THE IMF AND ZAMBIA

Dissertation submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of
MASTER OF PHILOSOPHY

NURUNNISA BEGUM

CENTRE FOR WEST ASIAN AND AFRICAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110067, INDIA

1991

जवाहरलाल नेहरू विश्वविद्यालय
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI - 110067

CENTRE FOR WEST ASIAN & AFRICAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES.

17 July 1991

CERTIFICATE

This is to certify that the dissertation entitled "THE IMF AND ZAMBIA" by Ms. NURUNNISA BEGUM is her own work and has not been submitted for the award of any degree to this or any other university. We recommend that this dissertation may be placed before the examiners for consideration of award of the degree of Master of Philosophy (M. Phil) of Jawaharlal Nehru University.

APG

PROF. ANIRUDHA GUPTA
CHAIRPERSON

Santosh Mehrotra

DR. SANTOSH MEHROTRA
SUPERVISOR

TO MY PARENTS

A.K. BASHA & NAJEERUNNISA

WITH LOVE

C O N T E N T S

PREFACE

This dissertation is a study of the IMF and Zambia, in the post independence period (1973-87). It examines the changing political and socio-economic context in which the IMF operates, though the focus is on Economic issues. Some attention is also given to the interaction between internal and external events of Africa in general and Zambia in particular during this period. In other words this dissertation could have been entitled as "The Role of IMF in Africa: A Case Study of Zambia". It is true that the whole continent of Africa today is passing through a very difficult stage in its development. Even Zambia is on the verge of Economic collapse. Unless something is done urgently to rehabilitate and reconstruct their economies, their very survival as nation-state is at stake.

The 1944 Bretton woods conference may be seen as an attempt to institutionalize at an international level the revolution in economic ideas brought about by John Maynard Keynes The Bretton Woods Agreement charged the IMF with prime responsibility for short term macro-economic developments - specifically with maintaining stable exchange rates. At the time of its establishment hardly any African country was independent and the interests of African states were scarcelly represented at Bretton woods. Central objective: Although Zambia became a member of International Monetary Fund in 1965, it did not start using the Fund's facilities immediately. The reason was Zambia one of the most prosperous economies in Africa. But since 1975 a difficult situation arose for the Zambian economy, when it began with a sharp fall in the price of copper, on one hand and other internal factors also responsible for the onset of economic crisis in Zambia. This is important both for understanding the problem and making policy prescriptions. Essentially the discussion can be divided into five chapters.

The first chapter will concentrate on the historical perspective of IMF and its lending policies and its policies of stabilization in Africa. The evolution of the African crisis, structural, and external factors were outlined. In this chapter the Zambian crisis is discussed briefly because the following chapters are devoted exclusively to the politics and economy of Zambia.

The second chapter will focus more on the relationship between IMF and Zambia (1973-1987). The course of the Zambian crisis will be studied. The events since 1970s, which signalled the outbreak of the crisis are followed by a discussion of the policy instruments and behaviour of the IMF during the adjustment programme from 1973-87. At the same time it also tries to find out whether these programmes were successful or it created more disstortions in the Zambian economy.

The third chapter will discuss the major sectors of the Zambian economy i.e. Agriculture and Industrial sectors. It outlines the major constraints in the way of the developments the mismanagement of internal factors will also be outlined.

The second section of this chapter will discuss the role of IMF and its programmes of adjustment, and how it brought institutional and structural adjustment in both agriculture and industry.

The fourth chapter will examine, the emergence of ruling class and its fractions, the other classes and how UNIP dominates the national scenario. The second section of this chapter will examine the discontenment, among different classes due to the policies and impact of IMF conditionality on politics; and why Zambia abandoned IMF policy packages will be outlined.

The fifth chapter sums up the conclusions that emerge from the analysis in the preceding chapters with respect of IMF policy programmes in the genesis of the Zambian economy.

An acknowledgement cannot do justice to the help received all along from many people throughout this period of my work. This dissertation would not have been completed without considerable assistance and patient guidance and encouragement provided by my supervisor Dr. Santosh Mehrotra, I am gratefully indebted to him for his considerable help. I am also thankful to other faculty members of Sub-Saharan Division, Prof. Anirudha Gupta, Prof. Vijay Gupta for their kind cooperation. I am grateful to the JNU library staff, Sapruhouse, Indian Institute of Foreign Trade library staff for their timely help. I extend my profound gratitude to my parents and other family members for their sacrifice, love, blessings and encouragement throughout the period of my work. I am also thankful to Rajee, Manila, Shailja, Savitri and many wonderful friends who have been a constant source of support. Lastly, I am grateful to Mr. A.D. Bahuguna who typed my dissertation with grate efficiency and patience.

Nurunnisa Begum

NEW DELHI
JULY 1991.

NURUNNISA BEGUM

CHAPTER - I

HISTORICAL PERSPECTIVE OF IMF AND THE ROLE OF IMF IN AFRICA

CHAPTER - I

HISTORICAL PERSPECTIVE OF IMF AND THE ROLE OF IMF IN AFRICA

Introduction:

The IMF and World Bank have been playing and will continue to play a major role in African countries which are facing economic crises both internally and externally. As a background to the subsequent chapters, some basic concepts and the origin and content of some of the policy instruments of the two institutions will be outlined. Section I discusses the organisation of the IMF, and the nature of its lending programme.

I. Organisation of IMF and its Lending Policies :

The Second World War plunged the world into a state of turmoil and the international monetary system virtually collapsed. It was in this context that the "white plan" in 1940 and the "keynes plan" in 1941 came into existence in US AND UK. These two plans became the inspiration behind the founding of the IMF and World Bank. The Hallmark of the Bretton Woods Conference in July 1944 was the determination in the minds of the delegates to find a solution to the crisis which the Monetary System was going through, and inculcate the spirit of cooperation among member countries. The creation of the IMF was described as a 'Supreme act of faith". The Fund came into existence with the signing of the articles of agreement by 29 countries on 27 December 1945. Along with the Fund the other sister institution International Bank for Reconstruction and Development emerged. These two Organisations IMF & IBRD were designed to have different objectives.

The IMF was formed to regulate.supervise and promote free flow of international payments based on a system of fixed currency exchange rates, and the Bank was to assist in the reconstruction of the war ravaged European countries and the LDCs. "But since their establishment, the two institutions have gone through notable changes in their roles and in their institutional strategies. The Bank's traditional role of Project lender has progressively got transformed into one of a policy lender, and the Fund assumed a new and important function of coordinating the international debt crisis besides performing the traditional role of a provider of financial support to Balance of Payments. As a matter of fact, the third world crisis of the 1980s has helped weld the two institutions into a much closer functional relationship".

The objectives of the IMF are clearly stated in its original Articles of agreement. Article 77 states that the purposes of Fund are:

1. Objectives :

(i) To promote international monetary cooperation through a permanent institution which provides the Machinery for consultation and collaboration on international Monetary Problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangement among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current traditions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards. Thus providing them with the opportunity to correct Maladjustments in their balance of payments without restoring to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

2. <u>Quota System</u> :

Central to the Fund's operation is the quota. Each member country has to pay into the Fund according to a Quota. The balance of power in the Fund is determined by Quota. The Quotas were worked out on the basis of a formula which included the country's national income, gold and foreign exchange reserves, size and fluctuations of its foreign trade, export dependence and with a different weighting of these various factors.

The Quota structure today still largely reflects the political balance of power of the 1940s. Thus according to Korner etal "The present quota structure still largely reflects the balance of economic and political power in the 1940s. Voting Power in the Fund is linked to the Quota which implies that industrial countries at present 57.6 per cent of votes can control the operation of the Fund and the US (19.3 percent) can block any proposal to change the Quotas which require an 85 per cent majority".[1] (See Table 1.1)

Most of the Third World countries which do not have adequate access to borrowing from private sources because of their low credit worthiness may have only the Fund to turn to, but again their borrowing capacity may be limited due to their small Quota size. On the other hand, industrial members having access to commercial bank credit due to their superior credit worthiness, find themselves in a position where they can have access to low conditionality credit from the Fund in large amounts as well as due to their big Quota size. A large Quota enables a member to draw large amounts of Fund credit that do not involve any conditionality. Thus it is no wonder that "No member of the Group of ten has sought access to the conditional resources of the Fund since January 1977, and it seems most unlikely that such drawings will occur in the forseeable future".[2]

---

1. Korner Mass Seibbold and Tetzlaff, The IMF and the Debt Crisis (London, 1986), pp. 10-15.

2. Dell Sidney, "The History of the IMF", World Development, vol. 14, n. 9, 1986, pp. 1203-112.

Data on Quotas of members as on June 1986, reveals that the value of total quotas of 20 industrial countries amount to SDR 6,088.99 million while that of 131 developing countries amount to SDR 33,898.55 million. Thus combined Quota of industrial members consists of 62,33 per cent while the combined Quota of developing countries is 37.67 per cent of total quota. The quota is important as it determines the member's relative voting power in the Fund. This is a clear indicator of the disproportionate share of the industrial members in the total quota assigned by the Fund. A kind of asymmetry has emerged in which countries with relatively high national incomes and reserves holdings have greater access to financial resources compared to the poor ones whose need for such resources tends to be much greater.

The types of borrowing permitted from IMF resources are sub-divided into four equal tranches. The first is initially known as the Gold Tranche is now called the reserve Tranche. The other Tranches are known as credit Tranches and normally involved the purchase of another member's currency. Drawing on the first credit Tranches are permitted when in the Fund's view the members concerned are making reasonable efforts to correct their balance of payments problem. By contrast drawing under the high credit Tranches usually requires substantial justification by borrowing members that they are making strong efforts to overcome their balance of payments difficulties. Resources under these high credit Tranches are normally provided under stand-by credits which are based on the observance of very rigid performance criteria and require drawings instalments.

3. Fund's facilities in the adjustment process: Stand-by arrangements :

Since 1952 ordinary drawings on the IMF have conventionally been made under stand-by arrangements which serve to guarantee a borrowing member on assured line of credit for a certain period of time usually twelve months.

"The Stand-by guarantees that the first credit tranche will be available in full and will not depend on the actual economic performance of the member. The availability of subsequent credit Tranches however depends on the observance of performance criteria. These criteria have been defined as aspects of a member's policies formulated in the letter of intent in qualified and other objective terms that are of crucial importance for the success of the programme; so that if any of them is not observed there is a signal that the member of the Fund should consult on any necessary adoption of the programme before the member resumes purchases order the Stand-by arrangements".[3]

The Fund played a very minor role in financially assisting the Third World countries upto the end of the 1960's. A marked shift in the use of the Fund's resources occurred during the 1970s when there was a fall in export-earnings of commodity exporting developing countries, as well as sharp hikes in oil prices in 1973,

3. Graham Bird; The International Monetary System and the Less Developed Countries, (London, 1982), p. 144.

and 1979 and which in turn aggravated the already strained BOPs problems of Third World countries. Then IMF generally came to accept, that the chronic balance of payments problems of many countries were the result of structural problems which could not be solved in such a short period - a fact to which the IMF responded by creating other facilities to help the poor nations.

4. Special Facilities :

(i) Compensatory Financing Facility :

A CFF was introduced in 1963 to assist members which are primary product exporters in the world market and experience violent fluctuations in the prices of their exports. Conditionality is generally mild and the formulation of a stabilization programme is not required. The CFF was the first facility meant primarily for the developing members of the Fund.

(ii) The Buffer Stock Financing Facility :

The BSFF first came into operation in 1970. Through this facility the IMF assists members in financing their contributions to international buffer stock schemes. The aim is to stabilize primary product prices. The amount that member was supposed to contribute would go towards building up of buffer stocks. Outstanding purchases could amount to 50 per cent of the Quota. The BSFF is subject to four conditions (a) Finance can be provided only to individual members participating in buffer stock schemes and not to the international organisations which control the buffer-stocks. (b) Before a member is permitted to draw from the Fund under the BSFF it must need to do so for BOP reasons. (c) Drawing must be repaid within three to five years. (d) The member country must agree to cooperate with the Fund in finding solutions if required, to its BOP's difficulties.

(iii) The Extended Fund Facility :

The EFF came into operation in 1975. The EFF is meant to support a fairly comprehensive attempt to correct an economy suffering serious payments imbalances relating to structural adjustments in production and trade and where prices and cost distortions have been widespread. So the external arrangements would be approved for periods not exceeding three years. "The EFF thereby adds as a significant extra dimension to Fund involvement with the formulation of economic policy in member countries since prior to the introduction of the EFF the Fund had been directly and exclusively interested in financial stabilisation policies and was not much interested in policies designed to cure basic structural shortcomings".[4] Performance criteria were to be specified at the beginning of and after every subsequent year.

(iv) Oil Facility :

The oil facility was created in 1974 to assist members choose adverse BOP's position which can be attributed to the

---

4. Ibid., pp. 144-147.

rise in the petroleum products. A member would not be eligible for use of Fund resources under the oil facility unless the Fund was satisfied that the former was pursuing appropriate domestic policies which would not be deterimental to the interests of other members. Assistance under oil facility of 1975 was provided placing more emphasis on the Quota and less on the calculated rise in the cost of oil imports. The policies followed by a member to improve its BOP position were subjected to more rigorous assessment by the Fund. Policies relating to the conservation of oil and the development of alternative sources of energy had to be reported to the Fund.

(v) <u>The Trust Fund</u> :

The Trust Fund was established in 1977, to extend low interest loans to low income members out of profits derived from sales of a portion of the Fund's gold holdings. The Trust Fund is financed through loans. It was the only facility under which a country did not have to transfer an equivalent amount of its own currency. The IMF made a condition that the member should make reasonable effort to strengthen its balance of payments.

(vi) <u>Supplementary Financing Facility</u> :

The SFF was a special policy established with effect from February 1979 to make Fund credit available to members facing serious payments imbalances that were largaly in relation to their Quotas. Purchases under SFF were to be made within two years from the date of decision. In fact the Fund responded to the second oil price shock and the increasing balance-of payments problems of Third World.

(vii) Enlarged Access Policy :

EAP came into being to provide assistance to members facing external payments imbalances that were large in relation to their quotas which needed resources in larger amounts and for a longer period than were available under the regular Tranches.

(viii) Structural Adjustment Facility:

The structural adjustment programme or economic recovery programme is one of the numerous policy responses to the crisis of the 1980s. It is usually regarded as shock Treatment to the Economy". The policy framework was to be jointly developed by the IMF and the World Bank by taking into consideration the financing needs of the country concerned and the possible sources of finance in support of the programmes. Each eligible member was entitled to draw an equivalent of 47 per cent of its Quota over three years of which 20 per cent of Quota would be available in the first year provision for flexibility. 60 members were eligible for use of SAF as of early 1986, Most of them are African countries. "SAL's carry conditionality as do IMF loans although the Bank has sought to develop country programmes on the basis of policy dialogue rather than imposing quantitative performance targets as the IMF does".[5]

---

5. "Towards a new Bretton Woods: Challenges for the World Finance and Trading System", Report by a Commonwealth Study Group, (London, 1983), pp. 24-48.

The Role of SDRs :

The aim of the SDRs which was first activated in the 1970, is to provide the international monetary system with a method of creating liquidity which is independent of both the unregulated outcome of United States balance of payments and production of gold".[6] The Special Drawing Rights Scheme is designed to supplement existing reserve assets in order to ensure an appropriate growth in global liquidity and thereby to meet the global needs for reserves. The SDRs are allocated to members in proportion to the value of their quotas and may be used to purchase national currencies to settle loans or as security for loans. No repayment schedules or policy strings are attached to their use but market related interest is payable to a member country holding surplus SDRs. Under the 'Reserve Tranche' which is that portion of a member's quota that the Fund holds in SDRs or other reserve assets, the owner member-country can use it as a right without policy conditions and a schedule of repayments. The Fund cannot challenge the member's statement of the need to use it for BOP needs.

II. The Relationship Between Fund & Bank :

Before the 1980's the basic role of IMF was identified with balance of payments stabilisation, while that of the World Bank group was eradication of poverty and the acceleration of economic growth. Initially their tasks were quite clearly demarcated

---

6. Gold J. "Special Drawing Rights Character and Use", IMF Pamphlet Series no. 13 (Washington D.C.), 1970.

in the sense that the Fund was concentrating more on providing short term financial assistance to its members, whereas the World bank was assigned to the task of providing financial help over the Medium term to long term assistance. Williamson rightly summarized the roles of IMF & the World Bank as follows: "while the Fund is an adjustment institution whose short-term loans are directed to financing deficits that are inherently temporary because of the adoption of adjustment policies, are World Bank is a development institution whose long term loans are directed to promotion of Development".[7] In recent times the two institutions have synthesised their roles and worked under mutual cooperation. It was argued that "the blurring responsibility between the two institutions had come about by a convergence in their operations in particular since 1979/80. Then the Bank moved into policy lending which encroached on the IMF lending sphere. The IMF on its side re-oriented its lending in response to the needs of the borrowing countries in order to avoid turmoil in international financial relations. The result was that a longer term view was adopted for making viable the balance of payments of most Sub-Saharan African countries."[8]

Now the Fund has come to recognize the importance of structural factors behind BOP disequilibria. The oil facility of

---

7. John William Son, The lending Policies of IMF, Institute for International Economics, (Washington D.C., 1982) p. 21.

8. Kjele Havnevik, ed. IMF and the World Bank in Africa: Conditionality, Impact and Alternatives; (Uppsala: Scandinavian Institute of African Studies, 1987), pp. 15-16.

1974 for instance was designed to help members overcome the exogenous shock of an oil price hike, which was essentially a structural problem. Again the extended Fund facility is specially meant for members suffering from severe payments imbalances arising from structural problems.

In the same manner the World Bank also responded to the importance of available balance of payments situation in the context of long term growth and development. So it emphasised the need to have a programme designed to strengthen the BOP in order to justify a structural adjustment loan.

Under Fund & Bank cooperation only new structural adjustment facility was created in 1986 by making resources worth about SDR 2.7 billion available through repayment of loans made by the Trust Fund. The members who are eligible for resources from the JDA were the ones eligible to draw from the SAF.

However, in order to meet the requirements of the international community the Bank and Fund came together in financing adjustment programmes aimed at BOP equilibrium and growth.

III. African Economic Crisis :

In this section we will focus the economic crisis of Africa. Africa today is passing through an explosive stage of development. There is hardly only African state, with the exception of perhaps a few oil exporting countries, which has not been severely constrained in its developmental effort. The Sub-Saharan countries have suffered the most. Many of them are on the verge of 'economic collapse' unless something is done urgently to rehabilitate and reconstruct their economies, and also soon as their very survival is at stake. Widespread drought and famine have become a recurring feature of several African economies. The great drought of 1968-73 and the most recent one of 1982-83 in the Sahelion Western and Southern African regions have drawn world wide attention. The World Food and Agricultural Organisation's Task Force estimated the food deficit for 1983-84 at around 5.4 million tons for the 24 food aid dependent countries.[9]

The above statement shows how African countries on the verge of economic collapse. When Africa entered independence with high expectations most people believed that rapid progress would be made in raising incomes and improving welfare. After an initial period of growth, most African economies faltered and then went into a decline. The difficulties of low income countries have become the subject of serious concern over the past few years. The World Bank Development Report of 1980 commented that these countries face a desperately hard adjustment period coming on top of the economic stagnation of the 1970's, the plight of these poor Asian and African countries particularly

---

9. Adebayo Adedeji (UN Secretary General's Special representative and Executive Secretary of the Economic Commission for Africa), the African Economic and Social Crisis: An Agenda for action by Africa and the international community. (The above statement delivered during the general debate and the special debate on the critical economic situation in Africa at the 1984 second regular session of the Economic and Social Council of the United Nations, 10-12 July 1984 (Geneva) p. 16.

the latter deserves special attention from the international community".[10]

The present Economic crisis in Africa is not a sudden development. It is the result of cumulative impact of number of adverse factors both internal and external. See Table 1.2 & 1.3 which have given few Macro-economic indicators of Development in Africa. These Tables show how the economy stagnated over the recent years.

Structural problems:

The genesis of Sub-Saharan Africa's economic crisis has both internal and external factors. Under this section in brief we will discuss them.

(a) Population Explosion :

Among internal factors, high population growth is very serious because it has eroded Africa's growth in the eighties. The population has been estimated to be about 411 million of approximately 12 per cent of the World's total. The problem in Sub-Saharan Africa is not that there are too many people. The problem is that the population growth rate is explosively high. During the 1960's and 1970's the growth rates were 2.6 per cent and 2.9 per cent respectively. But during the 1980's, it increased to 3.0 per cent per annum. (See table 1.3). On the basis of the growth rate, it has been estimated that the

---

10. World Bank Development Report, (Washington D.C., 1980), pp. 7-10.

population would double in 22 years. "The reason for high fertility rates are largely the same every where in poor economies (although there are socio-cultural variations). In Africa, women, the producers of staples value children as farm labour; men, in a male-dominated society, enjoy the benefits of children at lower cost since they are not involved in their care. High population growth rates are in our view a symptom of the economic crisis.[11]

(b) Ecological constraints :

Another serious problem in Sub-Saharan Africa is problem of Food crisis, drought and famine. This drought wreaked havoc and the economies affected very badly. In 1970s rain fall has been insufficient, resulting in severe widespread drought in the region of the Sahel, resulting in major fluctuations in food output. In turn it resulted in most of the African countries depending on food imports, which strained further their already serious foreign exchange shortage. "The fall in domestic agricultural production also reduced demands for other domestic products, at a time when the affected countries were facing reduced demand for exports because of World recession".[12] Thus it is clear that the drought and other ecological problems like absence of proper crop rotation and prevailing patterns of subsistence food

11. Mehrotra, Santosh K., "Sub-Saharan economic crisis: A Structuralist view" in African Economic Development: An Agenda for future, (New Delhi, RIS 1987) pp. 66-92.

12. Hoyo, Nelson P. and Davies, Robert, "Dimensions of the African Economic Crisis" in African Economic development: An Agenda for Future (New Delhi; RIS, 1987), pp. 5-25.

farming, marginal lands with low rainfall have dropped the food production, and created serious implications on the whole economy.

(c) Neglect of Agriculture:

African countries became industry conscious with the coming of political independence. They are given low priority compared to industrial sector "since colonial times a distinctive feature of African agriculture has been the continued emphasis on cash crops at the expense of food crops with a view to promoting commercialisation and monetisation of the African economies cash crops have also been introduced without very much change in Agricultural systems based on subsistence production and operated with a low level of technology. Thus the yields are low. The result is that many African countries have become precariously dependent on monoculture export. Crops like Cocoa in Ghana, cotton in Sudan, coffee and cotton in Uganda etc. and little has been done since independence to restore the food and cash crop balance".[13] When market-prices of export-crops stagnated at the time of recession, food prices continued to be maintained at low level. Thus farmers have little incentive to switch over from cash crops to food crop production. So they constantly depend on food imports where the prices are high. So in long run it creates foreign exchange constraints in the economy. (See table 1.4).

---

13. Ramchandani, R.R., "Internal factors of Africa's Economic Crisis" in Anirudha Gupta & Shanti Sadiq Ali (eds.) Dimensions of the Economic Crisis: An analysis of the Problems and constraints of Development (Sterling, New Delhi 1987), pp. 35-39.

Agricultural Research and Extension :

Too little money is spent for research in Agricultural sector. expenditure in the Mid-1970s was estimated to be 1.4 per cent of the value of agricultural output in Sub-Saharan Africa. There is hardly any achievement. Agricultural research is not coming up with any new agricultural high yeilding inputs, and there is no new hybrid varieties of seeds etc. are available to the farmers and extension services are not extending any help to the farmers for further production.

Problems of Marketing and input supply :

The Central Problem in marketing and input supply is the very general tendency to give too large set of responsibilities to public sector institutions. In most of the African countries Governments will take the responsibility of the procurement and distribution of fertilizer, seeds and most other services as well. But there are certain structural problems like inefficient management, lack of incentives, over stuffing and lack of skills and control. So most of the time they are unsuccessful in meeting the rigorous requirements of the farmers. These official market agencies which are responsible for collection, transport and distribution often fail in discharging their responsibilities.

Problems of Pricing Policy:

Insufficient price incentives for agricultural producers are an important factor behind the disappointing growth of agricultural production in Africa. Export crops are heavily taxed.

This heavy taxation and unfavourable terms of trade do not necessarily have quick observable effects on output trends. But the high level of taxation of export crops through export taxes, marketing board levies, excessive marketing costs, and overvalued exchange rates have kept export production at below level and hence contributed to the steep fall in Africa's share in the World market.

"Imported wheat and rice are now becoming steadily cheaper than domestic staples because of the over-valuation of many African currencies. Moreover, intent on keeping food prices low, many governments have in recent years had periodic resources to massive injections of food imports, there by causing sharp reductions of domestic prices".[14] However, these pricing policies stimulated the production of food crops.

