the worst performing economy on the continent. Poverty increased and HIV/AIDS is now bringing disastrous consequences in communities without the mechanisms to cope. Achieving the MDGs is likely to be impossible without a radical change of direction.

As well as documenting this social and economic failure, the report has also shown that the intervention of the Fund and Bank in Zambia's

economic policy formulation and implementation has been undemocratic. It takes power away from the government, parliament and the people, and gives it to unaccountable officials and industrialised nation ministers. For example, the IMF has ignored a parliamentary vote opposing privatisation of Zambia's national commercial bank and has forced the government to press ahead in return for further debt relief.

The Bank and Fund, and many governments, now claim things have changed. The conditions attached to receiving loans and debt relief are derived directly from a 'country-owned' PRSP. Yet, as this report has highlighted, Zambia's PRSP process did not involve meaningful engagement with civil society on key economic policy issues. Instead, civil society was ignored and the PRSP simply repeated the same policy formula Zambia has been unsuccessfully following for the past two decades.

Finally the report has described how IMF and World Bank conditions have been unfair by imposing unilateral trade liberalisation. In return for loans and debt relief, the IMF and World Bank have pushed Zambia into going far beyond the liberalisation commitments made in the WTO. Not only has this undermined Zambia's development and the whole premise for Zambia's past engagement in the WTO, it has also left the country with few remaining bargaining chips when it comes to negotiating future multilateral or bilateral trade agreements.

There is little point in developed country Ministers – such as the UK Trade Secretary or the UK Development Secretary – telling poor countries such as Zambia to make the most of the multilateral system and stand up for their rights in the WTO when, through the IMF and World Bank, these same developed countries are pushing poor countries into unilateral liberalisation.

This report has clearly demonstrated that the IMF and World Bank's involvement in Zambia has been unsuccessful, undemocratic and unfair. Yet, despite these failings, the Bank and Fund are now more influential than ever through conditions attached to the HIPC initiative. But more of the same simply cannot be an option. Without radical changes to economic policy, the MDGs will become yet another broken promise.

The evidence presented in this report points to two obvious conclusions. It is time to cancel Zambia's debt. And it is time to fundamentally rethink

the role of the IMF and World Bank. It is not acceptable that these institutions have effective control over policy-making in countries like Zambia. Policies need to be developed which are genuinely home grown alternatives that put the Zambian people, especially the poor, first.

The responsibility for this change lies with industrialised country governments such as the UK. The UK Development Secretary (Hilary Benn) sits on the Board of the World Bank and the UK Chancellor of the Exchequer (Gordon Brown) sits on the Board, and Chairs the Finance Committee, of the IMF. Fundamental change in these institutions can only come from these political decision-makers. As the holders of power in the IMF and World Bank, it is the industrialised countries who must take action if they are to turn their development rhetoric into meaningful results.

Appendix 1
Chronology of IMF programmes 1973-2003

Date	IMF programme
1973	One-year standby agreement with IMF.
1976	One-year standby agreement with IMF.
1978	Two-year standby agreement with IMF.
1981	Three-year Extended Fund Facility with IMF.
1982	IMF plan cancelled as objectives not met.
April 1983	Return to the IMF after failure to find alternative sources of funds; one-year standby agreement.
May 1984	Consultative Group meeting on external aid.
July 1984	Paris Club agreement on debt rescheduling.
July 1984	21-month standby agreement.
Dec 1984	London Club commercial bank rescheduling.
April 1985	IMF agreement suspended for noncompliance.
June 1985	Consultative Group meeting on external aid.
Dec 1985	Consultative Group meeting on external aid.
Feb 1986	"Shadow program" transformed into 24-month standby agreement with IMF.
Mar 1986	Paris Club agreement on debt rescheduling.
Dec 1986	Consultative Group meeting on external aid.
Jan 1987	Kaunda backs away from reform measures; IMF and World Bank programmes are suspended.
Mar 1987	Discussions with IMF to get program back on track.
May 1987	Kaunda announces suspension of IMF reform effort and introduces New Economic Recovery Programme. Zambia declared ineligible to access IMF financial resources because of overdue financial obligations to the IMF.[167] Zambia was one of only eleven countries, six from sub-Saharan Africa, who were in arrears to the IMF at the end of the 1980s.[168]

1988	Informal talks with the IMF and World Bank.
Aug 1989	Policy Framework Paper 1989-93 announced.
Feb 1990	Zambia reaches preliminary agreement with IMF and World Bank.
Sep 1991	The IMF and World Bank suspend agreement in response to Zambia's failure to make payments in July.
1992	The IMF agreed a Rights Accumulation Programme (RAP) with Zambia. This is a programme where an overdue country can gain access to IMF financial resources again through enacting an IMF economic programme.[169]
1995	Zambia was viewed to have successfully completed the RAP in December 1995. Subsequently, the IMF agreed two programmes in Zambia; a three year ESAF and a one year SAF. US$1,043 million was provided under the ESAF, and US$270 million under the SAF. The ESAF programme was due to run from 1995/96 to 1997/98.[170]
1999	The IMF agreed a new three year programme with Zambia under the ESAF, providing US$349 million between 1999 and 2001.[171]
July 2000	The IMF and World Bank accept Zambia's Interim Poverty Reduction Strategy Paper (IPRSP) as it provides, "a sound basis for the development of a fully participatory PRSP and for Bank and Fund concessional assistance".[172] Following agreement on the IPRSP, the IMF completed its first review of the ESAF, which had now become known as the Poverty Reduction and Growth Facility (PRGF). This was seen to be a "significant step" towards the disbursement of US$13.2 million. Total disbursements under the programme would be taken to US$26.4 million.[173] Following the IPRSP the IMF and World Bank produced their preliminary assessment of Zambia's qualification for the HIPC initiative on 20 July.[174]
Dec 2000	Decision point reached in the HIPC initiative.[175]
March 2001	Second review of the PRGF programme completed and approved by the IMF in March.[176]
Nov 2001	Third annual review of the PRGF completed; by this stage Zambia had drawn US$70 million under the programme agreed in 1999.[177]
May 2002	The PRSP is finished and approved by the IMF and World Bank.[178] Zambia also assumed Article VIII status within the IMF. This is an undertaking "to refrain from imposing restrictions on the making of

