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POLICY REFORM AND SUSTAINABILITY:
IMPLEMENTING POLICY REFORM IN ZAMBIA

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POLICY REFORM AND SUSTAINABILITY: A ZAMBIAN CASE STUDY

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I. INTRODUCTION

Implementing policy reform initiatives in sub-Saharan Africa is like the weather: everyone talks about it, but no one does anything about it. Under the best of circumstances, the implementation of the policy reform "package" encouraged by the multilateral and bilateral donor community has been problematic throughout the Third World. Whether one thinks of the package as "stabilization policies," or "structural adjustment efforts," or "policy reform," the past several years have seen active challenges to the donor community by Third World governments unable to fulfill successfully the challenges of implementing dramatic public and societal restructuring.

The most visible and vocal challenges to restructuring efforts have been decisions by a number of governments to limit debt service repayment. However, more fundamental crises and challenges appear with increasing frequency and suggest a clear message: major economic and structural changes are not easy to achieve. The ability of a state to adjust is more than simply acceptance of stroke-of-the-pen actions. Rather, this ability is a function of sustainable political will, of administrative and technical capacity, and of the economic context of the country.

The focus of this paper is on the specific response to the requirements of structural adjustment in one African country, Zambia. In the case of Zambia, difficulties in the implementation of policy reform have resulted in a rather dramatic reversal. On May 1, 1987, after five years of intensive restructuring actions, Zambia announced that it would suspend much of the reform effort. Not only were relations with the IMF placed in suspension, but the currency auction was abolished, price controls and import licensing controls were placed back into effect, and President Kaunda announced that Zambia would limit its debt service payments to 10 percent of foreign exchange earnings (Hawkins, 1987).

On August 14, 1987, President Kaunda announced a "New Economic Recovery Programme" which retained virtually all of the measures announced in May. In addition, the recovery message rejected the application of conditionality in any future agreements made by the government. Further negotiations with the IMF and with the World Bank through early 1988 did not yield positive results in terms of renegotiation and forward movement on adjustment.

The specific case of Zambia is instructive for a number of reasons. First, reform initiatives have a reasonably long history in the country. The post-1983 period (especially after 1985) was one of massive new initiatives in the country. However, by late 1986 reform initiatives had begun to unravel. A second reason for examining the case of Zambia is that the country has received close scrutiny and massive assistance in the 1980s in the effort to make a showcase of reform. The Zambian reform initiatives were touted as a probable success story less than three years ago, only to fade in recent time. As Hawkins (1987: 17) notes:

> Increasingly, Zambia has been portrayed as a model of reform, a country struggling against the most adverse of conditions - and against serious domestic political resistance - to restructure its economy. Officials from the Western donor nations, the IMF and World Bank admit that they have invested in Zambia, not only their money, but also their reputations as economic advisers.

Finally, the lessons of Zambia are instructive with regard to the sustainability and the implementability of reform in the context of a weak administrative state and mixed political will.

The purpose of this working paper is to analyze the difficulties that have arisen in efforts to implement policy reform, while at the same time attempting to provide guidance on how to overcome these difficulties. Our purpose here is not to focus on the intrinsic merits or demerits of adjustment, although it is clear that much of the difficulty experienced throughout the Third World has been due to the fact that the rationale for and speed of adjustment may be untenable. In addition, the success of the <u>implementation</u> of reform is contingent on other factors. The successful implementation of policy reform is limited, in part, by the absence of a clear understanding of the institutional and administrative requirements for sustained and sustainable reform efforts.

These institutional requirements are lacking not only in the environment of the host country, but may well be lacking within the donor community. As Geoffrey Lamb and others have suggested, a great deal of effort has been expended on the design and analysis of the macroeconomic policies that support the dominant orthodoxy of structural adjustment. However, very little research has been conducted on the implementation and management of policies, or on the systematic evaluation of the linkages between policies and programs, on the one hand, and implementation, on the other.[1] Notes Lamb:

> work on strengthening policy institutions within developing countries is less developed...Developing the institutional

capacity for timely and flexible policy response is clearly central to successful policy reform and structural adjustment...moreover, reform initiatives must often deal with institutions which, though powerful and relatively competent, may have become part of the policy reform problem rather than the means for its solution" (1987: 3).