Problems of Industrialisation :

"Africa has remained the least industrialised continent of the Third World apparently because it started on the road to industrialization later than Asia or Latin America. As a result of deliberate colonial policies African states inherited a weak industrial base at the time of their independence in 1960s".[15] Even in the matter of industrial development, the approach was one of import substitution and operation was generally designed through the well known multinationals. The result was that capital-

14. World Bank, Accelerated Development in Sub-Saharan Africa: An Agenda for Action (Washington, D.C. 1981), pp. 56-57.

15. United Nations, Industrial Growth in Africa (New York, 1963), p. 7.

intensive and large-scale production, conceived in line with with the Traditional role of the multinationals, contributed little by way of forward and backward linkages to the domestic resource base. African manufacturing sector is dominated by light industries. "So they largely consists of a united range of traditional manufactures reflecting internal demand requirements and very few countries were producing more technologically sophisticated goods like machinery etc. Sectors like fabricated metal products, machinery and electrical goods which have high growth potential through their extensive linkages are a rare phenomenon in Africa".[16] (See table 1.5). So the size of manufacturing sector, the high dependence on capital imports, low demands for their produced goods deepend the economic crisis of Africa.

External Factors :

(a) Global slow down :

Because of the global slow-down since the early 1970s, there has been a steady decline in African exports, resulting in falling export earnings and deteriorating terms of trade, "particularly those which are highly dependent on agricultural exports as major source of foreign exchange. On the other hand, the rising import requirements of capital equipment for industrial development and other raw materials can be compromised only at the expense of developmental activity. The problem has been further compounded

16. Daleep Singh, "Problems of industrialisation in Sub-Saharan Africa" in African Economic Development: An Agenda for future (New Delhi, RIS, 1987), p. 182.

by the rising food imports increased by more than 100 percent, the index rising to 216 by 1983. By then food imports accounted for 14.9 percent of the total imports of Africa".[17]

(b) Balance-of-payments Deterioration:

Beginning in 1973 African oil importing countries experienced a pronounced worsening of their balance of payments (see Table 1.7). Since that time their current account deficits averaged abour 9 percent of GDP - twice the figure for all oil-importing developing countries and conspicuously higher than any other region of the developing world. "The Balance of Payments problem has other aspects like foreign exchange reserves fell dangerously low: by 1979 reserves were equal to the amount needed to cover about two month's imports and by 1980 they had fallen even lower. Second, the external debt continued to swell, ... finally the debt service ratio for all African countries rose from abour 6 per cent in 1970 to 12.4 per cent in 1979; of the total 11 developing countries forced to re-negotiate their multilateral loans in recent years, six were in the Sub-Saharan region."[18]

(c) Terms of Trade :

Three major factors influenced the worsening terms of trade in the 1970s. The two large oil price hikes (in 1973-74

---

17. ECA Survey of Economic and Social Conditions in Africa, 1983-84 (UN, Geneva, 1984), p. 21.

18. World Bank, Accelerated Development in Sub-Saharan Africa: An Agenda for Action, op. cit., pp. 17-18.

and 1978-80) absorbed 4.4 per cent of the nonfuel export earnings of African countries. By 1978 oil imports absorbed 12.5 per cent of exports and 3.0 per cent of GDP. (The effect of oil and other commodity price changes on the terms of trade is shown in Table 1.8). On the other hand mineral exporters experienced a strong downward trend in their terms of trade from 1970-79.

In brief the trends in the terms of trade shows the slow growth of Africa, almost all the oil importing countries suffered and a strong downward shift in terms of trade added to the grievances of African Economic Crisis (See Table 1.7).

(d) <u>Slow Export Growth</u> :

The main cause of rising current account deficits and shortages of foreign exchange in 1970s partly due to the terms of trade and partly due to the slow growth of exports. Africa is more dependent on exports of primary products than any other region. Primary products grows more slowly than world trade in manufactures. Growth of world trade in the principal African non fuel exports slowed down from 4.5 per cent a year in the 1960s to 1.5 per cent a year during the 1970s. Secondly the commodity concentration of exports was very high in Sub-Saharan Africa. When the commodity prices started falling in world market it had created serious consequences not only for those commodities but it had great impact on the whole economy.

Finally there are external factors like trade restrictions imposed by the developed countries furthermore created distortions in the Sub-Saharan region.

(e) External Debt Burden :

Another important component of the Sub-Saharan African Economic situation is its external debt crisis. The Debt burden which stood at $68.9 billion in 1982 rose to $102 billion in 1986. It is about 69.8 per cent of Sub-Saharan Africa's GDP and 312.6 per cent of its export earnings. All the above mentioned problems like deterioration of terms of trade, slow export growth, world recession oil price hikes, increased public spending, the prolonged drought all these resulted in severe debt servicing difficulties (See Table 1.7).

Any way Global economic turbulence brought enormous external shocks to sub-Saharan Africa in the 1970s and 1980s.

In a situation like this where the Africans have no control they have nothing to do except to submit to the situation. In a view of mounting economic and financial imbalances a number of African countries worked closely with the Fund to design and carry out appropriate adjustment programmes At the beginning of the 1980s there were 12 stand-by arrangements equivalent to SDR $455.2 million. At the end of 1986 two-third of 45 African countries under the Fund's African Department Fund credit outstanding under Tranche policies averaging 134 percent of the Quotas. Many members benefited from these special facilities. Purchases under the oil facilities by African countries amounted to SDR 465 million in 1974-76, and Trust-Fund loans disbursed to them totalled SDR 962 million over the period 1977-81. The drawing under compensatory funding facility increased from SDR 968 million in 1974-79 to SDR 1,620 million during 1980-84.

But most of sub-Saharan African countries are not in a position to fulfil strong IMF conditions. Often politically sensitive like devaluation, removal of price subsidies, reduction of imports, cuts in budgetary spendings etc. But there is no other option for them, the conditions existed in Africa made it impossible to repay their debts. So the only way is they have to borrow from the commercial banks at high interest rates, on the other hand they are accepting IMF/World bank loans at the cost of high conditionalities. In the next section we will throw some light on Zambian Economic crisis.

IV. <u>Zambia's Economic Crisis</u> :

This section analyses briefly about the Zambian economic crisis. The following chapters devoted to Zambia's economic and political relationship with IMF, that's why here in this chapter the Zambian crisis discussed shortly. (See II & III chapters for more detail about the economy of Zambia).

From independence in 1964 upto 1975 Zambia was one of the most prosperous economies in Africa. The prosperity was based on mining and export of minerals. Copper accounted for about 95 percent of export earnings. In the ten years from independence to 1974 copper prices were high. Hence, the ability of the copper industry to generate large financial surpluses. Half of the central government revenue comes from mining. This increased government spending supported a high level of New investment, mainly in import-substituting industry, social services, and Transport infrastructure. But since 1975 difficult situation arose for the Zambian economy. (See Table 1.8). As table 1.11 shows GDP more or less stagnated over the period 1975-80, but with population growing at the annual rate of 3.4 per cent, GDP per capita declined at an annual rate of 3.7 per cent.

The Economic decline began with a sharp fall in the price of Copper. The world copper price in real terms collapsed in 1975 with the average price moving from 50.93 per pound in 1974 to 50.56 per pound in 1975. It clearly shows ~~that~~ how the terms of trade deteriorated. The recession of early 1980s brought a further deterioration in Copper prices.

A collapse in the price of primary exports together with rising prices for imports leads to a drastic reduction in the availability of imports. Since local production is heavily dependent on imported inputs capacity utilisation and value added are seriously affected. Lack of private and public savings, together with the severe trade balance deficit, induce increasing levels of external borrowing which by the resulting burden of debt servicing act as a further drain on domestic saving and foreign exchange earnings.

The drop in production was due to the collapse of Zambia's longest mine al-Mulfaria. After the collapse and flooding of the mine, output has never reached previous levels. Another problem emerged in 1973 when after the Arab-Israeli war, oil prices rose sharply. For landlocked Zambia this meant a huge increase in its oil import bill and higher import and higher import cost due to increased freight charges. Zambia was also more affected by the war in Zimbabwe. This severed Zambia's main transport routes through the destruction of vital bridges, roads railway lines bombing.

However all of Zambia's economic woes cannot be ascribed to the prices of copper and Zimbabwe war. Of equal importance has been the failure of successive Governments to come to grips with the economy.

The lack of economic direction is partly due to the low quality of leadership in Central committee. The lack of economic experts to advise the political leaders, mis-management in agricultural sector, high capital import, intensive industries (See third Chapter for the detailed study of Agriculture and industry) has also dogged the economic life of the country.

In the late 1970's to compensate for falling copper revenues, the Government borrowed heavily abroad by 1984. Its long and Medium term foreign debt accounted to $ 4,500 million, about one-fifth to private companies and banks, the remained to foreign Governments and multilateral institutions. The debt alone absorbed about half of export earnings and it aggravate balance of payment difficulties.

All these problems show that how Zambian economy plunged into difficulties. To recover from all these problems Zambia made several agreements with IMF to restructure the economy, the main crime is to diversify the economy from copper to agriculture.

V. Fund-Supported Adjustment Programmes:

The Fund's role in securing adjustment among member countries has become more and more important over the years particularly so after the debt crisis, so much so that bringing about economic adjustment is considered in Fund circles as a major activity of the IMF and is brought out from the following remarks made by Jacques de Larosiere, "perhaps the major function of the IMF is to be what we call an agent of adjustment in the system which means that we are an institution that has the Function to ask its member countries, especially those who are borrowing from the IMF to adjust their domestic policies in a way that they will restore balance of payments viability .... In other words we are in a financial institution that lends money with conditions. That is what some times one calls Fund conditionality".[19]

Khan and Knight have made a three-fold classification of policies included in Fund Programmes on the basis of their nature and content viz. demand side policies and supply side policies and policies to improve international competitiveness. In the first category they have included all types of fiscal, monetary and

---

19. Jacques de Larosiere, Senate of Canada, Proceedings of the Standing Committee on Foreign Affairs, 4 March 1986.

credit policies which are designed to influence aggregate demand and domestic absorption. Supply side policies include measures to reduce distortions caused by existence of monopolies, trade restrictions, price controls etc. together with incentives for domestic saving and investment for the increase of the inflow of foreign savings via private lending direct foreign investment and exchange rate policies are included in the third category.

Those countries pursuing adjustment programmes were advised to follow a combination of policies which included the following:

"- more effective pursuit of greater domestic price stability to improve the climate for investment.

- adequate control over budget deficits where they have been contributing to inflationary pressure or crowding out more productive resource use in the private sector.

- Realistic and flexible domestic prices so as to improve the allocation of resources and promote growth.

- continuous review of Government expenditure both current and capital to ensure that the resources thus absorbed are productively employed."[20]

The need for a stabilization programme arises when over expenditure on the part economic units raises aggregate demand to level beyond that which the country's productive capacity can absorb thus resulting in an external payments imbalance, therefore, the

---

20. See Mohsin Khan & Malcom D. Knight in <u>Occasional Paper</u> No. 41, "Fund supported adjustment programmes and Economic growth" (Washington D.C., 1985). See also, Khan & Knight, "Fund Supported adjustment programmes retard growth" <u>Finance and Development</u> (Washington D.C.) March 1986, p.

Fund further emphasized the need to curtail expenditures and/or impose a ceiling on credit expansion. A primary concern of African countries that adopted Programmes supported by use of Fund resources was the achievement of domestic and external financial stability.

An excell supply of Money is considered a malaise also because it raises the domestic price level which not only erodes external competitiveness, but also generates inflationary pressure. The programmes attempted to deal with the roots of inflationary pressure namely the imbalances between demand and supply. In the IMF's view demand is artificially inflated and inflation is due to economic errors and omissions at national level. State expenditure not covered by revenue, subsidies for goods, expenditure on Transport and social services and the costs of productive state enterprises - all these are regarded by the IMF as major causes of inflation. Credit ceilings are considered an effective policy instrument to combat inflation. This brings us to the other issue that expenditure is in excess of productive capacity. To curb over expenditure the Fund strongly advocates policies that reduce the deficits incurred by the public sector. In most of the African countries the domestic Revenue ratio was under 25 per cent but the ratio of expenditure to GDP generally is/was in excess of 25 per cent. Therefore, the IMF measures attempted to bring about reduction in ratio of expenditure to GDP. One reason behind that imposition of subceiling is to ensure that sufficient credit is channelised to the private sector. The Fund designed a more restrained fiscal policy. It would generally allow the monetary authorities to follow a more flexible credit policy toward the private sector. The idea of reducing the size and responsibilities of the Public Sector underlines the Fund's faith in the private sector. The Fund feels that the economy should be left to market forces in order to bring about a proper allocation of resources.

Subsidies for basic foodstuffs and transport as well as social services are hardest hit by the IMF-imposed cut backs designed to reduce the budget deficit. They are solely concerned with eliminating 'price distortions' which lead to "excessive demand" and then prevent adjustment. IMF programmes also frequently call for extensive dismissals in the public services, which in African countries are often over stagged. Cut backs in social expenditure and increase in the price of public services often go hand in hand with tax cuts designed to encourage domestic and foreign investors.

Another measure which the IMF frequently includes in its conditions is the restraint imposed on the wage bill. Wage restraint is implemented through a wage freeze to control cost push inflation. Again a wage freeze prevents the wage spiral from operating in a situation where the cost of living index rises. In the opinion of the Fund the wage freeze reduces fringe benefits and it helps to redistribute incomes between urban and rural households.

Measures to reduce fiscal deficits include apart from reduction of Government expenditure efforts to improve tax administration as well among the different forms of taxation. The Fund mostly concentrates on indirect taxes as potential sources of revenue by raising excise and sales taxes on selected consumer goods. Imposition of taxes on imports & export duties is also a feature of some of the adjustment programmes - imports of luxury goods are also subjected to higher tax rates.

Fund exchange rate policies, devaluation :

In general it was argued that the poor performance of the economy in the foreign trade sector was due to an over valued exchange rate. An overvalued currency represents an implicit tax on exports and implicit subsidy on imports. It tends to reduce export competitiveness encourages import dependence. So the solution was devaluation. Devaluation is intended to improve the balance of payments by making imports more expensive and boosting exports by making them cheaper.

In many respects the usefulness of a devaluation lies in its broad and pervasive effects on the economy. In the first place by raising the international goods relative to domestic goods. The general monetarial approach analyses the effects of exchange rate adjustment in terms of changes in real value of money expenditure pattern on real goods and their aggregate demand. So the exchange rate adjustment based on the elasticities and absorption approaches implicitly takes the current production, cost and price structure etc. into account. The price effects of a devaluation are expected to effect an overall shift in resource allocation by inducing an increased supply of exports, a reduction in import-demand and an increase in the domestic production of import substitutes.

The stabilising function of the Third Corner Stone of the IMF adjustment programme is IMF's insistence on reducing trade and capital transfer controls and on liberalising foreign trade relations. The intention was to raise the efficiency of import-substitution industry and to induce diversification on the lines of natural comparative advantage. Since the IMF believed that these objectives can be achieved only when the Government desired to liberalise as many sectors as possible and to break up the monolithic structure of state-owned industries. Free and unrestricted trade relations ensure that every country specialises in the production of those goods which give it natural strengths and advantages, sothat it can sell especially favourably in the World market.

Evaluation :

Most of IMF's stabilisation policies came under severe criticism. "It was argued that most developing countries had played no role in its creation. Thus the Fund has become a neo-colonial instrument by which the industrial countries disciplined the Third World and that it did not do justice to the structural problems of Third World. That it treated industrial and developing countries unequally. Developed countries when running a BOP surplus, do not have sufficient compulsion from the Fund to expand their demand for LDC exports, but developing members when in deficit do have the compulsion to adjust their economies, often through drastic reforms. The implementation of these policies often leads to economic recession in the debtor countries.

The contraction of the domestic economy imposed by the IMF leads to numerous dismissals and increases unemployment. Many companies go bankrupt not only because they are hit by the contraction of the domestic economy. The devaluation of the national currency and the abolition or atleast the liberalisation of controls on foreign trade are intended to set on export boom in motion and bring in additional foreign exchange, but these measures do not always achieve the desired effect.

The purpose of devaluation is to improve the export sector and a corresponding reduction in import competition. Imports are made more expensive and this encourages switching to domestically produced alternatives, exports are considered to increase by higher domestic prices encouraging greater production. But the problem arises when there are limited domestic alternatives to imported fuels, Machinery surplus, spares and raw material for manufacturing. Africa's exports of minerals require lengthy investment programmes and most agricultural exports require several years before planting yield crops. An important component of IMF thinking has been devaluation alone will not improve the Balance of Payments. It must be accompanied by a reduction in the money supply which in Africa invariably requires a reduction in the sector budget deficit.

(a) Contraction in per capita incomes in over 70 per cent of IMF assisted countries in Africa and Latin America.

(b) Government measures to lay off workers aggravate already widespread unemployment.

(c) Government cut backs in health, education and welfare directly reduced the living standards.

(d) rising urban poverty with falling employment and real wage incomes but less change in the lot of the rural poor.

(e) wage freezes do not stop inflation typically caused by factors other than wage increases but as inflationary pressures persist they do reduce the real incomes of working people.

"Reduced Government expenditures per head of the population, including expenditure on the social services and food subsidies. Real Government consumption per head fell in 55 per cent of African countries. For example, in Ghana Government expenditure on health fell by 16per cent in 1979-83 in Malawi and Sudan it fell by 10 per cent".[21] Rising malnutrition among children was recorded in a large number of African countries which had Fund programmes at some point of time in the 1980s.

- Raising the interest rates does little to hinder inflationary pressures. Stagnant or falling of real investment occured in 60 per cent of African countries with Fund programmes.

- Reduced licencing and liberalisation of trade enables high income groups to buy more luxury and semi luxury items reducing the availability of foreign exchange to purchase machinery and

---

21. Francis Steward, "Should conditionality Change", Kjell Havenik (ed.) <u>The IMF and the World Bank in Africa: Conditionality, Impact and Alternatives</u>, Uppasala Scandinavian Institute of African Studies, Seminar proceedings No. 18, (Uppsala, 1987), pp. 32-33.

squeeze local firms out of business, thus further aggravating unemployment and tending to eliminate what little domestic industry already exists.

Finally curtailment of state participation in productive activities hinders effort to direct local investable surpluses into plans to build a more self-reliant balanced economy.

Conclusion :

To sum up, after undergoing tough programmes many countries found themselves with reduced realincomes, increased poverty, reduced percapita income, deteriorating socio-economic conditions. All these factors reduced the countries into a more complex situation. It is not fair enough that these negative developments have been confined to Fund programmes. These catestrophies are not solely due to the policies of IMF, they are partly failed due to the mis-management at home, and lack of genuine commitment from the Government is also responsible for this regressive situation. On the other hand the external environment worsened significantly over this period. Commodity prices deteriorated, there was a major world recession which has intensified the external financial situation of many developing countries.

If you look at the experience of Sub-Saharan Africa most countries in the region at one position or another had a fund programme. From 1980-85 the cumulative lending of the Fund to SSA was approximately US $ 4.6 billion. The IMF experience in Africa has not been all bleak, but the success stories are few: For instance, Ivory Coast, Ghana, Zimbabwe. Both Ghana & Ivory Coast had programmes designed to increase cocoa production. Even Somalia with IMF partnership, a currency devaluation and liberalization of its pricing and marketing policies, was able to reverse its economic decline and eliminate its external payment arrears. On the other hand, looked at on the basis of the effects on individual countries for the most part despite heavy costs - conditionality in the 1980s did not succeed in eliminating imbalances and restoring countries to a position of sustainable growth. What is needed today for overall economic, political, social reforms, the countries have to accept the legitimacy of some conditionality. All the IMF reforms must be revised, certain new terms should be added, and other terms must be interpreted in a manner which is measurable and understandable to the participants. The proposed reform in the agreement must also meet requirement of present and the future World economic development.

Table 1.1

Quotas, votes and trading shares of IMF members

	No. of members	Quotas (SDR bn)	Votes (% of total	Share of World exports 1981 (%)
Industrial countries	21	37.79	57.8	66.7
Oil-exporting developing countries	12	6.65	11.6	14.9
Other developing countries	113	16.78	30.6	17.2
Totals	146	60.60	100.0	100.0

Sources: IMF annual reports, international Financial Statistics sources (Washington D.C. 1982).

Table 1.2

Developing countries in Sub-Saharan Africa: Annual Rates of increase in key variables, 1970-1983 (percentage)

	1970-75	1976-79	1980-82
I. Real GDP			
Total	4.5	3.0	0.0
(i) Energy importers	2.8	2.1	0.6
(ii) Energy exporters[a]	6.1	3.9	-0.4
II. Agricultural Production			
(i) Total	1.6	1.1	1.9
(ii) Per Capita	-1.2	-1.5	-1.1
III. Food Production			
(i) Total	1.6	1.5	2.1
(ii) Per capita	-1.2	1.4	-1.0
IV. Percentage share of exports in exports of all developing countries[b]			
(i) Total	11.8	8.6	7.5
(ii) non-fuel exports	11.6	9.2	7.0

a - Angola, Cameroon, Congo, Gabon & Nigeria.

b - Data refers to 1970, 1978 & 1982.

Source: United Nations World Economic Survey (New York, 1984), p. 16.

Table 1.3

Population Growth Rates Between 1950 and 1985
(Average Annual in percentage)

Region	1950-55	1960-65	1970-75	1975-80	1980-85
Africa	2.1	2.4	2.7	3.0	3.0
Latin America	2.7	2.8	2.5	2.3	2.3
East Asia	1.2	1.8	2.3	1.4	1.2
South Asia	2.0	2.5	2.4	2.3	2.2
All Developing countries	2.1	2.3	2.4	2.1	2.0

Source: Robert S. McNamara, The Challenges for Sub-Saharan Africa, Sir John Crawford Memorial Lecture, Washington, November 7, 1985, p. 12.

Table 1.4

Growth of Agricultural Exports[a]

Annual growth rates (per cent)

EXPORT	Sub-Saharan Africa 1961-63 to 1969-71	Sub-Saharan Africa 1969-71 to 1977-79	Oil exporting countries 1961-63 to 1969-71	Oil exporting countries 1969-71 to 1977-79	Oil importing countries 1961-63 to 1969-71	Oil importing countries 1969-71 to 1977-79
Thirty Main agricultural exports						
Volume	1.9	-1.9	-0.7	-8.6	2.6	-0.7
Unit value	2.3	16.2	3.1	16.8	2.1	16.1
Value	4.3	14.0	2.3	6.8	4.8	15.3
Value of other Agricultural exports	4.6	8.9	33.4	-1.6	3.4	9.8

[a] - Crops and livestock

Sources: World Bank data and FAO Trade Year Book tapes.

Table 1.5

Annual Growth Rate of Manufacturing Production in Developing Africa By sub-régions and Economic Grouping (1980-84) (per centage)

	Average 1980-84	1983	1984
Developing Africa	1.5	1.6	- 1.0
North Africa	4.5	5.0	5.2
West Africa	-4.0	-4.5	-10.7
Central Africa	7.0	8.4	2.6
East and Southern Africa	-1.2	-6.3	- 2.7
Oil exporting countries	3.6	3.7	- 0.5
Least developed countries	-1.7	-1.2	- 3.3

Source: ECA Survey of Economic and Social conditions in Africa; 1983-84, p. 62.

Table 1.6

Terms of Trade and Export Trends, Selected African Countries by Export category[a]

Category	Average annual rate of growth					
	Purchasing power of exports		Net barter terms of trade		Export volume	
	1961-70	1970-79	1961-70	1970-79	1960-70	1970-79
1. Oil category[b]	7.7	12.6	1.2	14.7	7.2	-2.0
2. Mineral exporters[c]	11.1	-7.7	6.5	- 7.1	4.6	-0.7
3. Other primary exporters[d]	4.9	1.1	1.0	2.9	4.7	-2.1
Sub total, oil importers (category 2 + 3)	7.6	-2.7	3.4	-1.5	4.7	-1.5
Total Sub-Saharan Africa	7.6	1.0	2.9	2.5	5.3	-1.6

a - Country group averages are weighted by value of country merchandise exports in 1970.

b - Angola, Congo and Nigeria.

c - Liberia, Mauritania, Niger, Sierra Leone, Togo, Zaire, and Zambia

d - Benin, Cameroon, CAR, Chad, Ethiopia, Ghana, Ivory Coast, Kenya, Madagascar, Malawi, Mali, Rwanda, Senegal, Somali, Sudan, Tanzania, Uganda and Upper Volta.

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1980.

Table 1.7

Debt Service on External Debt of underdeveloped countries

Year	Net borrowing	Debt service Billions of Dollars	Net proceeds	Debt service as a percent of new borrowing $\frac{2}{1} \times 100$
	(1)	(2)	(3)	(4)
1972	21.3	12.0	9.3	56.3
1974	36.7	19.8	16.9	54.0
1976	49.9	26.1	23.8	52.3
1977	61.5	33.1	28.4	53.8
1978	80.7	47.9	32.8	59.4
1979	94.2	62.3	31.9	66.1
1980	94.9	70.4	24.5	74.2
1981	110.0	82.8	27.2	75.3

Source : Monthly Review, vol. 35, no. 8, January 1984.