	payments and transfers for current international transactions, or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval."[179] At this time Zambia's quota in the IMF was US$622 million, and its outstanding use of IMF financing was US$995 million.[180] The fourth review under the PRGF was also completed. Zambia had taken US$134.8 million under this programme.[181]
Nov 2002	Fifth review of the PRGF completed; Zambia had now drawn US$205 million.[182]
Dec 2002	The HIPC programme goes off track after the government announces it will not privatise ZNCB.
May 2003	The government announces it will privatise ZNCB, and the ZPA starts to receive bids. HIPC back on track.
July 2003	There is no new agreement under the PRGF due to projected overspending on the government budget. HIPC off track again.

Appendix 2
Chronology of World Bank programmes

Year	World Bank programme
1970s	Lending was generally spread over operations in infrastructure, energy, agriculture, education and financial intermediation.[183]
Pre-1972	The rate of lending from the World Bank averaged US$12 million a year.[184]
1973	Programme loan to help Zambia cope with the 1973 oil price shock.[185] Between 1973 and 1982 the rate of lending increased to US$55 million a year.[186]
1976	Programme loan to help Zambia cope with the collapse in copper prices.[187]
1978	The first IDA credit to Zambia, making Zambia a client of both the Bank and the IDA.[188]
1983	Zambia suspended payments on its external debt. Because of the arrears that resulted from this, the Bank stopped making disbursements in October 1983.[189] With the election of Kaunda at the end of 1983, Zambia reopened negotiations with the IMF and Bank.[190]
1984	Export rehabilitation (copper) and diversification project.[191]
1985	In October the government agreed a reform programme with the Bank and IMF, leading to the World Bank making its first structural adjustment loan to Zambia.[192] Began an agricultural rehabilitation project, and gave credit for industrial reorientation.[193]
1987	Zambia abandoned its programme with the IMF and World Bank.[194]
1989	A new agreement on an economic reform programme was agreed with the Bank and Fund in September.[195]
1991	Normal relations between Zambia and the World Bank resumed, due to the ‘policy dialogue’ between the IMF, Bank and Zambia that started in 1989.[196]
1992	In January arrears with the Bank had been cleared. This allowed a new agreement on a policy framework between the IMF, Bank and Zambia for 1992 – 1994.[197] PIRC with conditions attached on privatisation and

	industrial reform.[198]
1993	Second PIRC with conditions attached on privatisation and industrial reform.[199]
1994	An ESAC agreed with the World Bank. Petroleum sector rehabilitation project.[200] Health sector support project.[201]
1995	Economic Recovery and Investment Project (ERIP) agreed with the World Bank. Agricultural sector investment programme.[202] Urban restructuring and water supply project.[203] Second social recovery project.[204]
1996	Second ESAC agreed with the World Bank.
1997	Public sector reform and export promotion credit – this credit sought to help the reform programme through measures including, "facilitating privatisation in the mining sector by assisting with the financial costs of the redundancy program."[205] Enterprise development project.[206] Environmental support programme.[207] Roads sector investment programme.[208] Multi-sector adjustment credit II.[209] Power rehabilitation project.[210]
1998	Health sector project.[211]
1999	Basic education sub-sector investment programme project.[212] Public service capacity building programme project.[213]
2000	Mine township services project.[214] Social investment fund project.[215] Railway restructuring project.[216] Fiscal sustainability credit project.[217]
2001	Support to economic expansion and diversification tourism project.[218] National response to HIV/AIDs project.[219]
2002	Agricultural development support programme project.[220] Emergency drought recovery project.[221] Copperbelt environment project.[222]

Appendix 3
List of abbreviations

ACP	Africa Caribbean Pacific group of countries
ASIP	Agriculture Sector Investment Programme
BOZ	Bank of Zambia
CFF	Compensatory Financing Facility
DFID	UK Department for International Development
ERC	Economic Reform Credit
ESAC	Enhanced Structural Adjustment Credit
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FFTUZ	Federation of Free Trade Unions of Zambia
GATS	General Agreement on Trade in Services
GNP	Gross National Product
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IMF	International Monetary Fund
IPRSP	Interim Poverty Reduction Strategy Paper
JCTR	Jesuit Centre for Theological Reflection
MDGs	Millennium Development Goals
MMD	Movement for Multiparty Democracy
MOFNP	Ministry of Finance and National Planning
MUZ	Mineworkers Union of Zambia
NERP	New Economic Recovery Programme
NGO	Non-Governmental Organisation
PFP	Policy Framework Paper
PIRC	Privatization and Industrial Reform Credit
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RAMCOZ	Roan Antelope Mining Corporation of Zambia
RAP	Rights Accumulation Program
SAL	Structural Adjustment Loan
SMP	Staff Monitored Program

UNDP	United Nations Development Programme
WTO	World Trade Organisation
ZAMPOST	Zambia Post
ZAMTEL	Zambia Telecommunications
ZCCM	Zambia Consolidated Copper Mines
ZESCO	Zambia Electricity Supply Corporation
ZIMCO	Zambia Industrial and Mining Corporation
ZNCB	Zambia National Commercial Bank
ZNOC	Zambia National Oil Company
ZPA	Zambia Privatisation Agency

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