Even when there has been a focus on the implementation issue, rarely do analyses go beyond examining administrative apparatuses and procedures or the characteristics of bureaucrats. Little attempt is made to link the internal dynamics of administration or administrators to the contextual issues of organizations in social and political milieus.[2]

Part of the problem of this limited analysis may be inherent in the current policy reform orthodoxy itself. Because one principal tenet of the orthodox model is the stimulation of the private sector and market forces at the expense of public sector action, little attention is paid to the requirements of the governing process. In fact, the orthodoxy assumes a minimal role for government as an outcome of the reform process itself. Policy reform is perceived as a painless political choice. As a result, the inability of governments to carry out reforms effectively is "blamed" on the victim. In the worst case scenario, political leaders are ignorant of and unresponsive to "appropriate" policies; in the best case scenario, governments are naive newcomers to the positive long-term effects of the reform initiatives. In either scenario, I would argue, the "established wisdom" is suspect.

As a result, for example, technical assistance adheres closely to the orthodox assumptions of the model, perceives government as a compounding and perverse factor in development, and frequently underestimates the need for a clear understanding of the "grounded" issues of governance, political interests, and bureaucracy.[3]

The ultimate irony, however, is that many of the activities of the donors require a strong state role. For example, efforts to improve monitoring capabilities, to improve the process of data gathering, or to improve policy analysis require strengthening, not dismantling, the state's role. Similarly, the multiplicity of sectors involved directly or affected indirectly by reform initiatives presumes a coordinating capability within government (and one might add, among donors). Thus, there would seem to be a contradiction among attempts to remove or reduce the state apparatus, the pre-existence of a weakened administrative state, and demands by donors for a "lean and mean" state apparatus to carry out the mandates of reform.[4]

Again, part of the problem which results in this contradiction is the failure to recognize the linkages among macro policy, micro policy, and the implementation process. Stanley Please suggests a similar limitation in the approaches of the IMF and the World Bank in particular. The IMF, he notes, has never been able to get beyond macro-economic characteristics to the micro-policy initiatives implied:

> Nevertheless, beyond the desirability of getting more realistic exchange rates and interest rates lies a range of sectoral and subsectoral concerns that are of importance to the structural adjustment and development processes. These concerns cover, for example, the relative roles of the public and private sectors in economic activity; the manner in which markets are permitted to develop or are organized by government; the processes and criteria by which the level and structure of agricultural prices are determined; [and] the individual policy framework..(1984: 2).[5]

Yet the Fund finds itself taking on new roles in the process of adjustment, roles for which it may not be well suited. In addition to its traditional role of providing policy advice to members, the Fund is now required to play the roles of: 1)economic forecaster, (2) policy planner, (3) market disciplinarian, (4) gatekeeper of access to new credits, and (5) police officer for financial norms and obligations (Feinberg, 1985: 57).

Another factor that has limited the successful implementation of reform initiatives is closer to home: the fields of development administration and development management themselves have not geared up for the dramatic shifts that have occurred in development assistance strategies. The continued discussion of development administration and development management in a world of project-based assistance belies the fundamental shift to programmatic assistance and interventions that are the rule rather than the exception today.

This failure on the part of the study and practice of development management is reflected, in turn, in the practices of the donor community. As institutions, many of the multilateral and bilateral members of the technical assistance community have not "geared up" to policy-based technical assistance.[6] Further, as Please has noted, institutions such as the World Bank and the International Monetary Fund may be ill-suited for the tasks that policy based initiatives entail, both in style and in training.[7] Thus, even with the issuance of and tremendous importance attached to the "Management of Development" section within the 1983 <u>World Development Report</u>, there has been limited translation of much of that message into institutional interventions.

I also argue that part of the failure of reform resides in the limited groundwork that has been done with regard to a realistic understanding of the complexity of the institutional, political, and economic impacts that are inherent in policy reform. "Policy dialogue" has meant more in word than in deed.

Ironically, the issues of complexity and the need for coordination among reform initiatives have an inverse, indeed perverse, relationship to the need for reform itself. The greater the need for reform in a given country, and often the poorer the country, the more complex the package of reforms that are introduced, and, as a result, the more difficult the sustainability, complementarity, and coordination of reform efforts.[8] Further, policies of stabilization find themselves inextricably tied to policies of structural adjustment, even though the double-barrelled effect of pursuing both of these simultaneously may have even more intensive political consequences; sustainability of a viable political context is made more difficult.[9] As will be seen, this is particularly true in the case of Zambia. Finally, there is a need to focus explicitly on the issue of implementation. What may be required for "success" may not require new reform initiatives nor new adjustment agreements; rather, success may require a concerted effort to focus on the sustainability of previously initiated reform efforts.