Table 1.8

Zambia - Average Annual Growth rates

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

Source: World Bank data files

CHAPTER - II

THE ZAMBIAN CRISIS AND THE IMF (1973-87)

CHAPTER - II

THE ZAMBIAN CRISIS AND THE IMF (1973-87)

There are significant differences over the success and failures of IMF and its history. As far as the inter war period concerned, the IMF ahieved its purposes in Europe, Japan, U.S.A. and certain other small regions. The IMF's purpose as far as Developing countries are concerned, ~~Fund's~~ Fund's objectives either departed from original aims or failed to meet the desires of the architects of IMF.

Africa's experience so far with the IMF has been mixed. There are countries like Ghana, Ivorycoast where you can see that the experience has so far been a happy one whereas countries like Tanzania, Zambia, Sudan where relations with the IMF started with great belief and ended with bitter experiences.

On May 1, 1987 President Kaunda of Zambia announced the abolition of weekly exchange rate auctioning and abandoned IMF's inspired adjustment programmes which had been in operation since 1978.

<u>The Economist</u> commented on the break i.e. a Mr. Kaunda has never known the first thing about economics. However, strong the resistance, the IMF's liberalism plus austerity is the right remedy against long terms mis-management. The medicine tastes foul, but the risk of not swallowing it is fouler. Mr. Kaunda's

so called alternative to IMF reform is a vestigal economy whose every aspect will be regulated by Government controls".[1]

President Kaunda gives his own reasons: "The problem whether it is pneumonia or TB the prescription is Quinine. The changes needed in the Zambian economy have got to be long term and the IMF must try and see this.

There is no way we can make it a seven-day wonder job the IMF wants. We must break out of the vicious circle, we must deal with the IMF, but the conditions they prescribe for us are very far from giving us the solution we desire, I am first to agree that when genuine efforts are not being made the IMF should be harsh. But where they see people making efforts, sacrifices, they should show more understanding find ways of working a long term programmes. We are not asking the IMF to give us something for nothing, but at the same time we ask them to be realistic and not push countries to where they run into riots and death".[2]

In this chapter there are five major sections. This chapter will examine Zambia's economy at the time of first involvement and an attempt is made to analyse the policy programme worked out for Zambia, the nature of IMF policies and its short comings and the break with the IMF. A chronology of policy agreement, follows:

---

1. Economist, 9 May 1987.

2. African Economic Digest, 10 July 1987.

(a) 1973 Stand-by arrangement

(b) 1976 Stand-by arrangement

(c) 1978 Stand-by arrangement

(d) 1981 extended Financial Facility

(e) 1983-84 Stand-by arrangement - (12 months)

(f) 1984 Stand-by arrangement

(g) 1985 Government announcement of foreign exchange auction and import liberalization

(h) 1986 - IMF Stand-by arrangement

(i) 1987 May - abandonment of IMF policies.

The main thrust of 1973-86 reforms was to regain financial balance by curtailing aggregate demand. Five Stand-bys were negotiated. None one was Wholly successful. This will be discussed in more analytical way in the II section of the Chapter. Before going into the details we will outline the reasons of the Zambia's economic crisis.

I. Zambia's Economic Crisis :

"An Economic Crisis is also a reliable indicator of Mal development and disfunctional management of resources. It is often the result of an inappropriate policy on the one hand and ineffective implementation on the other. It suggests that a particular society has failed to organize its production to satisfy the needs of its people and thereby to fulfil socially acceptable and desirable goals of development".[3]

---

3. Froncois Perroux, A New Concept of Development, (Croom Helm, UNESCO, Paris, 1983), pp. 1-7.

From independence in 1964 upto 1975 Zambia was one of the most prosperous economies in Africa. The prosperity was based on Mining and export of minerals. Copper accounted for about 95 per cent of export earnings. In the ten years from independence to 1974 copper prices were high. Hence the ability of the copper industry to generate large financial surpluses. Half of the central government revenue come from mining. But since 1975 difficult situations arised for the Zambian economy.

Terms of Trade Collapse :

The economic decline began with a sharp fall in the price of Copper. The world copper price which in real terms collapsed in 1975. The recession of the early 1980s brought a further deterioration in copper prices. So, declining started in the terms of trade were experienced in late 70s and early 1980s. On the Imports side, Zambia is typical of money oil-importing, low income country. The unit value of imports rose very sharply after 1973 and then again in 1979 as a result of the hike in oil prices. All these factors contributed in a disastrous deterioration in Zambian terms of trade during 1974-78.(See table 2.2)

Policy Distortions:

"Due to policy failures in managing aggregate demand and in securing a sensible allocation of resources compounded the devasting impact of exagenous shocks. The frame work of incentives was distorted by the emergence of large gaps between "efficiency" and prevailing prices, many of which were under government control. Many of these government interventions and the establishment of numerous parastatals aimed at achieving well meaning objectives, generated very serious adverse side effects and led to large mis-allocation of resources".[4]

Inefficiency of the Public Sector :

After independence public sector was played leading role in Zambia. After nationalization of the companies the role of parastatals expanded rapidly throughout the 1970s, the government interventions became onerous over time. The parastatal sector became the platform for ethnic patronage, they are more interested in gaining power for their own interests. They lacked skills to prepare good projects, schools, and hospitals tended to be overdesigned, leading to high unit costs. Many projects were badly prepared and delayed in execution. Too many industrial investments tended to be capital and import-intensive and yielded negative value added at world prices. Even they introduced subsidies on Maize, fertilizer, cooking oil, Salt, Matches etc., all these added to public expenditure, But later government compelled to cut back its expenditure when the prices of copper came down, when they introduced these high cost projects, they didn't even know the implications of these projects in the longrun. So many parastatal bodies are not performing in the best interests of the nation.

---

4. Ravi Gulhati, Impasse in Zambia - The Economic and Political Reform (Washington D.C., 1987), pp. 1-7.

Problems in the Mining Sector :

Copper was the economy's growth engine and it dominated both the Zambian balance of payments and public finance. Earnings from copper were heavily dependent on the fluctuating world market price, over Zambian authorities had no control, and on the mining investment and production decisions of the foreign mine owners. Even in the Post-Independence period they continued to depend on outside sources for expertise, technology and market access. In 1971 Zambia Industrial and Mining Corporation (ZIMCO) established, the Government later introduced the policy of Zambianization policy and skilled jobs were given to unstabled Zambians which resulted, copper production dropped from 16 per cent in 1964 to 10 per cent in 1975 and 3.5 per cent in 1983.

The mines unable to deliver high quality grade of ore, which led to underutilization of concentrators, smelters and other plants. Finally the weakness of management and supervision which resulted in low productivity over the years. So these difficulties aggravated the Zambian economic crisis.

Neglect of Agriculture :

In Agriculture sector Maize is the main crop. At the time of independence with substantial mineral earnings there was no imperative for the state to promote agricultural sector. It focussed its attention towards agriculture when copper prices came down in 1975. The Agricultural sector is always hampered by the poor infrastructural facilities, lack of Research and Development facilities.

"Although other factors contributed to this situation, it was largely result of the policy framework. The government's declared intention, repeated on many occasions, was to promote agricultural and rural development, but two facts suggest that this did not happen in practice. First agriculture received only 6.6 per cent of total fixed investment during the First Plan (1966-70). This proportion fell to 5.2 per cent in the Second Plan. During 1975-80 only 3 per cent of total government expenditure went to this sector. Second the terms of trade of the rural areas (in relation to urban) deteriorated by 54 per cent during 1964-73."[5]

This clearly shows how agricultural sector neglected in the first decade. These faulty policy framework crippled the agriculture into more difficulties.

Problems in the Manufacturing Sector: Import Oriented

"The Major problem in the manufacturing sector is consisted mostly of consumer goods, but metal products and chemicals were also prominent. The sector absorbed a large share of investment and imports. Almost all its output was sold. in the home market. Therefore, it was continues to be, a large net consumer of

---

5. Ravi Gulhati, Impasse in Zambia, (Washington, D.C., 1987), p. 20.

foreign exchange.

Due to this heavy dependence on imported inputs and capital goods, the productivity in this sector is very low.

The Economy upto 1975 :

From Independence in 1964 upto 1975, Zambia was one of the most prosperous economies in Africa. It has copper and cobalt in abundance and vast straits of still unused arable land. "The prosperity was based on mining and export minerals. Copper accounted for about 95 per cent of export earnings. In the ten years from independence to 1974 copper prices were high. The average price of copper during this time was near to twice world average production costs. Hence the ability of the copper industry to generate large financial surpluses. Revenue derived from mineral facilitated a rapid rise in Government spending over the period 1965-75, nearly half of Central Government revenue came from mining."[6]

Other Problems :

The need to restructure the economy away from dependence on copper was expressed in the form of import-substituting industrialisation strategy. This approach to Industrialisation was based on nationalisation of existing firms, on one hand, and on the other hand new industries were established to produce final consumer goods

---

6. Government of Zambia, Restructuring in the Midst of Crisis (Background papers for the consultative group for Zambia) Lusaka, 1983.

from imported raw materials and intermediate goods. To protect these industries Government accorded considerable protection through tariffs, but allowed all machinery and raw materials into the country duty free. As long as they had good foreign exchange reserves they were dependent on imports. But the problem started when the prices of copper and terms of trade collapsed in world market with the average price moving from 50.93 per cent in 1974 to 50.56 per cent in 1975. The terms of trade index, which indicates the relationship of the purchasing power of one unit of the country's export against her imports dropped by 70 per cent from 1974 to 1985.

A collapse in the price of primary exports together with rising prices for imports leads to a drastic reduction in the availability of imports. Since local production is heavily dependent on imported inputs, capacity utilisation and value added are seriously affected. Lack of private and public savings, together with the severe trade balance deficit, induce increasing levels of external borrowing which by the resulting burden of debt servicing act as a further drain on domestic saving and foreign exchange earnings. The country was trapped in a vicious circle and its GDP more or less stagnated over the period 1975-80, with population growing at an annual rate of 3.4 per cent GDP per capita declined at an annual rate of 3.7 per cent.

Zambia's economic difficulties originated in international factors. In the two decades since independence, an unusually high degree of external dependency, inherited from the colonial era, continued to characterise the economy. Imported inputs accounted for atleast one-third of all costs in mining and manufacturing. Meanwhile, the production of copper and related minerals contributed a steady nine-tenths of export revenues. But in 1975 copper plummeted by nearly 50 per cent and merchandise imports promptly contracted by almost one-quarter, seriously affecting production. External factors initiated the crisis, but they remained largely beyond national control. To ensure the necessary structural response to changing international constraints, the Government had to manipulate internal factors i.e. to rely on domestic policies.

The drop in production was due to the collapse of Zambia's longest mine at Mufulira. After the collapse and flooding of the mine, output has never reached previous levels. Another problem emerged in 1973 when after the Arab-Israeli war, oil prices rose sharply. For land-locked Zambia, this meant a huge increase in its oil import bill and higher import cost due to increased freight charges. Zambia was also more affected than any other country by the war in Zimbabwe. This severed Zambia's main transport routes through the destruction of vital bridges, roads, railway lines by bombing. However, all of Zambia's economic woes cannot beascribed to the prices of copper in Zimbabwe war. Of equal importance has been the failure of successive Government's to come to grips with the economy.

The lack of economic direction is partly due to the low quality of leadership in Central Committee. That act of economic experts to advise the political leaders, has also dogged the economic life of the country.

All too often the leadership avoided taking decisions which would have been potentially unpopular in the short-term but which would have yielded considerable longterm economic benefits. Political rather than economic factors have determined most decision taking. This has been the case with the parastatals (cooperatives) which control 80 per cent of economic activity in the country and whose effect has been to suffocate rather than stimulate progress and development.

"Toward the end of the 1970s, the balance of payments deficit become progressively harder to finance. Substantial foreign borrowing was undertaken. With a fixed nominal exchange rate for the Kwacha, there was excess demand for imports and it was necessary to have resource to the rationing of foreign exchange. Funds destined for external payments of loans, dividends, capital transfers etc become subject to a Queueing system known as the 'pipeline' in which funds were tied up for ever lengthening periods. This represented a massive disincentive to new private foreign investment of the kind which would bring in the capital, technology and skills necessary for economic diversification. The rationing of foreign exchange was also the source of much inefficiency and capacity under-utilization."[7]

"The maintenance of exchange rate of the Kwacha had two further implications for the balance of payments. There were

---

7. Jonathan Kydd, Changes in Zambian Agricultural Policy since 1983: Problems of Liberalization and Agrarianization" <u>Development Policy Review</u>, vol. 4, September 1986, p. 237.

weak incentives to develop new exports to supplement minerals and, upto 1983, incentives for import production declined as a result of the Kwacha".[8]

"Although government declared a policy of export diversification the dependence on minerals remained unaltered. Agriculture's share of export earnings declined from about 1.5 per cent in the mid 1970s to virtually zero in the early 1980s. Second, there was little change in the economy's underlying appetite for imports. Not only was there a strong demand for imported consumer goods, but producers in most sectors of the commercial economy continued to use import intensive technologies."[9]

"The response after 1975 to the term of trade collapse seems symptomatic of a government excessively preoccupied with the maintenance of consumption levels in the short-term, at the cost of longer-run development. However, it is perhaps too facile to judge Zambian policy-makers so harshly, atleast in respect of their record in the first few years following the fall in copper prices. At this time, the general advice that the Government received was to expect some recovery in real copper prices."[10]

---

8. Philip Daniel, "Zambia: Structural adjustment or Downward Spiral". IDS Bulletin, vol. 16, no. 3, July 1985, p. 53.

9. Jonathan Kydd "Changes in Zambian Agricultural Policy since 1983: Problems of liberalization and Agrarianization", Development Policy Review, vol. 4, 1986. pp 233 - 259

10. Ibid., pp 239- 59

In the late 1970's to compensate for falling copper revenues, the Government borrowed heavily abroad by 1984, its long and medium term foreign debt amounted to $4,500 million - about one-fifth to private companies and banks, the remainder to foreign Governments and multilateral institutions. The debt alone absorbed about half of export earnings and it aggravates balance of payment difficulties.

Although Zambia became a member of the International Monetary Fund in 1965 it did not use financial facilities until 1970s. Because till 1970s the country was prosperous due to higher prices of copper. Only after first oil shock of 1973, drop in the prices of copper, plunged the economy into difficulties. Efforts were made to stabilize the economy with the help of IMF by negotiating IMF standbys.

"The Government recognized the need to carry out a wide ranging reexamination of economic policies and institutions at the Macro and Sector levels. It invited the World Bank, the Netherlands Government conduct studies on a variety of key issues so that a series of policy packages would be formulated over a number of years. The Government realized that it did not have the capacity to design and implement an economy-wide, comprehensive package, and therefore adopted a piecemeal, sequential approach. Against the background of a series of stabilization programs negotiated with the IMF."[11]

---

11. Ravi Gulhati, Impasse in Zambia, The Economics and Politics of reform, (Washington, D.C., 1986), p.31.

The IMF's analysis is that :

(a) Zambia lacks proper technical assistance in the formulating of policies

(b) Secondly, there is no sufficient support from outside donors and creditors

(c) Thirdly, on one hand, it lacks economic experts to advice the government, and on the other hand, the absence of firm devoted leaders to implement the programmes of IMF.

In effect, the IMF analysis follows from neo-classical and Keynesian basics with a stress on supply-side factors. Keynes contributed the idea that National income can be divided into consumption plus investment; if investment is low, then consumption must be reduced in order to increase it. Neoclassical theory explains the division into investment and consumption at the enterprise level. It holds that state intervention and high labour costs diminish profits which both discourages investment and reduces the resource available for productive use.

<u>The Programme</u> :

The decisive point about IMF stand-by arrangements is that they are made conditional on introducing economic policies that, according to the Fund's analysis are essential to adjust the economy to its environment. Between 1973 and 1986 Zambia concluded the following loan agreement with the Fund. (See Table 2

I. <u>1973 Stand-by Arrangement</u>:

<u>Introduction</u>:

Zambia approached the Fund with a request for a stand-by arrangement in the first credit tranche equivalent again to SDR 19 million to cover the period 1973 to 1974. There was no conditionality attached. The main objective of this agreement was to limit the decline of Zambia's external reserves and the deterioration of the budgetary position. First, although the country depended on copper revenues, when the terms of trade dropped, there was a crisis in the budgetary situation. Measures were taken to correct the domestic situation, and the Government was aimed to constrain expenditures. At the same time they had undertaken several revenue measures aimed at generating additional tax revenue sources. In addition a cut in the salaries of civil servants was imposed. The IMF says that high Government spending on administration and services fuelled inflation, and diverted funds to consumption from not only the productive private sector but also from the parastatals where Government controls had removed the profit motive. So they identified "high-wages as a major contributing factor in Zambia's economic difficulties, it therefore considered a fall in real wages necessary despite the long term goal of higher incomes. Credit Policy of 1972 which led to excess capacity in production and increased unemployment in the country.

The World Bank's 1984 country Economic Memorandum elaborated the basic IMF analysis. It held that Government intervention discouraged savings, favoured urban over rural areas and fostered inappropriately capital-intensive production thereby limiting employment creation. To achieve long-term development, it held that the Zambian Government should aim to overcome budget deficits, expand exports encourage genuine import substitutes, reduce capital intensity and increase domestic savings.

But There were no specific steps required to diversify export earnings. In fact the issue of export earnings was not even addressed. The only requirement in regard to balance of payments was that the Government should continue with the liberal external payments policy. They abolished restrictions, and removed barriers to trade. The measures taken during the 1973-74 programme with the Fund, however, did not help improved the economic conditions of the country (~~see~~ Appendix). The prices of copper did not improve. By the end of 1975 there was a critical shortage of foreign exchange. The copper prices dropped considerably to K794 a 40 per cent price drop. There was a significant drop in output from 709,000 tonnes in 1974 to 648,000 tonnes in 1975. Increasing import prices, drastic drop in export prices for copper and reduction in copper output. All these combined factors aggravated the economy into a worse situation. The country's net official reserves had declined from SDR 135 million before the standby arrangement to negative amount of SDR 39 million at the end of the first stand-by arrangement.

In the first stand by arrangement the IMF treats the balance of payments deficit as Zambia's central economic problem. So it focused main attention in the area of balance of payments and the budgetary position of the Government.

To constrain domestic aggregate demand, the Government implemented a wage freeze for three years, subsidies on consumer goods were reduced by 60 per cent. The Government also undertook to reduce the budget deficit by cutting outlays especially on capital expenditures which was to be limited to on-going projects. The IMF treats balance of payments deficit as the central problem, where as the majority of the Zambians felt that the most important trouble for them is low and falling real incomes. Achieving the necessary economic adjustments without cutting mass living standards is feasible only if the economy generates enough resources to finance necessary investments without further limiting consumption by the poor. If the IMF goes strictly on economic terms a more welfare-oriented approach becomes impossible. (Most of the IMF policies are not in accordance with the ideology of Humanism, where the political leaders came to power with the promises of welfare programmes. When the Government imposes IMF programmes, the welfare programmes, get a set back. In turn this creates political and economic instability in the country. Consequently, the leaders turn back to their old programmes.

<u>Policy orientation of 1976 Programme or 1976 Stand-by Arrangement</u> :

The 1976 stand-by arrangement came into force, with an amount equivalent to SDR 19 million. The Programme in this case was aimed at diversifying the economy. For the first time the Government and IMF recognised the fluctuations in the prices of copper and they realised the fact that the need has come to diversify the economy, and expand agricultural production. In an effort to encourage agricultural output domestic producer prices were increased. Even the prices of maize were also raised to encourage the producers to diversify from the copper belt to the crop fields.

The other major thrust of the policy programme was demand management, aimed mainly at providing relief to the balance of payments. Conditionality included ceilings on the money supply, over-all credit and cost credit, plus a 20 per cent devaluation.

The problem of Balance of Payment is entirely dependent upon the external factors where the National leaders do not have any control on it. The programme failed because of the deterioration in Zambia's terms of trade. In addition to this crisis brought about by the adverse terms of trade, there were problems arising from the neighbouring countries; Kaunda closed his border to Rhodesia in 1973, thus ending use of the railway over which half of Zambia's copper and two thirds of its imports once travelled.

"By the end of the programme the Balance of Payment deficit gone up by SDR 88 in 1976, and it further increased to SDR 393 million by 1977. At the same time gross foreign reserves amounted to only SDR 61 million or equivalent of less than one month's imports. As a result of these developments the Government intensified exchange controls. The consequences were that shortages of imported goods became progressively more severe, economic activity declined and inflation accelerated to an annual rate close to 20 per cent. The 1976 programme had failed to achieve the intended goals of diversification of exports. Clearly such a long-term goal could not have been achieved in a year."[12]

II. A comprehensive programme: 1978 Stand-by arrangement

The unsatisfactory experience during 1973-76 in adjusting the Balance of Payments position, and reducing public expenditure led the Government to adopt a more comprehensive programme for a period of 2 years with an amount equivalent to $ 250 million between 1978-80. Conditionality included ceilings on overall credit and credit to the government, reduction in repayment arrears and a 10 per cent devaluation. The main thrust of the programme were to restore the overall Balance of Payments position, reducing the domestic prices to a more bearable level.

The terms of trade improved slightly during the first year of the programme but later it continued to decline from 1979-80 onwards.

"The reduction of Government deficit was one of the objectives of the programme. Copper contributed 53 per cent to

---

12. P.O. Ncube, M. Sakala & M. Ndulo, "IMF & Zambian Economy A Case", in Havnevik (Kjell J.) ed. IMF and World Bank in Africa, Conditionality, Impact and Alternatives, (Uppsala: Scandinavian Institute of African Studies, 1987, p.132

the Government budget in 1974, contributed 13 per cent in 1975, 3 per cent in 1976 and then nothing in 1977, 78, 79 & 80. The budgetary situation caused by such a large loss of resources by the Government created considerable headaches".[13]

"Monetary measures included the limitation of government borrowing from the balancing system in order to reduce credit expansion and inflationary pressures on the economy. The objective of credit and monetary policy was to supplement fiscal policy by bringing about the required adjustment in total demand and encouraging savings. Thus to allow a compatible total domestic credit expansion and to slow down the increase of monetary base, measures were taken to reduce commercial banks excess reserves by increasing their share in total bank lending to the mining companies and by absorbing excess reserves through a sufficient increase in the reserve requirements. By maintaining strict control on domestic credit the authorities intended to encourage the private sector to use foreign sources of finance especially for imports, thereby relieving pressures on the balance of payments".

Since the IMF felt that devaluation of the Kwacha in real terms was necessary it was devalued by 100. The main aim of devaluation was to improve the structure of the exports by diversifying the economy and encouraging new export and lessening the dependence on imports. In the case of Zambia, overvaluation

---

13. Ibid. P.P 132 - 133

is coupled with customs tariff rates which are high for consumer goods and low for capital and intermediate goods. This leads to high effective protection for import substituting consumer goods industries and to additional disincentives to utilize local inputs. (The utilization of factors of production is distorted). The IMF package contained on the one hand a commitment, to attack these problems directly by streamlining the import licensing and foreign exchange allocation procedures. On the other hand it provided for flexible management of the exchange rates. Therefore the Kwacha was devalued by 10 per cent.

The stand-by arrangement included quantitative performance criteria: ceilings on total domestic credit which was to increase by not more than 18 per cent by the end of 1978. Within this total increase, the banking system's net claims on government was to be limited to 13 per cent by December 1978. This arrangement also aimed at the reduction of external payment arrears by SDR 397 million at the end of 1978. The contracting and guaranteeing of new external borrowing by Government with an original maturity of more than one upto fifteen years was limited to SDR 28 million in 1978. For the first time Zambia sought extra external financial assistance from private banks and international organisations. The World Bank also sponsored a consultative group meeting in Paris in 1978.

The reform programme and associated debt rescheduling were supported by an IMF stand-by facility. Zambia's perilous shortage of foreign exchange put pressure on the agencies in the consultative group to include more programme loans/grants. The donors responded and substantial amounts of financial resources were mobilised.

"The restoration of financial viability of mining companies was another objective of the programme. During 1975-79, the cost of production in mining was higher than the price of copper per tonne. The correction of this state of affairs was one of the objectives of the programme. In this regard the mining sector was to suspend operation in certain high-cost mining sites and reduce some of the social services it provided to its employees. The mining industry was also to rationalise its operations which included considerable staff lay-offs."[14]

An Industrial Development Act was passed to attract private foreign investment. They relaxed certain taxes for a period of five years and provided for full exemption from tax on dividends. The control of parastatals were also relexed.

"In agriculture measures were taken to expand extension services, develop food production, export crops and sources or raw materials for the local industry. In an effort to improve the domestic terms of trade for farmers, agricultural producer prices were to be revised upward annually".[15]

---

14. Ibid, p.p 134-135
15. Ibid, p. 135

To limit private consumption, the policy of reducing subsidies was to be intensified with a view to eliminate it over a period of three years. This measure was supplemented by appropriate wage prices which included a freeze on wage increase especially for the Public Sector. Wage increases in the private and parastatal sectors were limited to those in existing contracts. The agreement also stipulated that any future wage rises were to be based on productivity increases, the need to encourage employment in labour intensive industries through appropriate relative factor prices and the progress made in stabilising the economy.

Despite all these measures this programme achieved partial success only. The GDP declined in real terms, as a result of decline in copper production from 654,000 tonnes in 1978 to 584,000 tonnes in 1979. There is no considerable achievement in two major sectors i.e. Industrial and Agricultural sectors. Due to unfavourable weather conditions the agricultural output went down to such a level that the Government imported food from neighbouring countries. When government spent its foreign exchange to import food, there was a shortage of money for investment in other sectors. This led to under-utilisation of productive capacity. At the end of 1980 the country's financial position deteriorated badly and, the balance of payments position also became weak due to the oil price hike. Imports of food led to the country's gross international reserves being reduced to the equivalent of only three weeks's imports.

Due to these uncontrolled economic factors the government was forced to request another extended arrangement for a period of three years of an amount of equivalent to SDR 800 million which had one major objective i.e. diversifying the structure of domestic production.

III. <u>1981-83 Extended Finance Facility</u> :

This programme was tied to a three-year World Bank investment programme to re-orient expenditure from infra-structure to agricultural and industrial projects. Conditionality included ceilings on over-all credit and credit to government, as well as on a reduction in government deficit spending from 12 to 7 per cent of GDP. The major targets and actual results of the April 1981-83 IMF stand-by were as follows:

<u>Objectives</u> :

a) To shift resources to productive investments through restraining both private and public consumption.

b) Within the productive sector of the economy to pay special attention to agriculture, rehabilitation of past investments and making new investments in quick-yielding projects.

c) To maintain copper production at 600,000 tonnes level for the 1981-83 programmes. This figure was arrived at after recognising that output in mining could not be increased significantly in the medium term. The reasons for this were the falling ore grades and productivity, increasing production costs, in sufficient capital replacement and continued loss of skilled manpower who were mostly expatriates.

The Programme focussed more on the development of three major sector programme described on "Sector rehabilitation projects covering agriculture, mining and industry. In the agricultural sector the emphasis was on rehabilitation and expansion of infra-structure, particularly transportation and storage facilities were increased. The role of NAMBOARD was reduced. A new publicly owned company LINTCO was set up, with responsibility for input supply and extension as well as output marketing. The programme emphasized mainly on maize production due to the previous year's experience when the country depended heavily on food imports.

The mining sector was to intensify efforts to reduce costs including stimulating the employment of more technical staff and economising on petroleum. In order to reduce price distributions, they introduced the policy of economic pricing. Measures were taken to improve efficiency of individual companies. Policies were to be adopted which encouraged the production of goods based on local raw materials both for the domestic market and for export. New technology was likely to make it profitable to extract copper and other minerals from existing mine waste. Development agencies were created to assist investment in maintenance and new technology. To attract foreign and local investors, more economic imperatives were announced. The increased investment expenditures were to be undertaken to rehabilitate the manufacturing sector as well as assist in the establishment of viable new projects.

In the area of fiscal policy, efforts were to be directed towards mobilisation of both domestic and foreign resources, imposing the administrative capacity of the public sector, strengthening overall budget management through the reduction of consumer subsidies and adoption of appropriate wage policy. Under fiscal policy, resource mobilization was to be achieved through new tax measures including the rise in sales tax, higher excise duties and increase in company income tax. Government expenditure was to be reduced in order to reduce the overall deficit. For this purpose they reduced the subsidies on agricultural products alongwith the retail prices of several commodities.

In the field of monetary policy emphasis was on shifting resources to the private sector through limiting domestic bank financing of the budgetary deficit and expanding credit to the private sector. To encourage domestic savings and constrain consumer credit, interest rates were raised for the first time since 1978. The interest rate structure was to be kept under review in the light of the changing circumstances during the programme period, with a view to pursuing a more active policy in this area.

With regard to the external sector of the economy two policies were laid down (a) the exchange rate policy was to be reviewed periodically and modified as appropriate in the light of changing circumstances, primarily to maintain the competitiveness of the export sector (b) the government undertook to effect an orderly and substantial reduction of external payments arrears during the programme period.

IV. The major targets and actual results of the IMF Stand-by Arrangement, 1983 (12 months) :

1. The current account deficit on the balance of payments was to be reduced by 10 per cent in current prices, involving a 13 per cent contraction of imports and a 14 per cent expansion of exports. External commercial payments arrears were to be reduced by SDR 30 million and arrears on rescheduled debt service payments were to be avoided. The Kwacha was to be devalued by 20 per cent and a flexible exchange rate policy instituted. The programme visualised no increase in real GDP.

2. The Kwacha was actually depreciated by 35 per cent. It was devalued by 20 per cent against the SDR in January 1983 and in July it was delinked from the SDR. In the following period it was depreciated gradually against a basket of six currencies. Exports rose by less than 2 per cent in 1984, both because copper prices fell and because of the volume of shortfalls. Imports declined by 26 per cent.

3. Targets related to public finance included reductions in government expenditure and the imposition of new taxes. There was to be no general wage increase and no net increase in

employment. All these goals were met.

4. "There was to be a 10 per cent wage ceiling which provoked a protest from trade union leaders. The Government decided to persuade these leaders and involve them in the negotiations and invited four union leaders to join the ZIMCO board. Finally these leaders accepted the wage ceiling while the government agreed not to cut back mining jobs even though the mines had been running at a loss."[16]

The prices of both copper and cobalt declined in 1981. The price of copper was K1,719 per conne in 1980. It declined to K1,514 per tonne in 1981 and further K1,374 per tonne in 1981. This decline resulted in severe pressures on the balance of payments and heavy losses for the mining sector. There was also stability to reduce external payment arrears to the programme target. The real GDP stagnated due to lower export prices and acute shortage.

Zambia anyhow fulfilled most of the trigger conditions of the 1983 stand-by of foreign exchange. Due to poor rains the agricultural output came down. The resulting high import of agricultural food products added further difficulties.

V. The Financial Recovery Programme: Stand-by arrangement - 1984.

The principal objective of the (financial recovery) programme was to restore the financial stability of the economy.

---

16. Ravi Gulhati, Impasse in Zambia, The Economic and Political Reform, (Washington D.C., 1986), pp. 31-47.

The amount requested was equivalent to SDR 211.5 million over the period April 1983 to March 1984. The main focus was to improve public finances and liquidity position of the mining sector. Conditionality included ceiling on many supply, aggregate and government deficit to 5.6 per cent of GDP. The currency was devalued by 20 per cent in January 1983. The Zambian Kwacha was pegged to a basket of currencies of major trading partners and a crawling peg was adopted. This resulted in depreciation of 38.5 per cent. "To support this new measure, some institutional adjustments were made such as streamlining the system of foreign exchange allocation and issuing of import licences on the basis of a monthly foreign exchange allocation issuing of import licences on the basis of a monthly foreign exchange budget. Reflecting the severe external debt burden, the Government decided for the first time to consolidate and reschedule foreign debt service payments falling in 1983".[17]

The diversification of the economy was another objective of the programme. For this purpose they increased agricultural producer prices extension services and enlarged transport facilities to bring the products. They brought some managerial changes in the institution of NAMBOARD and other organizations. On the revenue side the target was to increase revenue by 25 per cent. Afreeze on wages was intensified and the total number

---

17. P.C. Niube, M. Sakala & M. Ndulo, "IMF & Zambian Economy A Case" in Herjnevik Kjele (ed.) <u>IMF and World Bank in Africa, Conditionality, Impact and Alternatives</u>, Uppsala Scandinavian Institute of African Studies, 1987. pp. 138 - 141

of Government employees were not to increase during that year. To reduce pressure on the budget a policy of subsidy reduction was maintained. In the monetary field interest rates were increased as a deterrent on domestic credit expansion as well as to encourage savings. Further they adopted quantitative performance criteria on domestic assets claims on government, credit to the mines external payment arrears etc.

Most of the measures were successfully implemented and the country's economic situation improved. The overall budget deficit was reduced from 18.9 per cent of the GDP in 1982 to 6.9 per cent in 1983. All credit ceilings were fully implemented.

"However, Zambia's external payment position remained low because of copper prices. By the end of 1983, Zambia was unable to meet the performance in terms of external payment arrears and on arrears under debt rescheduling agreements. Consequently the country was able to make only three of the four purchases under the programme amounting to SDR 166.5 million leaving undrawn a balance of SDR 45 million dollars."[18]

VI <u>1984-86 Stand-by Arrangement</u>:

Another stand-by was negotiated in July 1984 (24 months) amounting to SDR 225 M. Many of the aspects of the 1983 agreement were retained. On October 1985 the system of auctioning of foreign exchange was introduced.

---

18. Ibid., PP, 140-141

The budget deficit was to be reduced from 6.9 per cent of GDP in 1983, 10.52 per cent in 1984. The target was to raise budget revenues by 15 per cent. The programme had three basic objectives:

(a) Financial stabilization (b) diversification of industry and agriculture along lines of natural comparative advantage and c) raising the operational efficiency of the public Sector and industry. The stabilization of the balance of payments was being pursued through initial debt rescheduling exercise with both private banks and bilateral official lenders, providing both K 400M of balance of payment rely in the short-term. Between January 1983 and September 1985, a series of devaluation brought about a nominal depreciation of the Kwacha of 60 per cent against the dollar. So in mid 1984 the IMF stand-by facility which had been agreed was suspended. The main point of disagreement between the Government and IMF was the Government's unwillingness to implement a further longer depreciation of the Kwacha.

With regard to the supply side, measures in the programme included increase in interest rates, agricultural producer Prices and greater price liberalisation in the economy as a whole. A freeze on wages continued. But regardless of these measures the GDP did not increase due to the terms of trade, limited possibilities for increasing mineral exports and capacity utilisation in the domestic manufacturing sector.

In spite of these efforts, the Government budget deficit was higher largely due to short-falls in tax revenues and high outlays arising from the depreciation of the Kwacha.

VII. Experience with the foreign exchange auctioning : 1985-87

In the 19 months of existence from October 1985 to April 1987 the auctioning of foreign exchange went through a number of phases. The Zambians launched this programme with a great deal of interest. At the first auction the Kwacha fell against the US dollar from the previous official rate K2 to K5 and within three weeks, was down to K7. At the end of 1986 it reached the level of K 15 per US $ in December 1986. It touched a peak of K 21 in 1987 and then it was suspended in February 1987. However, it become obvious that when the value of Kwacha was falling it tended to discourage investments in the economy. Then the Government introduced some modifications to stabilise the rate through orderly behaviour in the foreign exchange market, ensuring proper utilisation of additional funds and improving revenue collection for Government budget. Inspite, of these measures when the Kwacha showed no improvement. The government then introduced a 'Dutch Auction System', whereby the most successful buyers were allocated foreign exchange at the rate actually bid, rather than at the marginal rate. The Government also increased the reserve ratios of commercial banks and required that importer deposit 20 per cent of this bid in Kwacha. (See Table 2.4

The manufacturing sector was in a much better position to benefit from the auction than agriculture. The study showed that the manufacturing sector bought US $ 134 million worth of imports during the first year of auction, mostly for intermediate goods, spare parts, and replacements for worn-out machinery. Since manufacturers' prices had been decontrolled they could pass on the rising costs of foreign exchange to their customers. Private firms did considerably better than parastatals. But the auction system has caused considerable problems for small-scale industries and companies. Most of these companies are financially weak and have, therefore, limited capability to bid for foreign exchange. A number of small scale industries closed down. The problem has became acute with the high exchange rate that resulted from the auctioning. In contrast with manufacturing the agricultural sector did poorly. It only obtained US $19 million of imports during the first year. It's capacity to purchase agricultural imports was limited by the Kwacha funds arising from controlled producer prices. The agricultural sector's response to the auction system was in any case lower than expected only 10 per cent of the foreign exchange allocated under the auction system went to the agriculture compared with 30 per cent for industry. The peasant farmers were unable to take part in the auction as they were greatly constrained by lack of funds. In most cases only replacement spares were bought to support rehabilitation programmes and prohibitive costs hindered the importation of large plant and machinery. With the prevailing high levels of exchange rates and interest rates the agricultural sector did not benefit from the system of auction. (See Table 2.3)

Even the cost of living had gone up drastically since the introduction of the system. Prices of most commodities went up sharply to compensate for the high cost of obtaining foreign exchange. The annual rate of inflation increased from 35 per cent to 46 per cent in 1981 and it went up till further to 59 percent by the end of July 1986.

The instability in the exchange rate of the Kwacha has tended to make financial budgeting and economic planning extremely difficult. At the weight of the auctioning system, the value of the Zambian Kwacha had falled from US$ 1 K2 to US $1 K21. The auctioning system brought havoc and ruin to a large number of enterprises. It became impossible to plan financially because the rate was fluctuating by large margins each week. Similarly budgeting by the government became meaningless.

"By early 1987 the dispute between the government and the IMF had become broader than simply the maintenance of the auction, because the Fund was concerned that spending by public enterprises was out of control and that without strong measures to rein back spending the Kwacha could not be expected to stabilise."[19]

It is true that a number of technical mis-adjustments were made by the IMF. It has been alleged that the IMF took insufficient account of the effects of auction system on the Zambian economy. Even the Government has been blamed for failing to keep within agreed fiscal and monetary targets. The problems of Zambia ran out of control, the leaders were unable to get a grip on the economic problems. Zambia's decision to break with IMF after 12 years of austerity programmes set a precedent in

---

19. <u>Times of Zambia</u>, 6 May 1987.

Africa and challenged the credibility of traditional approaches to solving the continent's economic crisis. President Kaunda said that IMF's latest conditions for resuming aid to his country were unacceptable and that his government would embark on a new policy of growth from its own resources. He immediately, abolished Zambia's IMF - inspired foreign exchange auction and revalued the Kwacha to a fixed rate of K8. He tore down the entire structure of economic liberalisation that had been built up since Zambia signed the first loan agreement with the IMF in 1973 and President Kaunda decided to launch a recovery programme called the Interim National Development Plan (INDP). The main theme of its programme was growth from the country's own resources.

INDP :

The main features of the programme were

a) Limiting the debt service to 10 per cent net foreign exchange earnings so as to enable the country to use its own foreign exchange resources rather than resort to borrowing. The use of this foreign exchange will be limited to selective sectors. The short-term aim is to increase capacity utilization in existing industries while the long term objective is investment in selective industries to strengthen the economy in those sectors. The short-term aim is to increase capacity utilisation in existing industries while the long term objective is investment in selective industries to strengthen the economy in those sectors where it has traditionally been weak for e.g. production of raw materials, intermediate and capital goods.

b) Fixing the exchange rate at US $1 = K8 the stabilisation of the exchange rate is aimed at facilitating proper financial planning and capital goods.

c) Re-introduction of direct or official allocation of foreign exchange through Foreign Exchange Management Committee (FEMAC) which meets fortnightly and is composed of government officials and representatives of industry and agriculture. Membership is secret but applications for foreign exchange are made through commercial banks to avoid any contact between applicants and the committee. The issuing of import licences and the allocation of foreign exchange have been unified to avoid more import licences being issued than the available foreign exchange.

d) Re-introduction of price control. This is now being done by the prices and income commission, in consultation with producers and importers to avoid below-cost-prices.

e) Lowering interest rates to between 15 and 20 percent

f) Establishment of an export-import bank aimed at supporting productive activities as well as exports.

g) All the above.

The other objectives are the release of resources for development by curtailing imports and limiting debt service payments, stimulation of the economy by expanding production of companies producing essential items or goods for export and control of inflation.

It also aims to diversify exports by encouraging production of non-traditional items and exports of manufactured goods, re-structure production and consumption patterns in order to use foreign exchange as a strategic source, increase employment opportunities by establishing small scale industries based on local raw-materials and increase government capacity to arrange the economy. But an interim report in November 1987 admitted that INDP hardly had any significant effect on the economy. It is a well known fact that the impetus towards the goals has come mainly from external sources. Aid was halted by industrialised countries angered by Zambia's break with the IMF. Britain hinted at what was to come when it withheld a £9.3 million grant to Zambia. It is also doubtful whether White Hall will release the £30 million it promised last December.

The World Bank has already suspended disbursement of Funds to all its development projects on Zambia and balance of payments support programmes worth about $400 million. Nevertheless, by late 1987 a dialogue has restarted between the government and Washington institutions. A team from the World Bank arrived in Lusaka to discuss how it might help in the implementation of INDP and was told by President Kaunda that the break with the IMF was "not a confrontationist or isolationist move' but was motivated by a concern to reduce the shocking figures for malnutrition".[20]

---

20. Times of Zambia, 24 November 1987.

The 1988 Budget, Presented at the end of January also appeared to be designed to help open the doors for a resumption of IMF support.

Conditionalities of IMF :

When a country suffers persistent balance of payment deficits the IMF sends a team to investigate and advise the Government on appropriate measures to overcome their difficulties. The borrowing country should observe certain performance criteria. The performance criteria tend to be quite harsh and are based on both quantitative and qualitative indicators. The Balance of payment deficits often occur when countries experience inflation. IMF teams typically recommended on essentially monetarist package of austerity measures designed to reduce inflationary pressures, holding down exports prices to increase the volume of exports.

Conditions :

The Government should reduce its budget deficit.

- The Government should freeze wages to end cost push inflationary pressures.

- The Government should restructure taxes reducing those on local and foreign private investors to attract more capital and raise more broadly-based taxes on lower-income group to increase revenues and reduce Government budget deficits.

- The central banks should raise interest rates to reduce commercial bank lending. Thus reducing inflationary pressures caused by an expanded money supply.

- The Government should reduce foreign exchange controls and import licencing to permit increased competition from imported goods, thus promoting efficiency and reduced local prices.

- In General, the Government should reduce its interference in the economy. The IMF argued that state enterprises often become a financial burden. The private sector operates more efficiently and achieves lower costs competition among private firms, would ultimately reduce prices.

- if these measures appear inadequate the IMF teams urge the Government to devalue the National Currency. They argue that this will reduce export prices and raise import prices, thus reducing imports.

The IMF stabilization and adjustment programmes are also based on certain "policy understandings". These are not the same as performance criteria but rather are meant to reflect the overall policy environment in which stabilization and adjustment took place. The IMF policies are "Trade and exchange rate policies designed to control excess absorption, provide export incentives and to reduce the multiplicity of distortions in trade and exchange regimes.

- Interest rate and other pricing policies aimed at mobilizing domestic savings and improving resource allocation.

- Public sector policies concerning prices, taxes and subsidies together with institutional reforms aimed at improving the efficiency of public sector activities and eliminating budget deficits.

- income policies aimed at bringing claims on resources in line with their availability".[21]

These are the conditions that the IMF regularly imposes upon borrowers. It is widely believed that since the arrival of the Reagan Administration the IMF's lending policies have become even tougher. During the first six months of 1982, the IMF cancelled agreements, many of them in Africa, of greater value than its gross new commitments on the ground that members had failed to meet strict performance targets.

The IMF's conditions have given it an inflattering image in much of Africa and the Third World. The riots and social upheavals which have occured in Sudan, Zambia and elsewhere, when governments removed subsidies and raised prices on staple food while implementing IMF conditions, brought a powerful impact on the Economic and social scene and indirectly on the political situation in these countries.

<u>IMF Conditionality in Zambia</u> :

ALL the above mentioned conditionalities imposed on Zambia when it reached an agreement with IMF. "The programmes

---

21. Wilfred L. David, <u>The IMF Policy Paradigm,</u> (Praeger Publishers, USA, 1985), pp. 1-38.

encompassed a 10-15 per cent fall in real wages, occasioned by a combination of price increases for maize meal and fertilizers and the abolition of controls for other goods. It stipulated that the Zambian government should reduce control of parastatal corporations, devalue, and allow the original exporters to retain a significant share of their foreign exchange earnings; impose a ceiling on credit expansion and stop setting maximum interest rates; limit the budget deficit and foreign borrowing etc. The Government also began to implement them. But these conditionalities fell more on low income groups. When Government reduced subsidies, which were swelling the country's budget deficits, the decision caused riots in several towns. So Mr. Kaunda withdrew the price increase, again in April the President raised the price of petrol to cut down on oil imports in the hope of reducing the country's huge trade deficit. More riots followed and he had to back down them again when the wages of workers were cut down, again it led to lot of discontent among the workers. Even the raise of transport & fertilizer prices created lot of social unrest among farmers.

So ultimately Mr. Kaunda decided to abandon the IMF reform package on the ground that the low-income Zambians are bearing the burnt of the austerity measures. The interruption of relations with the IMF in May 1987 seems to have been caused partly by severe differences over the course of fiscal and monetary policy (with the IMF demanding a strict reduction of the budget deficit and a restriction on money supply growth. But the real course was that the foreign exchange auction together with import liberalization led to a depreciation of the domestic currency which was considered - excessive.

Any way achieving the necessary economic adjustment without cutting mass living standards is feasible only if the economy generates enough resources to finance necessary investments without further limiting consumption by the poor. So the social, political, economic realities need to be incorporated into the design of the programme.

Conclusion :

Zambia's economic survival depends on restructuring the economy which involves promoting exports other than copper, substituting imported goods by local production and developing the potential of the internal market. A shock approach pursued mainly with demand management instruments can indeed have a short-term success. It should be adjusted in such a way that the demand management instruments should facilitate real long term adjustment. IMF policies have achieved partial success because the problems have been deeply rooted in the structure of the economy. What is more essential to solve them is a complete restructuring of the economy and it is necessary that Zambia should get long term assistance, because the short-term assistance which Zambia obtained has not been sufficient for development and structural adjustment.

Table - 2.1

Zambia's Transactions with the IMF (million of SDRs)
1971-1983

Year	Drawing	Repurchases*	Net Credit	Use of Fund Credit	Charges paid on Use of Fund Credit
1971	19.0	-	19.0	19.0	-
1972	38.0	-	38.0	38.0**	0.1
1973	19.0	-	19.0	57.0	0.6
1974	-	-	-	57.0	1.6
1975	56.9	38.0	18.9	75.9	1.3
1976	38.5	19.0	19.3	95.2	4.1
1977	19.0	19.0	-	95.2	5.3
1978	148.8	-	148.8	245.1	7.9
1979	100.0	26.3	73.7	320.0	13.3
1980	50.0	44.0	6.0	308.3	20.0
1981	359.3	47 3	312.0	627.8	25.3
1982	41.5	86.2	44.7	575.6	48.6
1983	173.7	114.0	59.7	635.3	49.6

* - Repurchases mean repayment to IMF in foreign exchange equal to the SDR.

**- Reserve position in Fund (SDR 19.0 million) was used to reduce net use of Fund credited to SDR 38.0 million.

Source: Adapted from World Bank working paper, Zambia: Country Economic Memorandum: Issues and Options for Economic Diversification (Washington, D.C., April 1984), Table 3.08 p. 35.

Table - 2.2

Zambia's Terms of Trade, 1970 = 100.

Year	Export prices	Import prices	Terms of trade
1970	100	100	100
1971	78	105	74
1972	80	111	72
1973	117	126	93
1974	134	157	85
1975	84	194	43
1976	100	217	46
1977	97	249	39
1978	100	307	33
1979	185	381	49
1980	218	502	44
1981	189	584	32
1982	155	700	22
1983	222	840	26

Source :- Economic Reports, 1979, 1981, 1983, National Commission for Development Planning, Lusaka.

Table 2.3

Summary: Foreign Exchange Auction

	Auction 1-26	%	Weekly average	Auction 27-52	%	Weekly average	Total 1.52
Bids received (Nos.)	6,464	36	249	11,692	64	450	18,156
Successful bids(")	4,347	42	167	6,031	58	232	10,378
Kwacha offered (Min)	1,305	33	50	2,626	67	101	3,932
Dollars demanded(")	202	35	8	372	65	14	574
Dollars disbursed(Mn)	137	43	5	185	57	7	322

Source: Bank of Zambia Records, 1986.

Table - 2.4

Summary: Sectoral Distribution of Foreign Exchange

	Auction 1-26	%	Weekly average	Auction 27-52	%	Weekly average	Total 1-52
Agricultural Sector							
Bids Received (Nos)	583	35	22	1,084	65	42	1,667
Successful Bids (Nos)	333	39	13	520	61	20	853
Kwacha Offered (Mn)	81	28	3	198	72	8	279
Dollars Demanded (Mn)	15	33	0.5	30	67	1	45
Dollars Disbursed (Min)	7.5	39	0.3	11.8	61	0.4	19.3
Manufacturing Sector							
Bids Received (Nos)	3,076	35	118	5,766	65	222	8,842
Successful Bids (Nos)	2,021	42	78	2,761	58	106	4,782
Kwacha Offered (Mn)	595	32	23	1,239	68	48	1,834
Dollars Demanded (Mn)	92	37	4	158	63	6	250
Dollars Disbursed (Mn)	62	46	2	72	54	3	134
Parastatal Sector							
Bids Received (Nos)	1,409	39	54	2,157	61	83	3,566
Successful Bids (Nos)	980	49	38	1,000	51	38	1,980
Kwacha Offered (Mn)	527	33	20	1,063	67	41	1,590
Dollars Demanded (Mn)	80	32	3	167	68	6	247
Dollars Disbursed (Mn)	57	39	2	90	61	3	147
Other Sectors							
Bids Received (Nos)	1,396	34	54	2,685	66	103	4,081
Successful Bids (Nos)	1,013	37	39	1,750	63	67	2,763
Kwacha Offered (Mn)	102	45	4	125	55	5	228
Dollars Demanded (Mn)	15	47	0.5	17	53	0.5	32
Dollars Disbursed (Mn)	10.5	48	0.4	11.2	52.	0.4	21.7

Source : Bank of Zambia Records 1986.