The remainder of this paper is divided into five sections. It begins with a brief overview of the international context of policy reform efforts. A second section attempts to provide a framework for understanding reform initiatives. A brief argument is made, and a set of working hypotheses are offered, that attempt to characterize initiatives and implementation problems. I suggest that it is possible to identify clear distinctions among types of reform initiatives, not only in terms of the economic rationale for the reforms, but also in terms of the types of institutional requirements that reforms have.

Often, in the orthodoxy of structural adjustment and policy reform it has been assumed that reform initiatives are relatively "automatic," that moving from the negotiated word to the actual deed of reform is straightforward. "Getting the prices right" will bring with it a litany of positively reinforcing phenomena that will bolster political will in the face of adjustment shocks. Thus, once there is a negotiated acceptance of reform, it is often assumed that implementation from "word to deed" follows. This is clearly not the case. In fact, the "failure" of reform initiatives may be closely associated with the failure of both regimes and donors to take into account the requirements of implementation. Thus, even the presence of initial "political commitment" on the part of regimes may be weakened as the fundamental issues of implementation wear away at commitment and consensus.

A third section turns our attention to the particular context of economic and financial crises in Zambia. Restructuring and reform are contextual. Without some understanding of the political, institutional, social, and economic contexts of reform, their implementation is doomed to failure. My purpose here is not to provide a broad history of Zambia; rather I focus on the conditions of the post-colonial era that may have affected the viability of reform. As is noted above, the case of Zambia is instructive in part because it typifies many of the conditions of other countries, particularly within the sub-Saharan region; much of the region is characterized by weak administrative states and equally weak markets.

A fourth section discusses the reform initiatives themselves and attempts to place Zambia's policy response to these crises in the current context. Zambia began to respond to the pressures of readjustment as early as 1978, with the introduction of stabilization policies as required by stand-by agreements with the IMF. From these initial efforts through 1985, three basic objectives to the various components of the reform package are clearly identifiable: financial stabilization, diversification of the economic base in industry and agriculture along lines of perceived comparative advantage, and improving the operational efficiency in the public and parastatal sectors. The early 1980s, particularly after 1983, marked dramatic increases in the quantity and intensity of reform. October 1985 can be seen as a further crossroads of reform efforts in Zambia. After a full year of suspension of stand-by facilities, Zambia once again demonstrated real political commitment to aggressive reform initiatives. Yet, at the same time, political intransigence and hostility to the reform initiatives were constant reminders of the difficulties of a radical readjustment of economy and state. The period from 1985 through early 1987 marks an intensive period of attempts to implement radical restructuring in the economy and in the public sector.

Zambia's policy reform initiatives were perhaps the most ambitious, far-reaching, and precipitous of any country in the region. In a sense, then, these reform initiatives provide a laboratory for examining experimentation; however, the lesson of Zambia may be that to experiment without capacity building will doom efforts to failure.

Finally, a fifth section attempts to draw lessons from the Zambian experience; the hope is that from the examination of the various reform initiatives we may gain some understanding of key problems which were manifested during the breakdown of reform from February through May of 1987. Clearly a crisis had occurred in the management of the implementation of reform. In addition, the political hostility to adjustment intensified. Where were the key obstacles to implementation?

The inability to sustain reform initiatives in Zambia is not necessarily, nor only, a result of the "inappropriateness" of reform initiatives themselves. Rather, even with "appropriate" reforms, the minimal attention of policy makers (particularly in the donor community) to institutional and contextual issues may doom reform from the outset. For example, are there identifiable implementation issues that are inherent in particular reform initiatives? Are there identifiable implementation issues that correspond to the framework provided below? Are there means by which some of these implementation problems might have been avoided? From the framework provided in the third section, I attempt to draw specific lessons, anomalies, or contextual problems that characterize the Zambian case.