Note : Nos = numbers
Min = millions

CHAPTER - III

IMPACT OF FUND'S ACTIVITIES WITH SPECIAL REFERENCE TO INDUSTRIAL AND AGRICULTURAL SECTORS

CHAPTER - III

IMPACT OF FUND'S ACTIVITIES WITH SPECIAL REFERENCE TO INDUSTRIAL AND AGRICULTURAL SECTORS

Introduction

The Zambian economy is in a dismal situation. Upto the mid-1970s Zambia had one of the most prosperous economies in Sub-Saharan Africa, based on copper mining which contributed more than 90 per cent of merchndise exports. In the ten years from independence to 1974 copper prices were high. Ever since the real copper prices started to decline rapidly in 1975, conditions have been worsening continually. Many complex endogenous and exogenous factors have contributed to the economic problems of Zambia. This chapter examines two important sectors of the Zambian economy i.e. Agriculture and Industrial & Ming sectors and the Impact of IMF's policies on these two major sectors. (See Table 3.1)

I. AGRICULTURE

The importance of agriculture in the Zambian economy can hardly be overemphasized. Unlike the countries of East Africa, Zambia is not dependent upon the agriculture sector to generate foreign exchange. Since independence in 1964 the Zambian economy has been dependent almost exclusively on Copper. So long as millions of pounds worth of foreign currency were pouring in each year, the government saw no reason to develop an alternative source of revenue. When the prices of copper dropped in 1975 the problems aggravated the situation.

1. Major Constraints in Agriculture Sector :

The foremost question arises that what went wrong with Zambia? Why did a country that had atleast as much potential and perhaps more than its neighbours fare so much worse? The main reason is that Zambia is paying the price of having been born with a copper spoon in it's mouth. The luxury of high copper prices in the early 1970s lulled Zambia into doing no more than talk about diversifying the economy and expanding agricultural production unlike Zaire, Zambia did not mortagage its future through long term borrowing for groundnose schemes. But when prices dropped, it had to eat up its foreign reserves to survive and there was no other sector such as rich untilled land to provide a cushion. Although over half of the population is still engaged in agriculture. This sector played a distinctly subsidiary role. With substantial mineral earnings there was no imperative for the state to promote agricultural exports. Colonial policy had enforced a bimodal structure. "There are three groups of farmers large, commercial farmers, emergent farmers who sell more than 50 per cent of their crop and subsistence farmers. Commercial farming was entirely dominated by European farmers. Europeans produced all the milk and all the Virginia fluecured tobacco, much of the cotton and most of the better quality beef and pork."[1] Food supplies for the towns were mainly the responsibility of European farmers, who settled along the railway line from Zimbabwe

---

1. R.A.J. Roberts and Charles Elliott, Constraints On the Economic Development of Zambia (London: Oxford University Press, 1971), p. 270.

upto the copper belt. While African peasant farmers produced for the market in those areas. On the whole the entire production was strongly subsistence oriented. The common problem faced by the farmers was being away from the 'line of rail' was that of remoteness and poor infrastructure. When President Kaunda closed his border to Rhodesia in 1973, which ended use of the railway over which half of Zambia's copper and two thirds of its imports travelled on this railway line. When it closed Zambia paid over $ 200 million in the name of additional duties and transportation fees and Zambian goods were backlogged in the Tanzanian port of Dares-Salaam.

One major important constraint of the agricultural sector is marketing and infrastructural problem. A report prepared jointly by the ministers of Agriculture and Cooperatives in collaboration with the United Nations Food and Agriculture Organization in March 1984 identified serious inadequacies in the organization of the national harvest. "Between 560,000 - 770,000 bags of Maize were lost annually in Zambia through poor marketing and storage arrangements i.e. about 5-10 per cent of total marketable maize, almost a months supply of food for the country. Wastage was caused by poor planning especially of the haulage of grains, by the state, the unsatisfactory location and extent of storage facilities including lack of tarponline as temporary protection of purchased produce and the unrealistic prices offered by the state to the farmers".[2]

---

2. Ministry of Agriculture, Nationwide study of Zambia's Storage Requirements for Both Product and Inputs, (March 1984).
   - Summary and Introduction, Planning Division Study, Lusaka, March 1984.

"The commentators identified other important harvest, inefficiencies, the poor conditions of the country's roads, the non-availability of types of tubes, spareparts and fuel and the storage of grain bags for farmers."[3]

"Losses to the national harvest due to the smuggling of produce into neighbouring countries were an additional factor of serious proportions. More than 400,000 bags of maize were believed to have been smuggled into Zaire."[4]

The other important problem is an inefficient spatial location of production had emerged mainly because over the 1970's the Government had implemented a policy of uniform prices for most crops. "The official price for maize in Zambia in 1983 was K18.30 a bag but a Zambian farmer could easily obtain at least K35 by selling in Zaire."[5] "It won reliably estimates that 150,000 tonnes of maize were smuggled into Zaire from Northern Zambia during 1983."[6] (See Table 3.2)

The increasing smuggling shows how Government failed to control it, and half of the maize production goes outside the country. On the other hand it failed to pay sufficient producer prices. According to the commercial farmers bureau executive officer Tim Wood said that "not much foreign exchange is being put into Agriculture at all, including allocations for fertilizers."

---

3. Times of Zambia, 12 December 1984.
4. Ibid., 6 July 1984.
5. Zambia Daily Mail, 30 July 1982.
6. The Economist (London), 11 February 1984, pp. 74-6.

He adds however that "while this contradicts government policy the government can't help it at the movement, 80 per cent of available foreign exchange is eaten up by debt servicing other essential payments and the mining sector".[7] Abegalum, one of the fathers of Zambian Agriculture was more out spoken. He told that "the government should stop paying lip service to Agriculture ... the way foreign exchange is given out is appalling."[8]

In 1970 agriculture accounted for 8.5 per cent of total expenditure in 1980 and it later increased upto 17.7 per cent. A growing portion of the allocation however went towards producer and consumer subsidies mainly an agriculture goods, including fertilizers which totalled K83 million. Despite these efforts the impact so far has been small owning partly to the absence of a stable and efficient organizational framework, the lack of skilled manpower in the agricultural sector.

2. Mismanagement in Marketing System:

By the time of independence most of the longer distance agricultural marketing system was either directly operated by the government or carried out by organizations which were highly dependent on government. In the first years of independence the state marketing system was further expanded with the objective

---

7. African Economic Digest, May 1985, PP 1-35

8. Ibid.

of promoting services to small farmers in the remote areas. In 1969 NAMBOARD was formed to serve the large as well as small farmers. Soon after its formation NAMBOARD began to attract criticism. They fell under the control of small elites. "Costs appeared too high and physical performance was often very poor, with farmers falling to receive inputs on time or receive timely payment for crops purchased".[9]

When farmers all over Zambia were already heavily involved for a month or more in new planting for 1985 for which they required seeds and fertilizers, the majority of the small peasants could not hope to obtain fertilizers without prior payment for their 1984 crops. The most irregular mis-management of funds resulting in the non-payment of farmers in the crops they delivered, this in turn hampered the productivity and created miserable situation in the country.

Sometimes due to lack of storage facilities market crops were stacked at local depots and they had been soaked in the rains causing large scale waste which the nation could afford. This fiasco has been contributed to by a combination of factors such as the break down of the Transport system, fuel, tyre and spares shortages, inadequate storage capacity due to shortage of Tarpuliens and grain bags, cash-flow problems between the unions and NAMBOARD created a lot of mounting public criticism.

---

9. Times of Zambia, 12 December, 1984.

Due to heavy rains the conditions of roads in Zambia were in a deplorable state and they did not have the finance to repair rural roads. President Kaunda said that "It was rather too late to start work on repairing them and in any case there was nothing the government could do as it had no money."[10]

The mismanagement had resulted in serious consequences for the whole country. Non-self sufficiency in the staple represented a basic national weakness, so Zambia imported maize from its neighbours. During 1980-85, 20,000 tonnes were imported from Malawi at a cost K7.8 million in foreign currency and 50,000 tonnes from Zimbabwe at cost of K19.8 million. "Every bag of maize imported from neighbouring countries was estimated in August 1985, to cost Zambia K48 in foreign currency where as the domestic price was only K28.32 per bag.[11] So the importation of maize was therefore a costly response to the problems of inadequate domestic production.

The burden of the State's mis-management of agriculture fell most heavily on the small peasant farmers, usually scattered on remote areas and it was their maize which was most in danger of being on collected by the agencies. They were the most dependent on receiving early payment for their produce, they were to be replanted the next season. About 80 per cent of all rural house holds lacked sufficient income to meet even their

---

10. Ibid., 22 April 1985.
11. Ibid., 15 August 1988.

minimum private consumption needs. The spectacle of their crops being uncollected, marooned and ultimately rain-drenched through NAMBORD's mis-management was a strong disincentive to their efforts. The state's neglect of the small peasantry had considerable significance for domestic market.

Lastly another distortion is "excessive production of Maize as against other grains and Tubes which may be better adopted to specific agroclimatic conditions in the absence of subsidies. The production of maize would be reduced other crops being preferred at the margin, because of their lower costs. In parts of the Northern province where maize production is low, it has normally been cultivated with the use of chemical fertiliser which received an explicit subsidy, the other crops like millet, sorghum, Cassava are generally cultivated with little or no chemical processing. So the cultivation of maize is matter of excessive use of fertiliser. This shows the weakness in foresight planning at Government policy levels when government wants to eliminate incentive to their efforts. The state's neglect of small peasantry had considerable significance for domestic marketed maize production."[12] All these distortions eroded the progress in agricultural sector. The mismanagement of 1980's was worsened by the government's accumulated foreign indebtedness. The fall in Zambia's copper revenues and the underlying structural weakness in the domestic economy were brought about by the state's

---

12. Kenneth good., "Systemic Agricultural Mis-Management - The 1985 Bumper Harvest In Zambia", Journal of Modern African Studies, vol. 24, no. 2, June 1986. PP 257-84

failure to inyest in agriculture over very long time.

3. Reform in Agriculture Sector - Role of IMF, Its Policy Impact on Zambian Agriculture :

The country had already made use of the IMF credit facilities in the early 1970's itself. But earlier arrangements did not involve conditions urging extensive policy reforms. The arrangement approved by the IMF in April 1983 marks the beginning of a far-reaching agreement with the Fund and the World Bank which was designed to stabilize the economy and to contribute to restructuring production away from copper mining. In the early 1980s the government came under gradual pressure to pay attention towards the IMF policies. "An economic programme was announced in December 1982 and received IMF standby facility. It was supported by a consultative group which first met in Paris 1984. They accepted that Zambia had an urgent requirement for programme did and preparations were put in hand for three major multidonor 'sector rehabilitation loans covering industry, mining and agriculture. In the short term it was desired to achieve what may be called rescue and stabilisation to which was added injections of foreign exchange sufficient to substantially raise capacity utilisation. In the medium term the intention was to raise the efficiency of import-substituting industry and central government and to induce diversification along lines of natural comparative advantage."[13] (See Table 3.3)

13. Kydd Jonathan, "Changes in Zambian Policy Since 1985, Problems of Liberalization and Agratarization", Development Policy Review, vol. 4, no. 3, September 1988, pp. 233-59.

The IMF aimed at three major reforms in agricultural sector i.e. 1) Agricultural equity pricing was to be abolished. 2) Agricultural marketing was to be liberalised, and 3) the maize subsidy was to be eliminated.

4. <u>The Strategy For Liberalizing Agricultural Marketing</u> :

Under these reforms NAMBOARD's role was reduced to inter-provincial trade. Private Traders were allowed to purchase maize alongside NAMBOARD and the cooperative unions, but they were not allowed to compete on equal terms. Since the transport and handling subsidies remained the preserve of NAMBOARD and cooperative unions. The most important change was a new publicly owned Company LINTCO was set up, with responsibility for input supply and extension as well as output marketing. The strong growth of cotton production in recent years is attributed to good performance of LINTCO.

But the transfer of responsibility from NAMBOARD to cooperative swiftly developed into a disaster. The cooperatives exhibited worse mis-management and corruption that had been experienced under NAMBOARD. "NAMBOARD is the sole authority to give license to private traders to compete with the cooperatives. Most of the private traders emerged from the ranks of transport contractors. But an unresolved issue arose whether private traders would be allowed to compete with NAMBOARD by engaging in inter provincial trade by selling directly to the millers. The question is closely related to the subsidy problem the fact that the maize subsidy applies only to produce handled by the

NAMBOARD/Cooperative system inhibits private trade."[14]

Private traders had been allowed to trade in maize and fertilizer, but they could not do so efficiently in practice as long as subsidies were routed through provincial cooperative unions and NAMBOARD. In practice liberalization in marketing occured only to a very limited extent. The restructuring of agriculture raised very difficult technical economic issues in designing policies.

The broadening of competition in agricultural marketing must imply a retreat from equity pricing. In fact the government wanted to eliminate regional differentials in producer prices. Then it introduced equity pricing to promote inter-regional equity. But IMF wanted it to abolish equity pricing, because equity pricing stimulated production in areas remote from consumer demand where costs of access were high

Since 1983 the government took important steps and brought some institutional changes leading to an effective agricultural system and started aiming to introduce a new era in the history of Zambian agricultural sector. Then it implemented IMF's policies, to make agricultural sector more effective. In the 1970's the government paid subsidies to the marketing agents and subsidies on maize. Food crops provided great encouragement to both producers and consumers. But these subsidies became a serious problem in early 1980's when copper prices came down, leading to an enormous fiscal burden. In order to reduce the budget deficit the IMF wanted the maize subsidy to be eliminated.

---

14. Jonathan, 'n.13

But the removal of subsidies created widespread distress in urban areas. Food riots in December helped to convince the government that it could not impose many more economic restrictions without the risk of a social explosion. Fifteen persons were killed in a week of rioting set off by a 120 per cent rise in the price of refined corn meal after the government lifted its subsidy on the staple food. The subsidy had been lifted as part of IMF programme to cut the budget deficit but it was reimposed within few days to prevent further unrest. But the view of West is different; they said "the government had contributed to the collapse of its IMF programme by failing to carry out economic reforms with enough political will."[15]

However, in the long term with on going efforts of liberalization and in the event of major cuts in transport subsidies, the large scale farmers will fare the best while the small holders will have to withdraw into subsistence or will have to look for cash crops other than maize. Such a move will effect the policies of self sufficiency in maize negatively in the long run.

According to the IMF's view these subsidies were not only instrumental in raising the fluctuating level of budget deficits and thus infuelling inflation, they gave rise to grave distortions of the Zambian food market and particularly that

15. International Herald Tribune (Paris), 7 May 1987.

of maize. During 1978 total subsidies were decreased from almost K60m to K 36m. But it collapsed due to the untoward events like riots and deaths which created chaotic conditions throughout the country.

5. <u>System of Auctioning</u> :

The IMF meanwhile introduced a system of auctioning of foreign exchange. The auction was to be supported by most consultative group members with programme , which would be used to augment the supply of dollars into the auction. Fiscal and monetary targets were set which was hoped would cause both exchange and interest rates to stabilise at tolerable levels. At the first auction the Kwacha fell against the US dollar from the previous official rate of K2 to K5 and within three weeks was down to K7 and it reached nearly K15 = $1 in 1987. Then it was suspended for two months. In April 1987 a two tier system was introduced with IMF approval the rate of Kwacha K9-12 = $1 was set for government transactions, debt service payments and agricultural inputs. But in the rest of the economy Kwacha went into fell by K21 = $1. At this point government announced the abandonment of the system and a return to the administrative rationing of foreign exchange at the rate of K8 = $1.

The agricultural sectors response to the auction system was in any case lower than expected, due to lack of liquidity resulting from past unfavourable pricing policies and the domination of the sector by peasant farmers. Only 10 per cent of the foreign exchange allocated under the auction system went to agriculture compared with 30 per cent for industry. In the first year of auction, agricultural spares, fertilisers and pesticides received only 2 per cent of total outlays for intermediate goods. Agricultural exports grew substantially while the auction system was operating as farmers were able to earn more as the Kwacha depreciated. Prospects for continued growth have been dampered however, by the government's recent changes to the export retention scheme which allowed exporter to keep 50 per cent of their foreign exchange earnings. Now all export receipts must be surrendered to Bank of Zambia, and exporters complained that "we have literally been put on the same level as general importers. We have taken a decision not to export any more, government has killed the whole infrastructure we have built."[16]

There were a large number of technical misadjustments which were made by both the IMF and the government possibly neither of them fully understood the interconnection between the auction and the budget.

The government has been blamed for failing to keep within agreed fiscal and monetary targets, and in particular for not being able to get a grip on the maize subsidy and marketing inefficiency problems, which were the main factors in driving public expenditure off target. However, growing internal tensions led to a collapse of the programme. On 7 May, 1987, the Zambian Government abandonded the policy packages returned to fixed

---

16. <u>African Economic Digest</u>, May 1985.

exchange against the dollar, broke off relations with the IMF, and imposed a ceiling on debt service payments. By the end of 1986, external debt had risen to $5.8 billion with debt service obligations amounting to more than 100 per cent of projected export earnings in 1987. (see table 3.4)

6. Conclusion :

The IMF never had a good reputation in the eyes of developing countries. In Zambia too, from the beginning of the policy reforms there were strongly negative opinions even from within the governments. The authors of national commission for development planning stated that "the adjustment through IMF/World Bank assistance has further complicated the internal economic situation."[17]

"The adjustment programmes in general resulted by and large in further acceleration of inflationary pressures and worsening of living standards by reducing real incomes and depressing economic activity."[18] About severe austerity measures the report maintains that they are "aimed at securing import cuts and balance of payments adjustments with a view to increasing African countries debt service capabilities, but surely these very adjustment programmes cannot be expected to

---

17. National Commission For Development And Planning Economic Report, Lusaka, January 1985, p. 5.

18. NCDP, Economic Report, Lusaka, 1984, p. 7.

to provide any medium or long term solution to the balance of payments problems of the African countries."[19]

Regarding the restructuring of agriculture we can conclude with remarks of Ravi Gulhati that "the restructuring of agriculture raised very difficult technical economic issues in designing policies. There was considerable tensions between the aim of controlling producer prices and the auctioning of foreign exchange. Equally difficult was the task of coordinating the phasing of the removal of the main consumer subsidy, the reintroduction of differential producer pricing and the reorganization of the marketing system these numerous design and management issues had to be resolved with very little information and on accute shortage of experienced, qualified professionals. Furthermore, this complicated reform was attempted at a time when the overall economy was severely strained and when the political leadership's capacity to manage dissent was at a low ebb. Given these conditions it was not surprising that the reform failed to materialize".[20]

On the other hand it is also important that IMF's approach has to necessarily be radical while at the sametime gradualist implying that consistent policies should be valued higher than shock treatment from which the government has to retreat for reasons of stability. IMF should make an effort to

---

19. Ibid., p. 23.

20. Ravi Gulhati, Impasse In Zambia: The Economic and Politics of Reforms, (Washington D.C., 1987), p. 46.

understand the implications of what they are doing.

It is very true that Zambia's future and only hope for the future is dependent on a total restructuring of its economy to develop both self-sufficiency and extensive export from agricultural sector.

II. INDUSTRIAL SECTOR

"When most sub-Saharan countries attained independence in the early 1960's they saw Industrial development as the way to move from the colonial pattern of heavy dependence on imported manufactures and primary exports and to achieve rapid growth and modernization. Greater self-reliance through the substitution of domestic for imported manufactures and the increased processing of local materials has consistently been the goal of African leaders industrialization efforts."[21]

"The countries of Sub-Saharan Africa are still in the early stages of industrial development, output structure and demand profile are heavily biased infavour of simple consumer goods and industrial plants are small. Linkages with the rest of the economy are very weak."[22]

"The African industrial economy is also characterized by very low domestic value added a concentration of industrial investments on simple consumer goods, a lack of competition

---

21. Kwame Nkrumah, Africa Must Unite, (New York: New York International Publishers, 1970), p.

22. Gerald, M. Mier and William Steel (ed.), Industrial adjustment in Sub-Saharan Africa, (New York, Oxford University Press) pp. 5-48.

that virtually guarantees a seller's market, unrealistic prices for labour, capital and foreign exchange little interaction between port or capital cities and the hand, and few backward linkages with the rest of the economy"[23]

The basic strategy for African industrialization during the 1960s and 1970s was to give incentives and protection for investment in industrial capacity especially for products previously being imported. State ownership a central feature of countries such as Ghana, Tanzania and Zambia that emphasized a socialist approach to development was present to atleast same degree virtually everywhere public investment was considered to be the most direct way to increase capacity while reducing reliance on foreign companies.

From independence in 1964 upto 1975 Zambia was one of the most prosperous economies in Africa. The prosperity was based on mining and export of minerals copper accounted for about 5 per cent of export earnings. The average price of copper during this time was near to twice the world average production costs. Revenue derived from minerals facilitated a rapid rise in government spending over the period 1965-73, nearly half of central government revenue came from mining. This increased government spending supported a high level of new investment, mainly

(See table 3.5)

---

23. William Steel and Jonathan W. Evons, Industrialization in Sub-Saharan Africa, (World Bank Technical Paper No. 25, Washington, D.C., 1984), pp. 12-36.

in import substituting, social services and transport infrastructure.

But suddenly the fate of Zambia started changing. The Zambian industrial sector has shown a weak growth performance in recent years. It's expansion has been acutely constrained by the foreign exchange shortage which is due to Zambia's rising debt burden. Zambia remains dependent on copper mining. The performance of the Zambian economy can be related to changes in the international price of copper which has fluctuated widely in recent years. Annual production of copper has declined from 648,000 tonnes in 1978 to 529,600 tonnes in 1982. Most copper mines are currently producing at a loss and copper deposits are expected to be exhausted over the next twenty years.

Contraction of mining also had serious consequences as far as Zambia's international trade and payments are concerned. Since export earnings depend on widely fluctuating international metal prices. The foreign exchange revenue level also fluctuated widely. Moreover even in the years when there is a balance of trade surplus, the current account usually registers a deficit due to very substantial remittances of profits, interest payments and expatriate salaries, payments for services and income transfers increased from $431 million in 1977 to $711 million in 1981.

Foreign reserves have increased slowly despite drawings on the IMF, and they are now considerably lower than annual borrowings. This unsatisfactory performance has been the result of the unfavourable external environment, distorted incentives established by exchange rate, protection, pricing and other policies like as well as problems like capacity, Utilization, productivity, factor intensity unit costs and efficiency. The public sector had particular problems, like lack of proper direction and lack of skills. Development of regional markets and indigenous enter premiership has been disappointing. These are the major constraints in the way of industrialization.

1. Industry and External Environment :

Zambia's industrial efforts particularly since 1970s have taken place during a difficult time in terms of the international economy. In international trade the most prominent problems have been decline in the prices of copper, balance of payments deficits, rising oil prices and the worldwide reunion has also weakened the commitment of industrialized countries. There are two important reasons which are responsible for the slow growth of industrialization.

2. Agricultural Output :

Agricultural output in Zambia has been generally unable to keep up with the growth of population and bias of incentives against Agriculture. This has affected the pace of industrialization through rising imports, which compete with industrial inputs for scarce foreign exchange and through the lack of growing market surpluses to supply processing industries.

3. Capacity Utilization :

The dependence of sub-Saharan Africa's import substitution Industries on imported inputs has made capacity utilization vulnerable to fluctuations in the availability of capacity due to the inability to import materials and spare parts. This is a recurrent problem. The data available show considerable variations, ranging from an average utilization rate of 26.2 percent in Ghana in 1980 to 70 per cent in Zambia in 1974-75."[24] Under utilization occurred because of delays in bringing new investment into full production and due to scarcity of foreign exchange available for imported inputs and spare parts. "The persistence of capacity under utilization suggests that a temporary shortage of foreign exchange is not the fundamental problem. The Fundamental problem is the dependence on imported rather than domestically produced inputs and excessive growth of import capacity and in many cases relative to the size of the market."[25]

"Processing industries often suffered extremely low utilization rates because of the inadequate planning of supplies, controls on the prices they could offer to farmers, crop failure and other problems. Although the sub-Saharan countries have tried to add value to their export through more extensive processing, poor agricultural performances has resulted in declining agricultural exports without any increase in processed exports".[26]

---

24. Ibid.
25. Ibid.
26. William Steel and Banirov A. Sarr, "Agro Industrial Development In Africa", Africa Development Bank, (Abidjan) June 1984), pp. 30-31.

Capacity under utilization in Zambia is partly due to the infrastructural problems, inadequate or uncertain availability of transport and power cut. The cut off from southern rail routes also created lot of problems. These problems generally raised the lost of industrial production in Zambia.

4. Productivity, Factor Intensity and Efficiency :

Excessively high capital intensity is a commonly cited problem in SSA. The structure of incentives favouring capital include exchange rates that keep the price of imported goods artificially low as well as low or no tariffs on capital goods. Furthermore the problem is more serious when the multinational corporations prefer the modern techniques used in their home countries, where labor is scarce and capital is abundant. Public sector decision makers give inadequate attention to economic and factor intensity criteria.

5. Entrepreneurship :

The success of an industrial program will depend on the availability of entrepreneurial, managerial and technical skills. Zambia suffers from this shortage of managerial experience in industry and technical skills are needed for technological innovation. The lack of domestic entrepreneurship was one justification for direct public intervention. By giving people experience in managing firms, the public sector to some extent created a group of potential entrepreneurs with the knowledge of contracts and access to resources necessary to go into the business for themselves. On the other hand the policy bias toward large scale capital intensive investments has inhibited the ability of small entrepreneurs to engage in commerce rather than invest in manufacturing which involves long term and risky payoff. An important condition for entrepreneurial developments in small-scale industries evidently is a generally positive policy environment and a complementary rather than competitive role for the large scale sector.

6. Role of Public Sector - Ownership of State:

Public sector investment has played an important role in the expansion of the industrial sector. Zambia achieved relatively high public sector share of production (56 percent) largely through acquisition of foreign owned companies. Dr. Kaunda announced a series of nationalizations and other reforms to implement Zambia's humanist philosophy government controls were damped over high profit industries. So that the surplus could be used for investment in the national interest rather than repatriated on the whole the nationalization of firms have proved disappointing in their ability to generate investment funds and even to earn profit. Underutilization and lack of working capital are common problems of parastatal firms. The principal problem of management has not been the qualifications of managers but the limitations imposed on parastatal firms by governments political interference is a common phenomenon in not only investment decisions but also in day-today operations. There are the major constraints in the industrial sector of Zambia. (See table 3.6)

7. Manufacturing Sector :

Zambia's manufacturing sector is large compared with that of sub-Saharan countries contributing over $600 million to GDP in 1982 and employing 60,000 workers. The 18 per cent share of manufacturing in Zambia's GDP is higher than any other country. From 1965 to 1970 manufacturing GDP grew at over 4 per cent per year, but falling agricultural production together with negligible growth in mining resulted in a decline in real GDP per capita. "During 1970-75 the price of copper fell by 40 per cent, copper production fell by 9 per cent and the contribution of mining sector to GDP fell by 10 per cent. The impact was severe on the balance of payments position.the economy in general, and particularly on the manufacturing output which fell by nearly 12 per cent in 1975. This decrease can be attributed largely to a drop in demand, both in the aggregate and in the mining sector in particular."[27] "Manufacturing consisted mostly of consumer goods but metal products and chemicals were also prominent. The sector absorved a large share of investment and imports. Almost all its output was sold in the home market, it therefore continued to be a large net consumer of foreign exchange. Total factor productivity declined at an average rate of 3.8 per cent per annum during 1965-80. (See Table 3.7)

27. World Bank Industry Department And Eastern Africa Projects Department, "Zambia Industrial Policy and Performance", (Washington D.C., 1984).

The only branches on which productivity increased were leather products, footwear, petroleum and coal products, and rubber products".[28]

The inability of Zambia's manufactures to penetrate foreign markets is the result partly of structural impediments like (a) it is a land locked economy (b) shortage of local managerial and technological expertise and (c) small home market and partly generated by the parassatal and trade regimes.

"The orientation of parastatals was affected not only by general government policies but also by several organizational features and management policies peculiar to these firms. First, several new projects were selected without proper technical or economic screening. A good example is the second plant of Nitrogen chemicals of Zambia. Construction started in 1975 with foreign financing and the plant become productive rising above 40 per cent of rated capacity."[29]

"Secondly the insistence on rapid Zambianization led to the appointment of such people to key positions who did not have proper qualification and experience. Third, these managers and professionals were not allowed to stick to their posts for a reasonable time, instead they were shunted

---

28. Ravi Gulhati, Impasse in Zambia: The Economic And Politics of Reform, (Washington, D.C., 1987), pp 41-47

29. Ibid, pp 41-47

around from position to position. Consequently, learning on the job was undermined and the attitude of "milking company" was widespread. There was no effective training program. Finally, overstaffing is a conspicuous feature of parastatals. This become very obvious during 1975-80, when jobs increased twice as fast as the volume of production in the public sector while private firms shed workers more rapidly than their output fell."[30]

Capacity utilization in Zambian manufacturing was affected by the shortage of foreign exchange because it is highly dependent on imported inputs and spare parts. Only the food, textile and footwear industries import half their intermediate goods. Metal products is the most import intensive activity, with imports accounting for 81 per cent of all intermediate and 40 per cent of the value of gross output. The six principal products that have been exported are cement, sugar and molosses, copper cables, menswear, crushed stone and lime and explosives. These account for about two-thirds of total manufactured exports are exceptionally small. (See table 3.7)

8. <u>Mining Sector</u> :

At independence the economy was highly dependent on the copper mining industry. Mining alone accounted for 49.6 per cent of the country's GDP at the time out of a total about K673.8 million contributed by copper, Zinc, Cobalt, lead. Copper alone

---

30. Ibid, PP 28 - 45

accounted for approximately 96.5 per cent or K650.4 million. Industry in Zambia even at present now refers largely to copper mining. Before 1969 the mining sector was wholly owned and controlled by two foreign conglomerates. The Anglo American Corporation (AAC) and the American Metal Climax (AMAX).

When the entire mining industry was operated by two companies it became more outward looking in the sense that it was less integrated with the internal economy and oriented towards and dependent on external demand.

"The role of copper mining had expanded enormously since the 1930s. By 1965 the mining sector supplied 93 per cent of exports, 71 percent of government revenues and 40 per cent of GDP. It was the economy's growth engine and it dominated both the Zambian balance of payments and public finance. Earnings from copper were heavily dependent on the fluctuating world market price, over which Zambian authorities had no control, and on the mining investments and production decisions of the foreign mine owners. The government's continued dependence outside sources for expertise, technology and market access. The goal of full control was whittled down to buying 51 per cent of the stock. Foreign minority share holders were to provide management marketing and consultancy services for a fee."[31]

During the pre-reforms period in the mining sector AAC & AMAX retained ownership and effective control both at the

---

31. Ibid, PP, 1-45

administrative and operational levels. Several measures were implemented by the Zambian government prior to the reforms in order to increase the states share of the economic returns that was generated by this crucial sector. Nationalization therefore took place on a large scale. In 1971 the Zambia industrial and mining corporation (ZIMCO later became ZCCM) introduced the Zambianization policy and skilled jobs were fragmented and restructured, leading to cumbersome staffing practices and clearcut responsibilities. The government united the role of expatriates, and it was dropped from 16 per cent of total in 1964 to 10 per cent in 1971 and 3.5 per cent in 1983.

Despite this even the government encouraged foreign investment but President Kaunda wanted that the maximum mining companies will be allowed to remit abroad in dividends only half of their profits. The other half should be directed towards further development in Zambia. The government announced the mineral tax act of 1970. The companies accused the government that it was not the companies 'unwillingness' to reinvest their profits in Zambia but the faulty nature of the government tax formula that was not conducive to further mining reinvestments.

In fact, the Government was Royalty taxing on the production rather than profit. The payments by the companies to the Zambian Government could rightly be perceived as a cost of production rather than a tax on profits.

To attract the Foreign investment they changed policy direction from 1976 onwards. Industrial Development Act in 1977 provided various investment incentives remittance guarantees and, they provided guidelines to investors. And later one more act was passed in 1986. This act provided to the public sector both domestic and foreign, various incentives to enable it to play its rightful role in the Development of the Zambian economy. The Act did not discriminate against any investor domestic or foreign. There was no restriction on joint ventures between a foreign investor and a Zambian counter part, the Main objective was to increase production and productivity for national development, to maximize the extraction and utilization of the immense natural resources of Zambia in a manner conducive to the mutual benefit of the investors and nation and to promote effective employment and the development of skills and technology in Zambia.

Recent IMF Policy Reforms In Industrial Sector and Its Effects :

When the prices of Copper collapsed and the deterioration of the balance of payments position and a further worsening of the budgetary situation forced Zambia to seek the help of IMF. Major reform programms introduced in the industrial sector since the first standby agreement, to improve incentives for greater production on Industrial Development Act was passed with a view of to attracting private foreign investment. Policies related to parastatal controls were released such as simplifying the process for approving price increase on essential goods, requirements for borrowing and allowing them more autonomous management arrangements.

Now we will focus how IMF policies effected industrial sector.

10. <u>Exchange Rate Policy</u> :

IMF advocated devaluation by a fixed exchange rate Zambia devalued its official rate by 35 per cent in 1983 and established a flexible exchange rate policy. Zambia gave exporters extra incentives through partial retention of earnings. Zambia eliminated import licensing in 1985 by introducing a foreign exchange auction for all imports. "For Zambia it was argued a devaluation would result in increased copper sales and a decline in the demand for imports. This reasoning is actually wrong. Sales of copper are determined by the London Metal exchange price and value of the Zambian currency play no role. It would however ensure that more Kwacha is earned per metric tonne of copper sold, at the same time the copper industry and all other industries in the economy would have to play more for the various inputs that they import. In a diversified economy the change in relative prices due to devaluation would result in a switch to the local inputs; but this cannot happen in an economy without domestic substitutes for imports. The auctioning system brought havoc and ruin to the large number of enterprises."[32] But the manufacturing sector was in a much better position to benefit from the auctioning system. The manufacturing sector bought

---

32. Coleb Fundangu, "The Role of the IMF & World Bank in Zambia", in edited book, Onimode Bode (ed.), <u>The IMF, The World Bank And The African Debt, The Economic Impact</u> (New Jersey: Zed Books Ltd., 1989), p.144.

US $1134 million worth of imports during the first year of auction. Mostly for intermediate goods, spare parts and replacement for wornout machinery. Private firms did better than Parastatals. But the small scale industries had problems, because financially their position was weak, resulting in a limited capacity to bid for foreign exchange. As a result small scale industries closed down.

11. Policy of Liberalization :

The IMF always insisted on the removal of barriers of trade. In Zambia the effects of this policy in combination with the high cost of borrowing made it more profitable to engage in trade than to produce. These measures raised the cost of industrial production closer to economic levels and increased competition from imports."[33] The free trade policy brought about a situation where even companies long engaged in production started to bid for foreign exchange to import finished goods. Domestic industries were thus being destroyed by foreign industries.

12. Pricing Policy :

The deregulation of prices is generally favoured by the IMF. Decontrolled prices were favoured in Zambia to raise prices and create incentives for producers. "It has been argued that due to the monopoly nature of third world economies, the price that finally emerge are not market prices. It is, therefore,

---

33. William I. Steel, "Recent Policy Reforms and Industrial Adjustment in Zambia and Ghana", Journal of Modern African Studies, vol. 26, no.11, March 1988, pp. 157-164.

the responsibility of every government to protect its people from the monopoly prices especially if these monopolies are transnational corporations which end up repatriating their monopoly profits."[34]

12. Interest rate policy :

The IMF has always advocated higher interest rates as part of its monetary policy. "In Zambia at the height of the 1984-86 agreement period, interest rates had reached levels of over 35 per cent. With such high costs of borrowing, there was hardly any new investment in the economy. Instead a large number of companies were going out of business, thus increasing the already high level of unemployed". Zambia attempted to improve the investment climate by issuing new investment codes and public policy statements that specified an important role for private production programmes were launched to make the public sector more efficient by reducing government holding in unviable firms and improving public enterprise management and organization.

Changes in fiscal and monetary policies were important components of the reform programmes. These included lowering the relative share of government borrowing in the economy, reducing budgetary subsidies, achieving market determined, positive real interest rates.

---

34. Caleb Fundanga, "The Role of the IMF & World Bank in Zambia", in Onimode Bode, (ed.) The IMF, The World Bank and the African Debt, The Economic Impact, vol. I (New Jersey: Zed Books Ltd., 1989), pp. 144-145.

Despite all these reforms the Zambian economy deteriorated considerably. IMF policies like such as cuts in subsidies and wage free has led to riots on the copper belt in which 15 lives were lost. It was precisely after the riots that people started to question the use of a policy which made the government increasingly unpopular with the electorate.

Conclusion :

The copper rehabilitation program started out with great deal of promises but its implementation was frustrated by a host of difficulties. For the failure of the programme both the IMF and the Government are equally responsible. The problems which they face are out of their control. Consequently, they should not rely on cutting imports to achieve improved trade balances. Export expansion is the only possible way with increased demand for exports as well as increased supply of tradables. All these adjustment programmes require more finance. In Zambia copper exports are being reduced because of lack of foreign exchange for essential equipment and parts. More medium and long term finance is essential for growth oriented adjustment. Trade would help the primary product producers in keeping commodity prices more stable. Zambia's only hope for the future is dependent on agriculture. It should diversify the economy to develop both self-sufficiency and extensive export earnings from agriculture. In May 1987, the Zambian government suspended the reform program, and they replaced a new strategy of "growth from own resources". At the time of denouncement President Kaunda recalled his hope that, "clear day light may not have broken out yet for all to see but the night is certainly melting away and Zambia is only sailing through the small hours before the full dawn of the new economic morning open upon here."[35]

But a tough road still lies ahead for emotional and idealistic Kaunda, to make his dream come true, for that cause a lot of sacrifices are needed. Kaunda's political philosophy of humanism has been only a nice sounding word to most Zambians.

---

35. Indian Express, New Delhi, 5 January 1978.

Table 3.1

Growth components of GDP, 1970 - 84 (in constant price)

	Average annual Growth Rates (%)		Annual Growth (%)				Share of GDP
	1970-75	1975-80	1981	1982	1983	1984@	1983(%)
GDP (Market prices)	2.1	-0.3	4.7	-2.0	1.7	-1.3	
Agriculture	1.4	0.9	7.8	-11.7	8.4	9.5	14.7
Mining	-1.2	-1.2	8.5	0.0	3.0	-8.1	14.0
Other industry	6.6	-0.9	1.5	-0.9	5.1	-1.3	25.3
Services	2.7	0.8	1.9	-1.6	-4.3	-3.5	46.0
Consumption	3.5	0.2	13.4	-8.8	-4.4	-1.5	86.0
Gross investment	2.8	-11.4	-16.0	-23.5	-24.2	-20.2	14.0
Imports	-0.5	-7.2	-17.5	-22.0	-15.6	-23.2	35.3
Exports	0.0	-1.4	-12.9	-15.7	-9.7	-14.6	35.5

@ All 1984 estimates are provisional and will be subject to considerable revision.

Source : Calculated from data in World Bank, Zambia: Policy Options, pp. 70-72, , except for 1984 data which is from Government of Zambia, Economic Report, 1984.

Table 3.2

Selected price indicators, 1970-83

	Average annual growth rates (%)		Annual growth rates (%)			
	1970-5	1975-80	1981	1982	1983	1984
International terms of Trade (Barter)	-13.0	-0.7	-26.5	-26.7	-20.0	-6.0
Low income urban cost of living	5.7	12.5	24.0	12.5	19.6	19.0
GDP deflator	1.6	11.6	9.4	5.5	16.5	14.5
Producer price for maize	6.1	15.2	15.3	18.5	14.4	33.9
Producer price for Cotton	24.6	8.9	0.0	2.2	10.6	11.5

Source: World Bank, Zambia: Country Economic Memorandum, See Note 7 supplemented for 1984 by Govt, of Zambia, Economic Report 1984.

Table 3.3

Disbursements of external loans and grants 1980–4 (US$m.)

	1980	1981	1982	1983	1984
Loans:					
Bilateral	261	178	164	71	51
Multilateral	85	71	52	53	59
Suppliers' Credits	176	116	34	5	2
Private Banks	108	42	99	47	35
Grants					
All sources	30	26	30	42	50
Total Loans and Grants	660	433	379	218	197

Source : Adapted from World Bank, Report to the Consultative Group on Zambia, p. 12, see note 21.

Table 3.4

Summary of agricultural production trends

Crop	Average annual change in market production(%) 1970–5	1975–80	1980–4
Maize	27.2	-6.1	8.4
Wheat[a]	-	-	6.8
Paddy-rice[b]	-	14.0	19.7
Sunflower[c]	-	13.1	18.6
Virginia tobacco	5.1	- 7.2	- 8.7
Seed cotton	-11.6	43.7	13.4
			1980–3
Groundnuts	10.3	- 17.6	50.4
Sugar cane	15.6	3.1	4.2

a Wheat grown in significant quantities only from 1976.

b Paddy grown in significant quantities only from 1975

c Sunflower volumes became significant in 1974.

Table 3.5 17.1

Sources of Growth of Manufacturing Outpur and Import Substitution

Indicator	Kenya	Tanzania	Zambia
Sources of growth[a]			
Import substitution (%)	17	-1	55
Domestic demand (%)	70	96	44
Export demand (%)	13	5	1
Period (Years)	1963-71	1965-72	1965-72
Manufactured imports as percentage of supply[b]			
1965	49[c]	56	66
1972	41[d]	57	47
Imported inputs as percentage of gross output			
1964	20[c]	16[e]	26
1970	30[d]	14	18[f]

a. For the methodology underlying this calculation, see P. Desai, "Alternative Measures of Import Substitution", Oxford Economic Papers (November 1969).

b. Imports plus gross output of manufactures.
c. 1963
d. 1971
e. 1965
f. 1969

Table 3.6 18

Role of Parastatals in Manufacturing, Tanzania and Zambia (percent)

YEAR	Share of employment		Share in gross output	
	Tanzania	Zambia	Tanzania	Zambia
1966	7.7	n.a.	8.9	n.a.
1967	17.0	n.a.	25.8	n.a.
1968	23.1	14	30.4	10
1969	28.5	12	35.1	17
1970	32.0	17	37.8	27
1971	46.4	36	42.9	46
1972	40.9	37	47.1	45
1973	47.6	n.a.	43.4	n.a.
1974	49.7	n.a.	44.9	n.a.

n.a. = Not available.

Source: Tanzania, Ministry of Finance and Planning, Bureau of Statistics, Survey of Industrial Production; Analysis of Accounts of Parastatals 1966-1974.

Table 3.7

Zambia's Manufacturing Production and GDP at Constant Prices, Selected Years 1965-83.

Manufacturing production and GDP	1965[a]	1970	1974	1975	1979	1983
Index of industrial production (1973 = 100)	n.a.	81.8	110.6	105.5	96.2	99.3[b]
Manufacturing GDP at constant 1970 prices						
Value (millions of kwacha)	75.0	129.2	178.9	157.6	163.0	184.5
As percentage of GDP at market prices						
Constant 1970 prices	6.8	10.2	12.1	11.0	11.9	12.5
Current prices	6.8	10.2	12.6	15.8	17.0	18.6
Total GDP at constant 1970 prices						
Value (Millions of kwacha)	1,103.0	1,268.5	1,473.9	1,438.1	1,370.1	1,479.1
Per capita (kwacha)	325.9	305.0	313.6	296.8	250.2	236.5
	Annual growth at constant prices (percent)[c]					
	1965-70	1 70-74	1974-75	1975-79	1979-83	
Industrial production index	n.a.	7.8	-4.6	-2.3	1.1	
Manufacturing GDP	11.4	8.5	-11.9	0.8	3.1	
Mining GDP	0.4	0.8	- 9.8	-2.2	4.7	
Agricultural GDP	-2.1	2.5	4.3	0.5	1.8	
Total GDP	2.8	3.8	-2.4	-1.2	1.9	
GDP per capita	-1.3	0.7	-5.4	-4.2	-1.4	

n.a. Not abailable
a Former national accounting methodology.
b For 1982
c Compound growth between end points.

Sources: Zambia, Central Statistical Organization, Monthly Digest of Statistics, and World Bank data.

CHAPTER - IV

IMPACT OF IMF POLICIES ON POLITICS OF ZAMBIA

CHAPTER - IV

IMPACT OF IMF POLICIES ON POLITICS OF ZAMBIA

Introduction :

This chapter is divided into two major sections. The first section deals with the process of class formation from colonial times but especially during post-independent period in Zambia. It also emphasises how the dominant classes have managed to maintain themselves in power in post-independent period. The Role of tribal politics and the role of opposition, now single party emerged is also outlined here. In the previous chapters it has already been discussed about the Zambian economy and its relationship with the IMF. In the Third Chapter, we focused on the Agricultural and Industrial sectors in relation to IMF policies. Now in this chapter we will lay more stress on the politics of Zambia, stating the most important theoretical issues involved in class formation and how one major class dominated Zambian politics and how this class maintained relationship with other classes to hold the major power share in the Government. Section II deals with the reduction of different classes towards IMF policies and who benefited from it and who created political instability.

I.

1. Roots of Class formation :

The colonial political economy divided the Zambian economy into two major strata. The Zambian working class or semi-proletariat group and the Zambian peasantry. Mudenda says, "Zambia as a part of the world capitalist system is a social formation in which the capitalist mode of production predominates. As a capitalist society, Zambia presumably has the same type of classes as conceived by Marx, the bourgeoisie, the proletariat and the peasantry".[1]

The bourgeoisie in Zambia is divided into three sections. The imperial/comprador bourgeoisie; the bureaucratic/managerial bourgeoisie and petty bourgeoisie. Mudenda would consider people who own the companies dominating Zambia's economy e.g. A MAX and Anglo-American as the imperial fraction, those who are domiciled in Zambia and locally represent foreign companies as the comprador fraction, and the national fraction of the Zambian bourgeoisie are presumably indigenous private business owners.

The second major section of the Zambian bourgeoisie is the bureaucratic managerial one. Again this group can be divided into three. "Top level party and government functionaries, top level executives in the state owned corporations and the top ranking officers in the defence and security forces."[2]

---

1. Mudenda Gilbert N., "Class Formation and Class Struggle in Contemporary Zambia" in <u>Contemporary Marxism</u>, no. 6, Spring 1983, pp. 95-118.

2. Mudenda Gilbert N., "The process of Class formation in Contemporary Zambia". <u>Beyond Politics and Independence</u>, Klan woldring (ed.) (London: Moutan, 1984), pp. 113-160.

The other major class in Mudenda's analysis is the working class. The working class is fractionalized into three sections. The rural agricultural workers and the informal sector workers. The modern sector working class again fractioned into those workers in mining, manufacturing, construction, transport, power, Government and financial services as distinct from each other. The second section of the Zambian working class are the agricultural workers; these consist of two sections, plantation and seasonal workers. The third section of Zambian working class are informal sector workers, who do not control the means of production and neither they do control other people's labor. Mostly they exist in unregistered enterprises.

The third broad class group Mudenda sees in Zambia is the peasantry; again it is divided into three subsections - the rich peasants are those who own the means of production, the middle peasantry are "emergent" farmers who own their means of production, but they depend on family and seasonal labour. The rest of the peasantry are poor - they are non-owners of the means of production and operate marginally to the economy.

In colonial period the classes which existed in Zambia were not organised, they were scattered, but the real organised class formation is largely seen as a post-colonial phenomenon.

2.1 Class formation in post colonial period :

The period from independence to the late 1960s is seen by Baylies and Szeftel as one in which there was a gradual growth in the ranks of indigenous businessmen. They claim it was most noticeable in agriculture, commerce and construction. With the matero and Mulungshi pronouncements the state sector expanded. Baylies and Szeftel claim that "by the early 1970s indigenous Zambians came to hold about 99 per cent of commercial farm land. In commerce the reforms provided for restrictions on foreigners resulting in the transfer of 90 per cent of retail business to the rising class of indigenous private owners".[3] They said that about 182 companies either had a majority or half share holding by indigenous businessmen. Seventy percent of the new firms in transport, 53 per cent of the new firms in commerce and distribution and 46 percent of the new firms in manufacturing are said to be owned by indigenous Zambians".[4]

Mudenda describes three periods of class struggle and alliances since independence. "The first of these lasted from 1964 until 1971 and can be characterized as a period of adjustment from the preceding nationalist period, in which an alliance of classes led by African Classes led by the African petty bourgeois elite fought against colonialism and various forms of racial discrimination. In this adjustment period, ~~of~~ alliance began to split as petty bourgeoisie consolidated its

---

3. Caruly N.L. Baylies and Moniszeftel, "The Rise of Zambian Capitalist Class in the 1970's", Journal of Southern African Studies, vol. 8 no. 2, 1982, pp. 191-192.

4. Ibid., p. 192.

control of the state and then became a bureaucratic bourgeoisie. In order to consolidate their power further they adopted Humanism as the national ideology combining elements of nationalism, socialism, Christianlity and "tradition" and they enacted an economic nationalization programme which attempted to satisfy their interests and those of multinational capital, while at the same time conforming to widespread nationalistic sentiments".[5]

"The second period lasted from 1972 until 1978. It was characterised primarily by the one party system, incorporating official party dominance over government and a constitutional status for Humanism to conceal from the public the concessions that were being granted to foreign monopoly capital and contain class struggle by appearing to make popular mass interest dominant."[6]

"The current period which began in 1979 is characterised by open class struggle, in which other sections of the bourgeoisie as well as workers and peasants advocate alternatives to the peasant organizational bourgeoisie leadership, their policies and the form of Government they have evolved."[7]

---

5. James R. Scaritt, "The analysis of social class, Political participation and public policy in Zambia", Africa Today vol. 35, 1983, p. 12.