II. POLICY REFORM AND ECONOMIC CRISIS: THE INTERNATIONAL CONTEXT

The past decade has seen a dramatic decline in the capacities of nations in the Third World to cope with the demands and requirements of economic growth and development. In one sense, this declining capacity is a decline in the ability of these countries to manage, not only in the long- and medium-term, but even the day-to-day necessities of organized social, political, and economic life. These economic crises of the 1980s have led to a fiscal crisis, and also to a crisis of confidence in the ability of these nations to manage development.

The manifestations of crisis abound: in aggregate statistics on declining per capita income, declining agricultural productivity, rising unemployment in the formal sector, a worsening of the global housing crisis, increasing crises of food shortages in predominantly agricultural countries, escalating inflation, and many other indicators.

If the manifestations of crisis are clear and fairly apparent, the causes of the current malaise are almost as clear. The proximate causes, clearly, were the recession of the early 1980s, following on the heels of the oil shocks of the 1970s. While there had been a commodity price boom for a number of products during the 1973-1977 period that somewhat offset the impacts of the first oil shock, that boom ended by 1977. However, much of the windfall profit that had been realized as a result of the price booms was absorbed in the expansion of government expenditures. Similarly, a lack of realism in the face of impending crisis led to a false sense of the temporal quality of shortfalls and crisis: gaps in imports and exports, and government deficits, were financed through the expansion of domestic credit. Required adjustment was, in effect, postponed.[10]

However, the upswing in prices eventually came to an end. The volume and prices of commodity exports declined, import prices rocketed, and real interest rates simultaneously rose precipitously. While these conditions in themselves were difficult, more troubling still has been the inability of many nations of the Third World to respond to improvements in the international economic environment in the mid-1980s. Terms of trade generally have not improved appreciably; flows of investment to the Third World nations have only marginally changed. Growth has simply not occurred in typical cyclical fashion. Although many countries in the advanced industrial world and the newly industrializing countries may have "turned it around," most LDCs have not.[11] Long-term deterioration in their relative economic position has continued. The data in Tables 1 and 2 below provide a preliminary view of the consequences of this deterioration. As is noted, no region of the world fared particularly well in the 1980s, while Asia and Europe have experienced less dramatic declines.

The failure to adjust to changes in the external environment led to a number of penurious consequences. Among these, we can point to the following: real exchange rate appreciation; excess demand for imports; escalating inflation; excess demand for credit; and dwindling foreign exchange reserves (Hood, et al., 1988). Continued belief in the temporal quality of crises was reinforced by the earlier commodity price booms, dramatic increases in public lending assistance during the 1970s, and the recycling of petro dollars which created access to international private capital. Increased borrowing in the late 1970s and early 1980s occurred in an era of perceived and potential expansion. Commercial bank lending that had begun in the post-1973 period of liquidity surplus continued. In an interview with Anthony Sampson, Citicorp Chairman, Walter Wriston declared in 1980: 'It [the lending by commercial banks to LDCs] was the greatest transfer of wealth in the shortest time frame and with the least casualties in the history of the world." (Hayter and Watson, 1986: 27).

However, this borrowing was occurring at market terms, with a hardening of those terms. In 1970, the average interest rate on new loans for "middle-income" economies ranged from 5.0% (for lower middle income countries) to 6.9% (for upper middle income countries). In 1984, the corresponding rates were 8.8% and 11.0%. The average maturity on loans had declined from 23 years and 13 years to 15 years and 10 years over the same time period (World Bank, 1986). Bank loans to non-oil developing countries rose from $10 billion in 1973 to $49 billion by 1980. In 1970, private financial markets accounted for less than one-third of developing country accumulated debt; by 1980, they held 55 percent.

At the same time, resources and lending by the International Monetary Fund shrank as quotas failed to keep pace: the IMF participation declined from 16 percent of world trade in 1944 (when the Fund was created) to 4 percent at the beginning of the 1980s (Feinberg, 1985: 53). LDCs were able to avoid rigorous conditions imposed by the IMF on its facilities by borrowing privately. While the terms of private lending hardened during this time period, funds were readily available. However, in 1982 that source came to a screeching halt. Voluntary private lending became reflective of conditions in world markets.[12]

What are the consequences of this situation? Nations are paying higher rates of interest on borrowed money and the repayment schedule is shorter on more recent loans. The worst of both worlds! In addition, the grant element of loans has declined precipitously as well. Finally, just as the economic crisis has worsened, commercial bank lending and new investment capital have