6. Ibid., p. 12.

7. Mudenda Gilbert N. "Class formation and class struggle in Contemporary Zambia" in Bernard Magubane and Nzongola (ed.) Proletarianization and Class Struggle in Africa (San Fransisco, Synthesis Publications, 1983), pp. 109-14.

The Mudenda study shows that class formation is largely seen as a post-colonial phenomenon. The post colonial regime has successfully replaced settler and colonial bureaucrats with Africans. "Zambianization" was a policy specially aimed at such replacements. Robert Molteno and William Tordoff state in the conclusion of Politics in Zambia that "classes obviously do exist in Zambia, both objectively and subjectively conscious groups. The new middle class which has grown up since independence is largely the product of the Africanisation of the civil service. Its numbers and power were significantly swelled by the economic reforms. The latter benefited particularly those few educated Zambian civil servants who switched to lucrative posts in the expanding parastatal sector and those emerging Zambian business men who were shielded by the state from foreign competition. In little more than a year after the April 1968 reforms some 300 of the 850 foreign-owned shops changed lands, while Zambianisation in the transport contractor and certain other fields reached 83 per cent".[8]

Timothy shaw emphasizes the significance of a ruling class in Zambian politics reinforced by a high level of dependence on international capitalism and an alliance with the Labor aristocracy of unionized workers. For shaw the ruling class is composed of senior officials in the government and the parastatals. In Zambia it is very clear that "bureaucratic bourgeoisie" is the ruling

---

8. Molteno Robert & Tordoff William, "Independent Zambia: Achievements and Prospects" in William Tordoff (ed.) Politics in Zambia (Manchester, Manchester University Press 1974), p. 394.

class. But this is not monlithic among its members, they have conflicting interests.

2.2. The Tribal Politics in Zambia: The Role of UNIP & Emergence of one party system :

Zambian politics are always dominated by tribal and provincial groups. This section deals with the ethno-regional or ethno linguistic conflicts generally termed tribalism to explain the political upheavals of the first Republic that led to an end to the multiparty system. This section tries to show how national politician and some civil servants used the language of tribalism to mark a more complex process of class consolidation and personal accumulation of power and prestige. The struggle for independence had produced powerful politicians with their own regional and class power bases and their own distinct notions of what the new government should do. In a broad sense there are four tribal or linguistic groups occupying a dominant place in Zambian politics and government. "Among the four, the Bemba who are numerically the larger reside in the Northern and Luapula provinces and constitute a majority of the mine workers. Being the most militant in nationalist policies, the Bemba gave maximum support to the United National Independence Party (UNIP) ever since it was founded.[9]

"In the southern province are localied the Ila-Tonga speaking tribes who, as a cattle-rearing people and also because of higher exposure to European enterprise have a very different social culture. In politics, the Ila-Tonga have given unswerving

---

9. Anirudha Gupta, Government and Politics in Africa (New Delhi, Vikas Publishers, 1975), p. 130.

support to Harry Nkumbula's African National Congress (ANC) which started the anti-Federation struggle in the early 1950s.... In the western province of Zambia previously known as Barosteland, live the Lozi who, because of the protectorate status of their province until independence, have maintained their traditional social structure under a paramount chief called the Litunga".[10]

The fourth tribal group is Ngoni who have ruled the Eastern and central provinces. Though they are numerically small, the Ngoni have tried to form informal coalition with other tribes in order to check Bemba dominance in politics. At the time of independence the political conflict was emerged between UNIP and the A.N.C. but later UNIP consolidated its power, the conflicts started emerging within UNIP itself. When UNIP won the elections there was large measure of support for UNIP in the Bemba speaking provinces. So the non-Bemba elements in the party feared that unless they look special care of their groups they would be dominated over by the Bemba. This fear of Bemba made Nkumbala to maintain his hold on the Southern province. But in 1964 elections the UNIP had emerged as the dominant party with 55 out of 75 seats in parliament. The first five years after independence appeared to justify the expectations of Zambians. Zambia in 1964 was relatively wealthy, copper produced a significant surplus, sufficient to allow the new government to embark upon an ambitious development programme, reward were liberally granted to Those who actively contributed to the independence struggle.

---

10. Ibid. pp. 130-131.

Access to loans, licenses, employment opportunities agricultural c Cooperations favoured local UNIP officials and strong UNIP regions. Even at the level of political representation all the Bemba region people had given key posts in the cabinet. Then Lozi speaking people threatened to withdraw from the party altogether unless they were given adequate representation in the cabinet. Thus President Kaunda had secured four Lozi speaking ministers. "Thus under the first National Development Plan, government allocated a large sum of money for the development of the province presumably with the hope of winning the gratitude of the local people. But Nkumba skilfully used the situation to his own advantage by pointing out that so long as his tribes men stayed out of UNIP, they were bound to get such extra-concessions from the government. This was a language of politics which the southerners readily understood."[11] This was demonstrated during the election to the local council. The second set back on UNIP came in 1968 when four by-elections were held in Southern provinces where ANC was dominating. Any how all these set-backs did not affect the domination of UNIP political position. But as long as Nkumbula's party continuing, it continued to check the domination of Bemba speaking leaders. On the other hand in 1966 two hozi Ministers were dropped from the cabinet on charges of corruption, even though they have substituted by two other hozi candidates. There was a lot of discontent among the Lozi people that justice not being done to the people of Barotseland. Barotseland remained economically the least developed when government banned

---

11. Anirudha Gupta, <u>Government and Politics in Africa</u>, (New Delhi: Vikas, 1975), p. 130.

the labour migration from the province to South Africa. Thus this act of government aggravated the Barotseland people, where they are suffering from chronic problem of unemployment. At this crucial juncture government banned N. Mundia who represented the United Party, which created violent clashes between the U.P. and UNIP. "The more the U.P. seemed to grow stronger the more the more the hozi leaders agitated that their interests were being threatened by Bemba speaking people. Then hozi leaders formed an alliance with the Ngoni-speaking leaders of the Eastern and Central provinces for an eventual power contest within the UNIP. On the other hand the Bemba speaking factions made an alliance with Tongar speaking group which was represented by Mainza Chona, a bar-at-law."[12] Due to this eventual power contest created lot of instability in the country. In 1967 elections Kapwepwe factors emerged victorious (who later created a new party called United Progressive Party). In 1971 Kapwepwe broke with UNIP and this move threatened to seperate key UNIP strong holds in the north and on the copper belt. Emergence of Kapwepwe had made difficult (among UNIP) to accept him as national Vice-President who came outside Bemba speaking province. On the other hand the Eastern Province a new stronger "Unity in the East" was coined. Then at this point he announced economic reforms in 1968 ... under these reforms government acquired majority control in more than a score of big foreign-owned companies. Under nationalization

---

12. Tordoff William, "Political Crisis in Zambia", Africa Quarterly, vol. 10, no. 3, October-December 1970, pp. 225-36.

the government control of foreign banks and insurance companies. In fact "the reforms of 1968-69 clearly sprang from intra-party developments forcing Kaunda to take a bolder stand on economic matters in order to rally the support of the party ranks"[13]

Thus economic reforms were takes at a time when there was a grave crisis in the party and after announcing them, he consolidated his position as well as his party's position in the tribal struggle race.

These struggles eventually led to the demise of the multiparty system. Although the UNIP leaders were uncomfortable with the continuation of ANC's opposition, they want that the ANC should shrunk to a limited regional party, for that purpose Kaunda insisted that the end to other parties should come through the ballot box, that was when the UNIP cadres put their energies. In 1968 when ANC staged a come back and won four by-elections seats. Now the opposition was beginning to threaten UNIP's hegemony, then UNIP took a course of action in order to obtain a centralized control of government, enforce discipline on the party ranks on one hand on the other hand, he expelled Nalumino Mundia from UNIP in 1967, then he took over the Presidency of Barotse based United Party. The U.P. was banned in 1968 then its leaders threw their support towards ANC. The merger was welcome to Nkumbula to extend his control beyond

---

13. Anirudha Gupta, Government and Politics in Africa (New Delhi, Vikas, 1975), pp. 130-135.

southern province. In 1968 elections ANC won 23 seats, it caused pain in the neck of UNIP. To prevent ANC, the speaker refused to grant recognition to the Congress as opposition party. Then many of the leaders detained behind bars, then UPP was banned Kapwepwe and more than hundred leading members were detained. When there is political clashes in Copper belt between UPP and UNIP, then UNIP took advantage of the time, then it argued that the introduction of one party state as a necessary counter to rising tide of political violence. They argued that the need to create a one party-state to over come political disunity. The decision to legislate one party state was then justified in terms of danger presented to national unity by factionalism within the party. Then in 1972 to consult the public options, the government appointed a commission, after submission of Committee's report on December 12, 1972, the National assembly passed an amendment making Zambia a one party state. The only serious opposition being expressed by the ANC, but the government now became strong enough to suppress the voice of ANC. But one party system certainly helped to reduce political lessions. The President can select his team and give his government as broader representation as he wants to. Any way President Kaunda was successful in eliminating all his opposition and created conditions for political stability. His position became absolute, both, unquestioned and unquestionable.

1.3. <u>The Role of Trade Unions and Politics of the Copper Belt</u>:

The history of Trade Unions in the Zambian copper belt can be described as the story of a conflict resulting from the attempts of the government and UNIP to control the Mine workers and the determination of the latter to resist such attempts".[14] "On the one hand the Unions have been anxious to define the political role of the government and the party in relation to the labour movement. On the other, the government and the party have shown their determination to define the economic role of the trade unions".[15] Kaunda especially called on the Copper miners to sacrifice for the national good, since the copper industry was the main source of revenue for the creation of a new Zambia. In order to ensure mine workers discipline UNIP and the government tried to take over the African Mine workers' Union and to control the workers through UNIP dominated Zambian Congress of Trade Unions (ZCTU). Instead of cooperating with UNIP in its corporatist scheme, however "the Miners rejected UNIP's bid to take over the Union leadership, a position which they have subsequently maintained, despite frequent attacks from the state."[16] In fact the Copper belt miners play a key role, out of all proportion to their limited numbers, they represent the longest organised working force in Zambia, their collective bargaining capacity is derived from the central place which the Mining sector occupies in the nation's economy as the best paid, best house facilities, they constitute

---

14. Anirudha Gupta, Trade Unions in and Politics on the Copper Belt" in William Tordoff (ed.) Politics in Zambia (Manchester; Manchester University Press, 1974), p. 288.

15. Ibid., p. 288.

16. See Timothy M. Shaw, "Beyond Neo-Colonislism: Varieties of Corporation in Africa", Journal of Modern African Studies, Vol. 20 (2), June 1982, pp. 239-261.

privileged group in society.

But the union and Miners always confronted at certain policies. With regard to the mining industry the objective of the government was that they wanted full cooperation from both management and the workers to maintain and expand production for the successful implementation of its economic policies and on the other hand it wants to extend its political control which can create strong hold on copper belt. In 1971 the amendment to the trade Union and a trade dispute ordinance of 1965 and the industrial relations Act No. 36 made strikes illegal. The new Union "The Mine Worker's Union of Zambia (MUZ) came into existence representing all Zambian miners was brought more directly under the control of ZCTU and ministry of labor. To tie high level Union officials more tightly to party and government the President of MUZ, David Mwila became director of Zambia Industrial Mining Corporation (ZIMCO). Despite this coercion most mine workers grew steadily more dissatisfied with Union leadership. In fact the late 1960's gives a clear picture of the alliance between three powerful classes in Zambia. The Government (UNIP), the mining companies, and the high level of MUZ officials. This new class quickly acclimatized to the new prerogatives of power. The class interests of the bureaucratic bourgeoisie and the national interest could coexist better when the establishment of a one party state UNI and the growing bureaucratic class gradually expanded their control over the government. The civil servants were permitted to join the inner circle of UNIP, and a number of them were appointed to the cabinet and central committee. Despite the publicly acknowledging inefficiencies of the civil service, especially the Parastatals, Kaunda has defined his class against recent attacks by the growing indigenous business class and others. He ignored the Mwanakative Reports conclusion that the political super structures are the serious constraint to efficiency."[17] In this way Kaunda has systematically increased his own power, his party's influence where his political base continues to be founded.

Until the recession, this bargain between the miners and UNIP successfully stifled most opposition to UNIP. Union leadership supported the stated national goals of the party and the workers raised little overt objection. The workers appeared to be interested primarily in the wage settlements of 1973 and 1976 and in promoting their own prosperity.[18] The finest post-independence decade was characterized as a relatively high level of cooperation among bourgeois forces and the cooperatives of some elements in the working class. However, after nationalization of companies, the new classes emerged, as classes formed the economy stagnated more antagonistic contradictions became apparent. As the parastatals expanded they emerged as the high 'decision makers' of the economy.

---

17. Parpart & Shaw Timothy, "Contradiction and coalition: Class Fractions in Zambia, 1964-1984", Africa Today, vol. 35, 1983.

18. Ibid., p. 32.

The decade of 1970s witnessed an extension and intensification of class consciousness and lot of contradiction among the classes of Zambian economy. When prices of Copper declined the prices of food and energy increased. The mine workers and MUZ officials have become much less supportive of the corporatist state over the last ten years. Kaunda complained of the incessant attacks on the leadership of the nation" by union leaders.[19] "That same year the wives of the miners took their empty pots, pans and plates before government offices on the copper belt and demanded that they be filled with food. In 1980 there were over 120 strikes or go-slows and in July of 1981 a massive strike brokeout on the copper belt. The skilled workers demanded the same pay as Europeans doing similar work, and all the miners struck in sympathy. The President of MUZ insisted that these strikes are symptoms of the people's growing disenchantment will government's economic policies. Another Union leader warned that the mood of the workers is grim. Their living standards are falling fast and we may not be able to hold them back longer."[20]

In the last decade the copper belt has become a focal point for opposition to UNIP's growing power. "In 1978 Musonda Chambeshi a UPP member won clear by election victory in the mining town of Launshya despite a fierce campaign against him. During his brief spell in Parliament Chambeshi denounced corruption and

---

19. Times of Zambia, 12 October 1979.

20. Parpart and Shaw Opcil; N. 17

soaring prices both issues dear to the heart of mine workers."

To curtail the agitating mood of miners, all the important leaders of union expelled from UNIP. In fact this action provoked the serious industrial unrest on the copper belt, all the miners along with other important sectors went on strike to protest UNIP's behaviour. Copper belt made it very clear that they cannot tolerate UNIP's hegemony on them nor would they cooperate with UNIP's attempts to gain greater control over the Copper belt. The whole discussion shows that the workers are aware that the alliance between the ruling class and management in opposition to workers no longer is going to exploit them. They already recognized that the gap in real income between the workers and the management has visibly increased. They accused both the mining companies as well as the government who played politics on them. The relationship between working class and government became worst when they imposed IMF conditionality rules on them by freezing their wages. It added more to their economic woes. It will be discussed in the next section of the Chapter. Now the government is trying hard to make new alliance with mine workers for its own survival.

II. The impact of IMF Programmes on different classes of Zambia.

This section deals with the impact of IMF programmes on different classes.

When the country is facing deterioration in the terms of trade, officials from the bank of Zambia and Ministry of

Finance negotiated a series of facilities with the International Monetary Fund, the World Bank as well as loans from private banks and foreign donor governments. Loans from the IMF have loomed large and the conditions they imposed created lot of controversial discussion. (See the Chapter II for detailed discussion on Zambia's financial agreements with the IMF).

The pattern in IMF/Zambia has been a steady increase in borrowings matched by accelerating stringency of condition which essentially demanded a major restructuring of the economy. A very un popular part of the package was the low ceiling 10 per cent on wage increases which in the end, provoked a series of strikes. Throughout 1982-83 trade unions and consumers criticised the IMF because of the serious effects of conditions which were imposed on the average household budget. The working class and the unemployed, and the Middle income groups resisted because the IMF policies became unbearable to them. When auctioning system was introduced the prices of imported commodities jumped overnight. The price of fuel increased. So a serious fuel shortage caused tension in the whole of urban Zambia. Many firms shut down due to the fuel shortage. IMF's free markets liberalisation logic threatened the existing producers. The Imports of luxury goods pumped into Zambian Markets. More and more, domestic economy is directed from outside. Certainly such mechanisms allow foreign governments and Multilateral agencies to increase their influence in Zambian economic planning and policies. (See Third Chapter for more detailed study of IMF programmes effect on the Agriculture and Industrial sectors.

1.4. <u>Working Class Opposition</u> :

The major potential threat to the UNIP Government comes from organised labour. The rapid decline of living standards after 1975 the real wages of mine workers fell between 1967 and 1975. After the Introduction of IMF policy such as the 10 per cent ceiling on wage increase in a period of 20 to 30 per cent inflation and cuts in subsidies and cuts in subsidies brokedown the riots unrest erupted in the copper belt.

In 1982 the IMF suspended funds for the reason that Zambia had failed to repay these external debts was to squeeze the major foreign exchange. The mines were forced to cut operating costs by 17 per cent costing approximately 2,600 jobs. The Union grumbled and grumbled louder towards IMF policies. then they attacked the Government because they thought that Government is making an alliance with international capitalist groups and exploiting them. The IMF always insisted on the removal of barriers to trade, in Zambia the effects of this policy created lot of havoc in the economy. Free trade policy brought about a situation where companies long engage in production started to bid for foreign exchange to import finished goods, Domestic industries were thus being destroyed by foreign industries. Small scale industries also faced lot of problems because financially their position was weak, resulting in a limited capacity to bid for foreign exchange. As a result small scale industries closed down. So the unemployment problem rosed in these years. From January 1981 to March 1983 233 strikes took place, costing the nation 4,570,992 man hours. In 1985 miners were fired and K16 million in revenues were lost to ZCCM over industrial actions. This resulted a considerable loss of national productivity. In fact IMF policies created a wider gap between the governing class and the working class.

In the Agricultural sector the IMF policies brought some institutional changes. Under IMF policy conditionality Government wanted to remove subsidies on Maize. But the removal of subsidies created widespread distress in urban areas. Fifteen persons were killed, Food riots in December helped to convince the Government that it would not impose many more economic restrictions without the risk of a social explosion. The reforms of IMF affected more on small scale farmers. When the prices of fertilizers and inputs are increased the small scale farmers are unable to buy them at such high costs. The majority of Zambian farmers would be worse off under the implementation of devaluation and desubsidization policies. So ultimately there was a fall in market production.

When they introduced uniform Maize and fertilizer prices in 1975, the small holders benefited by this policy. When the producer prices set according to the costs of production for large scale mechanized farmers. The prices offered a particular incentive to the small holders as they produce on the basis of less inputs and with lower costs than the large scale farmers

So the small holders are less sensitive to the fluctuations of import-costs as they produce with mechanized technology. But they affected when there is a cut in transport subsidies, they find it difficult to carry their production to remote corner to other any major province at the high cost of transportation. Most of their produced goods use to stuck at their households itself.

During 1986/87 season the further soaring of import prices resulted in a less favourable Maize/fertilize price ratio. Maize producer prices have soared to K78 per bag and fertilizer unit prices to K80 per bag. The Maize producers with less prices for their products are unable to buy fertilizers. On the whole it effected the production of Maize in the long run. The farmers are now squeezed as a result of the depreciation of the Kwacha and to many farmers it seemed difficult to raise the necessary capital to buy inputs, during the second half of 1986 when the prices were announced.

Any how over all in long term with on going liberalization, the major cuts in subsidies, increase in transportation. Large scale farmers fared the best while the small holders will have to withdraw into subsistence level. So there is large discontent among the small holders against IMF policies where the government is trying to impose on them.

It clearly shows that the policies of IMF affected on more vulnerable groups than anyone else. The rich class, business class, large scale farmers benefited by the policies of IMF. It seems the rich become richer the poor become more poorer. So there is wider gap created between rich and poor in their income levels and also created a rift between rural and urban workers ever since before.

On the other hand when prices of copper dropped, the negative international terms of trade made country independent to dependent one. Foreign exchange receipts declined as well as public finances dried up. Then the Government began to devalue the currency, which drove up the scale of debt and increased domestic inflation production and transport problems throttled the mines as well as the agriculture. These factors created economic and political instability throughout the country.

Resistance From Within The Governing Class :

When former teacher Kenneth Kaunda led the British colony of Northern Rhodesia to independence on Zambia 26 years ago, he was the head of Africa's richest and most stable nations. Today, Zambia is one of the world's poorest nations. It has a 7 billion dollar foreign debt, and most of the country's 7.5 billion inhabitants want the 66 year old President to step down. It was the cry in Lusaka the capital and other parts during December month's riots. Six days of Zambia's bloodiest urban violence since independence in 1964. It is partly because of IMF programmes and its harsh conditionalities it imposes on them. On the other hand it is partly because of inefficient government which is unable to provide daily bread to the people.

At this point there is lot of opposition from within the Governing class. In October 1980 eight men were arrested and charged with treason. The charges were that they attempted to purchase arms and to corrupt members of armed forces, to throw Kaunda out of power. There was a Military Coup by Lt. General Chiston temo who also ploted to overthrow Kaunda in October 1988. Anyhow he was arrested and imprisoned on charges of treason. But again on June 30, there was a military coup by Lt. Mwamba Luchumba son of a Bemba Tribal chief. He and other three fellow officer plotted to overthrow Kaunda while the President was visiting the central province of Ndola. Any way the attempt was failed by loyalist troops of President Kaunda.

"One interpretation of treason trial events is the fractions of the governing class. Specifically new entrepreneurs more independent technocrats and some comprador elements threatened the supremacy of the national politicians. Since the mid-1970s many prominent civil servants and party men left state employment and established themselves as independent entrepreneurs technocrats or local representatives of international capital".[21]

This unrest move was part of package of economic austerity proposals made by IMF, World Bank and Western nations. Now the people and other opposition leaders are infavour of multi party democracy in Zambia. The current situation in Zambia indicates

---

21. Burdelte Marcia M. Zambia between two worlds (London: Westview, 1988), p. 128.

that domestic forces are becoming more important to Government stability than international pressures.

But Dr. Kaunda still has no intension of making changes in the party hierarchy to modify either his domestic critics or the international donars who have persistently suggested that dissatisfied party members and party responsible for the current crisis.

Conclusion :

Dr. Kaunda's break with IMF in 1987 marginally helped to placate the public. The Zambians were glad to hear that all prices had been reduced which would put basics such as bread, sugar, salt, Maize within their reach. Others fiscal measures such as setting up of an export promotion board and abolition of the weekly foreign exchange is as scarce as before and the country is beset with shortages of essential commodities once again, "However African Diplomats here feel that despite recurring unrest in the country. Dr. Kaunda could not have abandoned austerity measures prescribed by the IMF just to please his people, whose standard of living has plummeted with the price of copper.[22]

But it is not all true. Kaunda was threatened by almost all sections of the people, he was scared for his political survival, and he visualized that all the IMF reforms are not working out well. Kaunda decided to abandon the recovery programme on the ground that it caused sprialling inflation, as a result the low income Zambians were bearing the burnt of austerity measures.

22. Times of India, New Delhi 28 July 1990.

On the whole, one peculiar feature in the case of Zambia is that "the increase in economic and social opportunities has succeeded in politically activizing the tribal and linguistic factors. With the exception of the Ila-Tonga, the various tribal and linguistic groups have sought to promote their individual interests by joining the ruling party which accounts for bitter intra-party rivalry affecting political stability".[23]

In earlier chapters we have already discussed the Zambian economy and its relationship with IMF. In this Chapter we have noted how under one party system, the personality cult played a role in making UNIP politically strong and in fact holds a way over the major sectors of the economy. It has to be seen how long this personality cult and one party regime will be dominant in future politics of Zambia.

In the face of these pressures it was difficult to anticipate how Kaunda would react to further challenges. What seemed more likely therefore was that he would continue to use of the power of the State to maintain control and so move further again along the path to greater concentration of power.

---

23. Anirudha Gupta, Government and Politics in Africa, (Delhi: Vikas, 1975), p. 149.

CHAPTER - V

CONCLUSION

CHAPTER - V

CONCLUSION

This dissertation was aimed at looking into the tending activities, stabilization policies of the International Monetary Fund in Africa in General and the relationship between IMF and Zambia, and its policy effects on agriculture, industry, politics and on different sections of Zambian society in particular. The basic problem affecting the African countries is the problem of adjustment, the problem of liquidity and the problem of confidence.

Africa's problems were structural ones. It is suffering from food crisis on the one hand and a debt crisis on the other hand. They are still dependent on their former colonisers not only for capital, for technology, for high skilled manpower, but also for markets for their production. Africa had already slipped into a 'crisis' situation demanding urgent attention. It is true that the IMF and the World Bank responded immediately to set their house in order. Africans blame that international shocks and the inadequacy of external support is the major cause of their problems, where as the financial institutions blame African governments who undoubtedly did too little for their agricultural development in post-independence era. They say internal policy factors were responsible for the present crisis. Both sides have a case. Both internal and external factors equally responsible for the Africa's crisis. Therefore, a joint responsibility has to be takén for securing a better future for Africa. To achieve this a massive and long term investment programmes required. It is difficult to predict the types of functions the Fund will have to perform in the future. But the current trend in World environment shows that the African countries will continue to rely on the Fund for their liquidity needs, even if it is at the cost of undergoing harsh adjustment.

Changes in the world economic and financial arrangements are needed at two levels, i.e. at the international level and secondly at the country - specific level. The IMF should perform three important roles in the future global political economy. First it should play a role as a coordinator of the global capital flows pulling together a widening array of official and private lenders and investors behind projects and programmes especially in the more debt ridden nations. Secondly it should function as a mediator of political and economic differences between industrialized and Developing countries. It should strive to reduce the international tensions by providing a forum where the weaker nations have some voice in the debate about their economic and political futures. Thirdly it should play the role of stabilizer. It should be more open and flexible view has to be adopted. Conditionality programmes need to take the fuller account of social and political realities. IMF should keep in mind that its recovery programmes must be country specific, loan conditionality should focus on a few selected issues. They should bring some changes at the level of Quota system. The combined quota of industrial members consists of 62.33 per cent while combined quota of Developing countries is 37.67 per cent of total quota. The quota is important as it determines the members relative voting power in the Fund. This is clear indicator of the disproportionate share of the industrial members. But the Fund should increase the quota of Developing countries in general and African countries in particular whose need for the resources tends to be much greater.

The Fund, however, does not desire to be treated as lender of the last resort. The country should seek the Fund's help at an early stage of its external payments problems. So that proper adjustment programmes can be initiated before the situation goes out of hand. The debt crisis could have been avoided if the concerned countries had approached the Fund at an early stage of their difficulties.

Regarding the Zambian case her Economic survival depends on restructuring of the economy which involves promoting exports other than copper, substituting imported goods by local production and developing the potential of the international market. Although government declared a policy of export diversification but the dependence on minerals remained unaltered. Infact, Government itself had given lesser attention towards Agriculture. Secondly there was little change in the economy's dependence on imports. Infact, there is an increasing trend for importing consumer goods, and even the producers in most sectors of the commercial economy continued to depend or import intensive high cost technologies. When Zambian economy plunged into difficulties, the Fund reached several agreements with Zambia to stabilize the economy.

Between 1973-86 Zambia concluded the following loan agreement with the Fund. Under 1973 Stand-by arrangement Zambia received SDR 19 million, under 1976 stand-by arrangement, it received US $ 62 million, under 1978 stand-by, it received SDR317 million; under 1981 extended fund facility, Fund allocated SDR 800 million. This programme was tied to a three year World Bank Programme to reorient expenditure from infrastructure to agricultural and industrial projects. This arrangement was cancelled in July 1982 due to an accumulation of payment arrears. In 1983 it reaches another agreement, where Zambia received SDR 270 million. Under 1984-86 stand-by arrangement it got the amount SDR 225 million. In 1985 system of auctioning was introduced.

The IMF has made an attempt to restructuring production away from copper mines. They accepted that Zambia had an urgent requirement for programme aid and preparations were put in hand for three major multi donor sector rehabilitation loans covering industry, mining and agriculture. The IMF aimed at three major reforms in agricultural sector i.e. agricultural equity pricing was to be abolished; agricultural marketing was to be liberalised and the maize subsidy was to be eliminated. Regarding the restructuring of agriculture, it raised very difficult technical economic issues in designing policies. When Government removed the subsidies it created widespread distress in urban areas. The reforms of IMF liberalizing the marketing system, equity pricing increased the gap between large scale and small scale farmers. The reforms of IMF affected more on small scale farmers. Their conditions would be worse off under the implementation of devaluation and desubsidization policies.

Even under auction system there was little response from the agricultural sectors, due to lack of liquidity resulting from past unfavourable pricing policies and the domination of the sector by peasant farmers. Only 10 per cent of the foreign exchange allocated under the auction system went to agriculture compared with 30 per cent for industry.

Regarding industrial sector the problem is the inability of Zambia's manufactures to penetrate foreign markets. This is the result of structural impediments like (a) it is a land locked economy (b) shortage of local managerial and technological expertise;and (c) small home market which is partly generated by the parastatal and trade regimes. IMF advocated devaluation under exchange rate policy. "For Zambia it was argued a devaluation would result in increased copper sales and a decline in the demand for imports. This reasoning proved wrong. Sales of copper are determined by the London Metal exchange price and value of the Zambian currency plays no role. It would however, the copper industry and all other industries would have to play more for the various inputs that they import. In fact, devaluation would result it in a switch to the local inputs. But this cannot happen in an economy without domestic substitutes for imports".[1]

Even the policy of liberalization brought about a situation where companies long engaged in production started to bid for foreign exchange to import finished goods. Domestic industries were then being destroyed by foreign industries.

After the introduction of IMF policy such as cut in wages of workers in a period of 20 to 30 per cent inflation and cuts in subsidies of staple food brokedown the riots and unrest among the industrial workers. The problems which Zambian economy face are out of their control. So consequently they should not rely on cutting imports to achieve improved trade balances. Export promotion expansion is the only possible way with increased demand for export as well as supply of tradables. Most of the IMF policies in Zambia failed because they are unable to meet the needs of the vulnerable groups and other reason is the problem have been deeply rooted in the structure of the economy. What was more essential to solve them was a complete restructuring of the economy and it should get long term assistance. To find one's way out this crisis in just one or two moves of policy change is impossible. The approach

---

1. Caleb Fundanga, "The role of the IMF and World Bank in Zambia", in Onimode Bade (ed.), <u>The IMF, The World Bank and the African Debt, The Economic Impact</u>, vol. 1 (Zed Books, New Jersey & London, 1989), p.

has of necessity to be radical, while at the same time gradualist, implying that consistent policies should be valued higher than shock treatment from which the government has to retreat for reasons of stability.

At the political level the policies of IMF had given a chance to destabilize the government (UNIP). In 1980s there are attempts by military to overthrow Kaunda. It is true that Zambian politics dominated by tribal and linguistic factors. Now people as well as the opposition are in favour of a multi party system. They lost faith in President Kaunda's leadership. The Zambian President Dr. Kaunda is currently facing some of the darkest days in his long political life. The political stability become shaky since the food riots in the country due to IMF policy package programmes. The copper belt region remains the most politicised province in the country. It has already been hit hard by the fall in world prices of copper, Zambia's main export, and therefore no signs of an upswing in the economy. Government also equally responsible for the failure of the programmes because it was pursued only half heartedly and implemented badly.

Lastly, one has to recognise that the world is mutually interdependent and that the problems of adjustment are a matter of common concern to all nations and therefore it should be achieved without jeopardising the interests of any nation or group of nations. The IMF should realise since the African nations are bearing a greater share of the burden of adjustment so that they should have a greater claim over additional liquidity.

On the other hand Zambia's only hope for the future is dependent on Agriculture. It should diversify the economy to develop both self-sufficiency and extensive export earnings from Agriculture. A shock approach pursued mainly with demand management instruments can indeed have a short-term success. It should be adjusted in such a way that the demand management instruments should facilitate long term adjustment. What was essential to solve the problems of Zambia is a complete restructuring of the economy, and it should get long-term assistance because short-term assistance is not sufficient to overcome the structural problems of Zambia.

BIBLIOGRAPHY

BIBLIOGRAPHY

PRIMARY SOURCES

Ainiey, M. "General arrangements to borrow", IMF Phamplet, (Washington D.C., 1984).

Collyns, C. "Alternatives to the Central Bank in the Developing World", IMF Occasional Paper No. 20, (Washington, D.C., 1983).

Delarosiere, Jacques, Senate of Canada Proceedings of the Standing Committee on Foreign Affairs, (Canada, 1984).

Devries, Margaret G. IMF in Changing World 1945-85 (Washington, D.C., 1986).

ECA Survey of Economic and Social conditions in Africa ,(United Nations, Geneva, 1984).

Gold, Joseph, Legal and institutional aspects of the International Monetary System, Selected Essays, (IMF, Washington D.C., 1984).

__________, "Special Drawing Rights Character and Use", IMF Pamphlet series no. 13, (Washington, D.C., 1970).

Goldsten, Morris., "Global effects of Fund Supported adjustment programmes", IMF Occasional Paper No. 42,(Washington D.C. 1986).

IMF - Foreign Private Investment in Developing Countries, A Study by the Research Department (Washington, D.C. 1985).

__________. "Interest rate policies in Developing Countries", Occasional Paper No. 22 (Washington D.C., 1983).

__________. "Recent Multilateral Debt restructurings with Official and Bankcreditors" Occasional Paper No. 25, (Washington, D.C., 1983).

__________. "Taxation in Sub-Saharan Africa", Occasional Paper No. 8, (Washington D.C. 1981).

IMF - Annual reports, (Washington D.C., 1979-89).

Khon Mohsin & Knight D. Malcom, D. Fund Supported Adjustment Programmes and Economic Growth (Washington D.C., 1985).

Ministry of Agriculture, Nationwide study of Zambia's storage requirements for both product and inputs, Summary and introduction, Planning Division study (Lusaka, March 1984).

National Commission for Development and Planning, Economic Report (Lusaka, January 1985).

Report by ommonwealth Study Group, "Towards a new Bretton Woods: Challenges for the World Finance and Trading System", (London, 1983).

United Nations, World Economic Survey (New York, 1984).

Williamson, J. The lending policies of IMF, Institute for International Economics (Washington D.C., 1982).

William Steel & Banirov. Asarr, Agro Industrial Development in Africa , Africa Development Bank (Abidijon, 1984).

World Bank Reports, (Washington D.C., 1980-84).

_______________. Financing adjustment with Growth in Sub-Saharan Africa, (Washington D.C., 1986).

_______________. Accelerated Development in Sub-Saharan Africa: An Agenda for Action (Washington, D.C. 1981).

World Bank industry department and East African Projects Department, Zambian Industrial Policy and performance, (Washington D.C. 1984).

SOURCES OF STATISTICAL DATA

International Monetary Fund, Balance of Payments Statistics, Yearbook, (Washington, DC, IMF various issues).

International Monetary Fund, IMF Survey (Washington DC), various issues).

_____________. World Economic outlook (Washington DC, various issues).

UN, Yearbook of International Trade Statistics, (Various issues).

UNCTAD, Handbook of international Trade and Development Statistics (Various issues).

World Bank data and FAO Trade yearbook tapes.

World Bank, World Debt Table, (Washington D.C. World Bank, Various issues).

___________. World Development Report (Washington, D.C., World Bank, various issues).

SECONDARY SOURCES

Books

Akinrinode Olusola, and Barling, Kurt (ed.). Economic Development in Africa: International efforts, Issues and Prospects (London, Pinter Publication, 1987).

Austen R., African Economic History, Internal Development and External Dependency (London, James Currey, 1987).

Balassa, Bela, Structural adjustment Policies in Developing Economies (Washington, World Bank, 1981).

Bhagwati, Jagdish N., (ed.) Economics and World Order from the 1970's to the 1990's, (Bombay, Orient-Longman, 1972).

Burdette, M. Marcia, Zambia between two worlds,(U.S.A., Westview Press, 1988).

Charles Elliott, Constraints on the Economic Development of Zambia, (Nairobi, Oxford University Press, 1971).

Cherry Gertzel, Baylies Carolyn, Szeftel Morris, The dynamics of the One Party State in Zambia (U.K., Manchester University Press, 1984).

David W., IMF Policy Paradigm: The Macro economics of Stabilization: Structural adjustment and Economic Development (New York, Praeger, 1985).

Ferguson Tyrone, Third World and Decision Making in the IMF: The Quest for Full and Effective Participation, (London, Pinter, 1988).

GakOu, Mohammed, Zambian Crisis in African Agriculture, (London, New Jersey, Zed books, 1987).

Gerald M. Meier, and William I. Steel, (ed.), Industrial adjustment in Sub-Saharan Africa (New York, Oxford University Press, 1987).

Graham, Bird (ed.), The International Monetary System and Less Developed Countries, (London; Macmillan, 1982).

Green, RegOnald, IMF and stabilisation in Sub-Saharan Africa: A Critical Review (Sussex, IDS, 1986), IDS discussion paper No. 216.

Griffith Jones, Stephony, (ed.), Managing World debt (New York; St. Martin's Press, 1988).

Gulhati, R. Impasse in Zambia: The Economics and Politics of Reform, (Washington: World Bank, 1987).

Gulhati, R. & Uday Shekhar, Industrial Strategy for Late Starters: The Experience of Kenya, Tanzania and Zambia, (Washington: World Bank, 1981).

Gupta, Anirudha, Government and Politics in Africa, (New Delhi, Vikas, 1975).

Gupta, Anirudha & Shanti Sadiq Ali (eds.) Dimensions of the the Economic Crisis, An Analysis of the Problems and constraints of Development, (New Delhi: Sterling, 1987).

Havnevik, Kjell J. (ed.) IMF and the World Bank in Africa: Conditionality impact and alternatives, (Uppsala, (Scandinavian Institute of African Studies, 1987).

Helleiner, Gerald, K. (ed.) Africa and the International Monetary Fund (Washington, IMF, 1986).

Killick, Tony (ed.) IMF and Stabilisation, Developing country experiences (London, Heinemann Educational Books, 1984).

__________. Quest for Economic Stabilisation: The IMF and Third World, (London: Heinemann Educational Books, 1984).

Martin, Antony; Minding Their own business: Zambia's Struggle Against Western Control (London, Hutchinson, 1972).

Mary Thrope, Bencrow (ed.). Survival and change in the Third World, (London, Polity Press, 1982).

Onimode Bade (ed.) The IMF, The World Bank and the African Debt: The Economic impact, vol. 1, (London, New Jersey, Zed Books, 1989).

Sand Book, Richard, Politics of Africa's Economic Stagnation Perspective, (West Port, Green Wood Press, 1984),

Shaw, Timothy, (ed.) Alternative futures for Africa, (Boulder: Westview Press, 1982).

Stewart, Frances (ed.), Macro Policies for appropriate Technology in Developing Countries, (Boulder, Westview, 1987).

Tordoff, William, (ed.), Administration in Zambia, (Manchester, Manchester University Press, 1980).

__________. Politics in Zambia (Manchester: Manchester University Press, 1974).

Journals & Articles

Belassa, Bela, "Structural adjustment policy in Developing Economies", World Development, New York, vol. 10, no. 7, 1982), pp. 23-38.

Bhagavan M.R., "Zambia: Impact of industrial strategy on regional imbalance and social inequality", Uppsala, Scandinavian Institute of African Studies, Research Report, No. 44, 1978, pp. 2-64.

Brittan Samuel, "A very Painful World adjustment", Foreign Affairs,(London, Spring 1988) pp. 541-68.

Browne, Roberts, "Africa and IMF: Conditionality a new form of Colonialism", Africa Report, vol. 29, no. 5, (New Bnuswick, September-October 1984), pp. 14-18.

Buira, Ariel, "IMF financial programme and conditionality" Journal of Development Economics, vol. 12, (Amsterdam, February-April 1983), pp. 111-36.

Chawla, R.L., "IMF Stabilization Programmes: Third World Perspectives", Foreign Affairs (New York), Vol. 39, no. 2, March 1985, pp. 17-40

Chikulu B.C., Popular Participation and Development: The Zambian Model", Africa Quarterly (New Delhi), vol. 19, no. 2, July/September 1979.

____________, "Reorganization Zambian local government: An Analysis of the implications of the local administration", Africa Quarterly, (New Delhi), vol. 22, no. 3, October 1983, pp. -61.

Dell, Sidney,

____________, "Question of Cross Conditionality", World Development, New York, vol. 16, no. 5, May 1988, pp. 55-68.

Desilva, Leelanda, "IMF Policies out of date", Development and Socio-economic progress, Cairo, vol.32, October-December, 1985, pp. 49-53.

Donge, Jankeesvan, "Under Standing Rural Zambia Today: The Relevance of the Rhodes Livingston Institute", Africa (England),vol. 55, no. 1, 1985, pp. 60-61.

Eussner, Ansgar, "Agro-industry in Sub-Saharan Africa: Enterprises Problems and Prospects", Economics vol. 41, 1990, pp. 77-95.

Fearson, James D. "International Financial Institutions and Economic Policy reform in Sub-Saharan Africa", Journal of Modern African Studies, New York, vol. 26, no. 1, March, 1988, pp. 113-37.

Gafar, John, "IMF Policies and the Developing Countries: A Third World Perspective" Indian Journal of Economics, vol. 64, no. 225, April 1984, pp. 437-48.

Good, Kenneth, "Re-Production of weakness in the State and agriculture: Zambian experience", African Affairs, (U.K.), vol. 85, no. 339, April, 1986, pp. 239-65.

____________, "Debt and one party state in Zambia: Journal of Modern African Studies, (New York), vol. 27, no. 2, June, 1989.

____________. "Zambia back to the future", Third World Quarterly, January 1988, pp. 37-53.

Gran, Guy, "From the Official future to participatory future: Rethinking, Development Policy and practice in rural Zambia", Africa Today(Denver) vol. 30, no. 4, 1983, pp. 5-22.

Gupta, Anirudha, "Africa in the 1980's", India Quarterly, Vol. 35, no. 5, July/September, 1979, pp. 309-28.

Gupta, Vijay, "Economic Crisis in Africa", India Quarterly, vol. 41, no. 2, April-June 1985, pp. 236-50.

Helleiner, G.K., "IMF and Africa in the 1980s", Canadian Journal of African Studies, vol. 17, no. 1, 1983, pp. 17-33.

Hodd, Michael, "Africa and IMF and the World Bank", African Affairs, (U.K.), vol. 86, no. 344, 1987, pp. 331-42.

Holman, Jeffrey, "Under development and a Critique of International Monetary Fund and World Bank", Berkeley Journal of Sociology, Berkeley, California, vol. 29, 1984, pp. 119-52.

Jorovic, Dejan,. "Criticism of International Monetary Fund", Review of International Affairs, vol. 34, no. 804, October 1983, pp. 20-25.

Kayizzi, Mugerwn, S. "Growth from our own resources: Zambia's Fourth National Development Plan in perspective", Development Policy Review (London), vol. 8, no. 1, March 1990, pp. 59-76.

Kronstein, G. "IMF in Africa: Factor of stability and unrest", World Today, vol. 43, no. 8-9, August-September, 1987, pp. 149-51.

Kumar, Shubh K. "Effect of seasonal food shorlage on agricultural productions in Zambia", World Development, New York, vol. 16, no. 9, September 1988, pp. 1051-63.

Kydd, Jonathan "Coffee after copper: Structural adjustment, Liberalisation and agriculture in Zambia", Journal of Modern African Studies, New York, vol. 26, June, 1988, pp. 227-51.

______________, "Changes in Zambian Agricultural policy since 1983: Problems of Liberalization and organization", Development Policy Review, (London), vol. 4, no. 3, September 1986, pp. 233-59.

Lunga, Gatian, F. "Church, Labour and the Press in Zambia: The role of Critical observers in one-party state", African Affairs (U.K.), vol. 85, no. 340, July 1986, pp. 385-10.

______________, "Administration responsibility in a developing country, Theoretical considerations and the case of Zambia", Public Administration and Development, October-December, 1983, pp. 361-72.

Makefla, Nevaseidman, "Theoretical and Practical implications of IMF: Conditionality in Zambia", Journal of Modern African Studies, (New York), vol. 24, no. 3, September 1986, pp. 395-422.

Markakis, J. and Curry, R.L., "Global economy Impact in recent Budgetary Politics in Zambia", Journal of Modern African Studies (New York), vol. 3, no. 4, 1976, pp.403-27.

Mitet, E.M., "Africa and the IMF: An evolving relationship", Africa Report,(New Bnuswick), vol. 25, no. 5, September-October, 1984, pp. 19-21.

Moba, Jotham, "Peasant differentiation and rural politics in colonial Zambia", Journal of South African Studies, vol. 11, no. 12, April 1985, pp. 281-94.

Mosley Paul, and Joye John, "Design of Structural adjustment Programmes", Development Policy Review, (London), December, 1988, pp. 395-413.

Mphaisha, Chisepojj, "Public enterprise and Development of Zambia", Journal of Black Studies, vol. 19, no. 1, September, 1988, pp. 79-96.

Mudenda, Gilbert, N. "Class formation and class struggle in Contemporary Zambia", Contemporary Marxism, no. 6, Spring, 1983, pp. 95-118.

Muntemba, Maud Shim Waayi, "Dispossession and counterstrategies in Zambia", 1930-70", Development,(Rome) vol. 4, 1984, pp. 15-17.

Musambachemi, M. "Impact of rapid population growth and Economic Decline in Zambia", Review of African Political Economy, vol. 48, Autumn, 1990, pp. 81-91.

Nells, John and Kikeri, S., "Public Enterprise reform: Privatization and the World Bank", World Development (New York) vol. 17, no. 5, May 1989, pp. 659-72.

Nyang'o Ro, Julius E., "Politics of International Debt: The case of Africa", Africa Quarterly, (New Delhi), vol. 20, no. 1, 1986-87, pp. 16-41.

Nigiovan, "Swallowing the IMF Medicine in the Seventies", Development and Dialogue, (Sweden), no. 2, 1980, pp. 55-74.

Ofairchellaigh, Ciaran, "Mineral Taxation, Mineral Revenues and Mine investment in Zambia", American Journal of Economics and Sociology,(New York) vol. 45, no. 1, January 1986, pp. 53-67.

Parpat, J. "House hold and the mine staff Gender and class struggle on the Zambian copper belt, 1926-64", Journal of South African Studies, vol. 13, no. 1, October 1986, pp. 36-56.

Parpat, Janet and Shaw, Timothy, "Contradiction and Class raction in Zambia 1964-84", Africa Today, Denver, vol. 30, no. 3, 1983, pp. 23-50.

Pletcher, James, S.R., "Political uses of agricultural Markets in Zambia", Journal of Modern African Studies, New York, December 1986, pp. 603-17.

Rakodi, Carole, "Urban Agricultural Question and Zambian evidence' Journal of Modern African Studies (New York), September 1988, pp. 495-515.

Ramchandani, R.R., "Africa's Debt problem and economic recovery programme, some related issues", Africa Quarterly, (New Delhi), vol. 27, no. 3-4, 1987, pp. 1-18.

Riddell, Roger, "Forgotten dimensions, the manufacturing sector, in African development", Development Policy Review, (London), vol. 8, no. 1, March 1990, pp. 5-21.

Rimmer, Douglas, "Africa Economic future", African Affairs (U.K.), vol. 88, no. 351, April 1989, pp. 175-85.

Sasa, Oliver, "Zambia's Policies towards foreign investment: The case of mining and non-mining sectors", Research Report, Uppsala, Scandinavian Institute of African Studies, no. 79, 1987, pp. 7-62.

Sano, Hons Otto, "The IMF and Zambia: The contradictions of exchange rate auctioningous & subsidization of agriculture", African Affairs,(England),vol. 87, October 1988, pp. 563-571.

Scaritt, James, "The analysis of Social Class, Principal Participation and public policy in Zambia", Africa Today,(Denever),vol. 35, 1983, p. 12.

Scott, Carl P. "Lusaka's informal sector in national Economic Development", Journal of Developing Areas,(USA), vol. 20, no. 1, October, 1985, pp. 71-100.

Steel William, F., "Recent Policy refrom and industrial Adjustment in Zambia and Ghana", Journal of Modern African Studies, (New York), vol. 26, no. 1, March 1988, pp. 157-64.

Shaw Timothy, "Zambia, Dependence and Development", Canadian Journal of Modern African Studies (New York), vol.10, no. 1, 1970, pp. 3-22.

Thomas, Scott, and Weide Mann, Wesley, "Impact of Zambia's Programme in the agricultural sector", Development Policy Review, (London) vol. 6 (1), March 1988, pp. 51-72.

Tordoff, William, Political Crisis in Zambia", Africa Quarterly (New Delhi), vol. 10, no. 3, Oct- Dec. 1970, pp. 225-36.

Wheeler, David, "Sources of Stagnation in Sub-Saharan Africa", World Development, (New York) volume 12, no. 1, January 1984, pp. 1-24.

Wohlmuth, Karl, "IMF and World Bank Conditionality, Politics and enforced Structural adjustment, Development and Peace, Budaspet, vol. 6, no. 2, Autumn, 1985, pp. 33-49.

Wood, Adrian, "Zambia UP for grabs: The regionalisation of Agricultural aid", AREA, vol. 16, no. 1, March 1984, pp. 3-7.

Wulf, Jurgen, "Zambia under the IMF regime", African affairs, (England) October 1988, pp. 579-94.

"Zambia Breaks with IMF, limits debt payment", Special United Nations Service, May 6, 1987.

"Zambia's Copper Industry Faces Up to decline", African Economic Digest, July 10, 1987, pp. 24-25.

"Zambia the economy: A Special report", Africa Economic Digest, May 1985, pp. 1-64.

Periodicals and Newspapers

Africa Gazette (London)

Africa Dairy (India)

African Business (London)

Bangladesh Times (Dacca)

Business Standard (Bombay)

Economic Times (Bombay)

Economist (London)

Economic & Political Weekly (New Delhi)

Financial Express (Bombay)

Hindustan Times (New Delhi)

Hindu (Madras)

Indian Express (New Delhi)

International Tribune (Paris)

Times of India (New Delhi)

Times of Zambia (Lusaka)