TABLE 1:
RATIO OF EXTERNAL DEBT TO EXPORTS OF GOODS AND SERVICES BY REGION

Region	1978	1980	1982	1983	1985
All Indebted LDCs	132.4	110.4	148.6	159.0	160.1
Africa (including S. Africa)	124.2	87.6	148.6	164.7	166.0
Asia	81.0	70.0	84.0	89.2	92.1
Europe	126.8	117.9	122.8	129.5	131.1
Non-oil Middle East	161.5	127.7	162.8	195.7	225.3
Western Hemisphere	217.2	182.8	267.2	288.2	289.4

Source: IMF, World Economic Outlook, as cited in Brau, 1986.

TABLE 2:
EXTERNAL PUBLIC DEBT AND DEBT SERVICE RATIOS
IN SELECTED COUNTRIES
(1985)

Country	External public debt Millions	External public debt % of GNP	Current Debt Service as % of: GNP	Current Debt Service as % of: Exports of G&S
Low-income economies*	**59,327**	**46.5**	**2.9**	**18.4**
Zaire	4,821	111.8	7.9	8.6
Tanzania	2,982	48.5	1.0	16.7
Haiti	534	27.8	1.1	5.8
Zambia	3,214	150.8	4.0	10.2
Middle-income economies	**535,599**	**38.1**	**5.7**	**21.6**
Bolivia	3,259	124.8	6.5	29.1
Indonesia	26,625	32.0	4.8	19.9
Honduras	2,178	68.8	5.4	17.6
Zimbabwe	1,526	31.3	6.7	32.2
Nigeria	13,016	17.2	5.3	30.8
Peru	10,527	66.5	1.9	7.9
Colombia	9,377	28.5	4.3	29.2
Chile	12,735	90.3	8.7	26.2
Brazil	73,894	35.5	3.7	26.5
Mexico	72,510	43.0	6.5	37.0
Argentina	35,604	50.0	6.1	41.8

* Excluding India and China.

Source: World Bank, World Development Report, Table 19, 1987, IBRD, Washington, D.C., 1987, p. 30.

been drastically curtailed. As a result, there has been a net transfer of resources from LDCs to developed economies annually since 1983 (Hayter and Watkins, 1987; Cavanaugh, 1985).

Additionally, the crisis is to be found in other conditions, less structural in nature. Many of these are inherent in the rapid expansion of the state itself, coupled with inappropriate policies and roles, and, in many cases, poor management skills and weak institutional structures.

One central feature of the growth of external debt for the Third World in the 1970s was the pervasive and expanding role of the state as consumer, employer, investor, regulator, and service provider. Recent International Labor Organization data suggest rates of growth in LDCs at three to four times that of MDCs in the 1970s (ILO, 1985; Morrison, 1986). One of the major difficulties with the process of expansion of public spending is that it has not been a smooth process. At the same time, incremental expansion during times of surplus has not been counteracted with incremental shrinkage during times of fiscal and economic difficulty. As the World Bank has noted:

> In many instances, [public spending's] ratio to GDP has remained stable during long periods, only to jump during a war or when some new source of revenue was found. Thereafter it has seldom declined significantly. The dangers of this ratchet effect can be seen in countries that set their spending on the basis of revenue from export taxes at times of exceptionally high prices; when prices collapse, expenditures could not easily be reduced...(1983: 47)

While this growth has been, in part, a response to growing demands for improved quality and quantity of public services, it has also occurred as government has become employer of <u>first</u> resort (and not just <u>last</u> resort) in many areas. One consequence has been incredible overstaffing at lower levels, with simultaneous shortages of professional/technical, and especially managerial, staffs at higher levels. A recent survey conducted by the IMF demonstrates clearly the impact of the role of the public sector as employer of first resort, not only within state-owned enterprises, but within the central government as well.[13] These data are provided in Table 3.

Of particular importance is the share of total employment represented by public sector employment for all LDCs, as well as the relative wages of the public sector. Several characteristics are worth noting. First, while overall government employment in LDCs as a proportion of total employment is lower than in OECD countries, the proportion in the central government is much higher. Also, if we consider only non-agricultural employment, the share of public sector employment looms much larger (44% as compared to 24%). Second, the wage bill of the public sector is higher in the developing world. In OECD countries, government wages are twice per capita income on average, while in LDCs the ratio is four times per capita income. Finally, the burden of government expenditures is felt in another way: in the expanded role of non-financial public enterprises in LDCs. On average, fully 29 percent of government employment in the Third World is in this sector, compared to an average of 17 percent in the OECD countries. And in some cases (Brazil and Zambia, for example), wages in the non-financial public enterprises represent half of the total public sector wage bill (Heller and Tait, 1984).

This changed role of the state as employer is coupled with the development over the past twenty-five years of a state that has become inward-looking, protective, and regulatory.[14] The state has become protector of privilege, regulator of competition, and principal investor. As one author notes, "Some large private businesses thus often end up as the keeper of privilege granted by the state, rather than as Schumpeterian entrepreneurs fighting it out in the marketplace" (Balassa, et al., 1986: 129). Dynamism is forfeited for a concern with maintaining the status quo.

Not only does the state absorb large portions of available capital in its role as investor, but the state has absorbed large portions of GDP in transfers to state enterprises for consumption, especially in energy and in staple goods. For example, public sector expenditures as a percentage of GDP for all of Latin America grew from 28% in 1970 to 42% in 1982. These data are presented in Table 4. This has been most notable in Latin American cases.

The largest portion of this increase is accounted for by the tremendous growth of state-owned enterprises; expenditures for these grew as a portion of GDP from 9% to 19% between 1970 and 1982, accounting, by the end of this time period, for a larger portion of investment than similar enterprises in advanced industrial countries (Balassa, et al., 1986; World Bank, 1987). As can be seen in the graphic presentation of Figure 1, the growth of state-owned enterprises, while not uniformly rapid across LDCs, has been quite dramatic during the 1970s. However, the performance of state-owned enterprises does not reflect their rapid expansion. While efforts to improve efficiency and competition through divesture have seen some success, liquidation, privatization of ownership, and even privatization of management have not proceeded smoothly (World Bank, 1987: 66-68).

The combination of these factors has led to a recognized need by the international community for both a financial response and a policy response to the crisis. In financial terms the response of the IMF and the World Bank is evident in their increasing activity. Between 1979 and 1987, developing countries' outstanding drawings from the IMF rose fivefold. During the same

TABLE 3:
PUBLIC SECTOR EMPLOYMENT (PSE)

	OECD	LDCs	Africa	Asia	L.A.	Zambia
PSE share in non-agriculture employment	24.2%	43.9%	54.4%	36.0%	27.4%	81.0%
Central government share in non-agricultural employment	8.7	23.4	30.8	13.9	20.7	42.3
Central government share of PSE	34.9	58.7	65.5	43.3	65.0	50.6
Non-financial public enterprise share of PSE	16.5	28.9	29.0	39.0	19.4	45.0
Share of PSE wages in national income	17%	16.7%	18.5%	N/A	15.0%	26.9
Ratio: average central government wage/per capita income	1.7	4.4	6.1	2.9	2.9	4.1
Number of PS employees/100 inhabitants	2.4	3.1	1.9	3.1	4.6	4.7

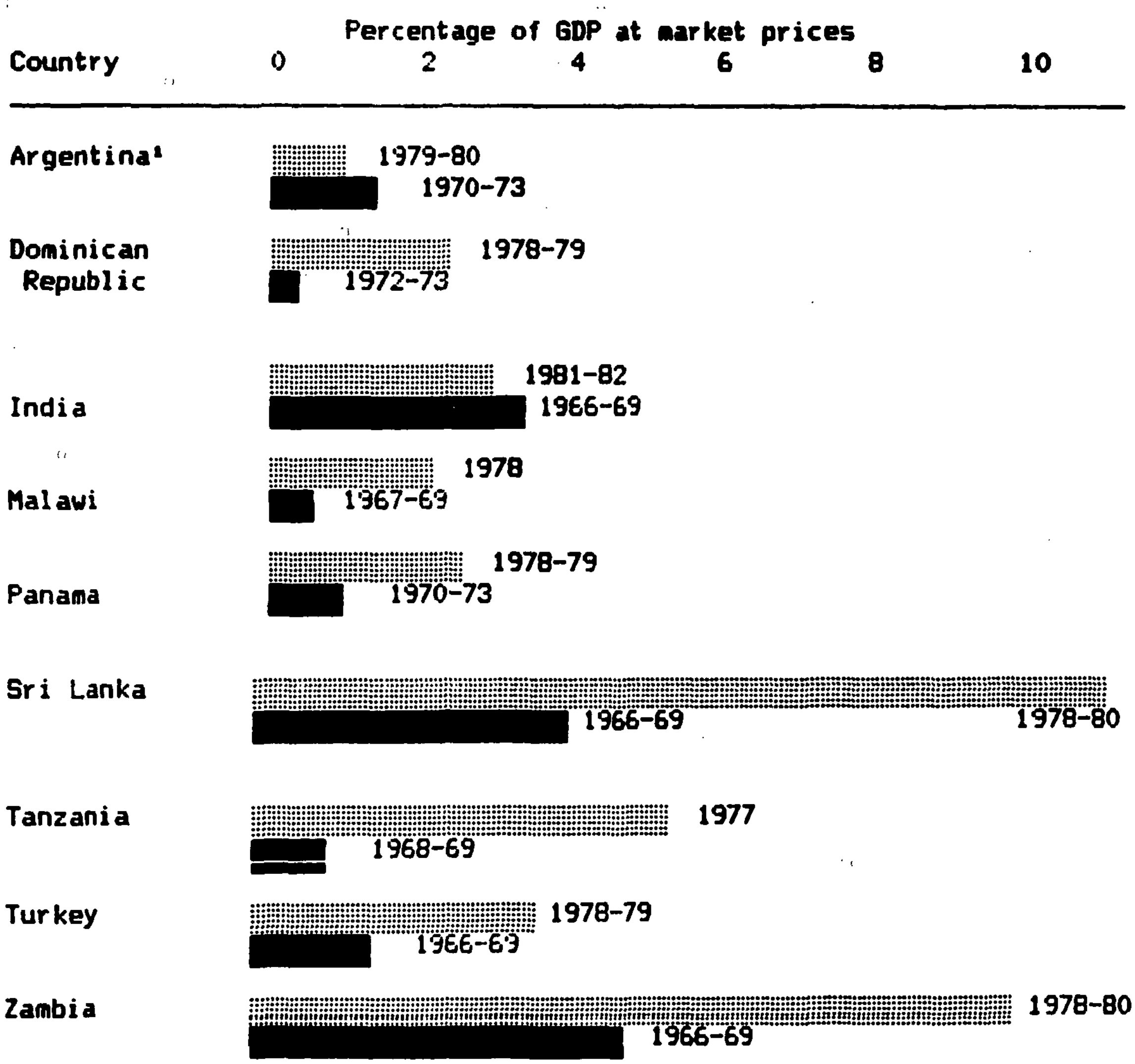
Source: Heller and Tait (1984), Tables 1, 4, 8, 21, 22, 23, 25.

TABLE 4:
GROWTH OF THE PUBLIC SECTOR, 1970-1982

Country	Public Sector Expenditures as % of GDP 1970	1982	Of which, State Enterprises 1970	1982	Proportion of GDP by SOEs (1978-80)	Public Sector Deficit As % of GDP 1970	1982
Argentina	33	35	11	12	20	1	14
Brazil	28	32	6	11	39	2	17
Chile	41	36	5	10	13	5	2
Colombia	26	30	6	10	9	4	2
Mexico	21	48	10	26	24	2	17
Peru	25	57	4	32	15	1	9
Venezuela	32	66	17	45	45	3	4
Weighted average (L.A.)	28	42	9	19	29	2	9
Malaysia	36	53	4	34	33	12	19
Korea	20	28	7	4	23	4	3
France	38	48	5	7	13	0.5	3
Sweden	52	66	4	6	11	2	10
Great Britain	43	49	10	11	17	3	6
U.S.A.	22	21	10	9	4	1	2

Source: Balassa, et al. (1986), p. 126.

FIGURE 1:
CLAIMS ON THE BUDGET OF NONFINANCIAL
STATE-OWNED ENTERPRISES
(SELECTED COUNTRIES)



The length of the bars indicates government subsidies, transfers, and net lending to nonfinancial SOEs, less SOE dividends and interest payments to government, as a percentage of GDP at market prices.

[1] Major enterprises only.

Source: World Bank, World Development Report, 1983, p. 75.

time period, the Bank approved 121 structural and sectoral adjustment loans, which accounted for some 12% of total lending (Hood, et al., 1988). In 1987, the Bank authorized structural and sectoral lending equal to 25% of total lending.

The policy response of the multilateral and bilateral lending community, as well as a number of governments themselves, to these deteriorating economic conditions has been developing inchoately over the past seven years, and most especially over the past five years. However, the theoretical "policy reform package" is now well known, as efforts to stem the tide of decline and potential default often have been imposed from outside. A simple listing of many of the typical measures suffices to suggest the depth and breadth of the orthodox reform package:

-lower exchange rates;
-greater export incentives;
-less industrial protection;
-tighter monetary policy;
-higher real interest rates;
-less direction of credit;
-higher energy prices;
-smaller (if any) consumer subsidies;
-restrained public spending and a reduction of public sector employment;
-administrative and budgetary reform;
-divestiture of state-owned enterprises; and
-increased scope and participation of the private sector.

It is within this context that efforts to improve the management and implementation of reform efforts should be seen.

III. A FRAMEWORK FOR EXAMINING IMPLEMENTATION

It is argued throughout this paper that different types of reform initiatives focus attention on different implementation issues, and that it is possible to group reforms in terms of these issues. A first issue in the identification of problems associated with the implementation of reform is **taxonomic**. Sustainable reform initiatives, it is often assumed, are relatively automatic once they have been negotiated and accepted. While this assumption is particularly prevalent in the case of macro-policy reforms, rarely are clear delineations made between the types of policy changes and the relative ease of their implementation.

David Korten (1986) attempts to distinguish between "stroke of the pen" macro-policy reforms and micro-policy reforms which often require highly complex and difficult institutional changes. However, even this dichotomy underestimates the implementation issues associated with macro-policy reforms. Korten argues that these reforms have a "minimal requirement for the development of new institutional capacities," and that although there may be grave difficulties in generating initial political consensus, "once the decision is formally made by the competent political authority, its implementation is a comparatively straightforward process" (1986:1).

However, I would argue that there are few, if any, policy reforms that fall into the "stroke of the pen" category. Further, "getting the prices right" may be much less important than good investment decisions which require more complex institutional and informational components.[15] In either case, reforms and their implementation are processual, involving on-going decision-making among relevant stakeholders who are affected by and affect the content of reforms in context.[16] Reforms are rarely, if ever, settled "once and for all." In fact, the "failure" of reform initiatives of various kinds and at various levels may be closely related to the failure of regimes and donors to account for the varying requirements of implementation.

Grindle and Thomas (1987) distinguish between "pressing reforms" and "chosen reforms" based upon the means by which policies become part of the agenda. Pressing reforms, a term borrowed from Albert Hirschman, are those where there is a clear perception of crisis. These policy issues involve high stakes, they generate considerable political opposition, they are highly visible and emphasize major changes, and they are "decided" (i.e., become part of the policy agenda) by relatively small numbers of decision makers. Pressing reforms, then, are of high risk and have critical implications for the legitimacy and viability of the regime. But, once there is reasonable political consensus among relevant policy makers about these reforms, their implementation is less eventful.

By contrast, chosen reforms are much less often macro-policy initiatives. Rather, they tend to be sectoral in nature. Because they affect and are affected by the institutional context, the process of implementation is more prolonged and problematic. As a result, the sustainability of these reform initiatives is a function of institutional and bureaucratic compliance and action. In this formulation, a more realistic discussion of the nuances of differences among reform types can be seen. Thus, reform initiatives can be categorized in that there are discernible characteristics. The approach taken here parallels and refines the discussion of Grindle and Thomas. It is argued that reforms:

- have identifiable theoretical objectives, and are therefore, "targeted";

- engender specific actions because of the theoretical basis for the achievement of their objectives;

- involve differing time frames for the expected achievement of results;

- have different, sequential requirements for the initiation and implementation of actions.

If reforms can be grouped by some guiding theoretical purpose or goal, and if their purposes suggest or direct us to systematic and consistent sets of actions that ought to be taken, then there may also be consistent implementation requirements associated with different reforms that are necessary for their achievement. Several hypotheses suggest themselves:

- Certain kinds of reforms may require greater (or lesser) institutional apparatuses for their achievement or implementation;

- Certain kinds of reforms may require a greater (or lesser) degree of political will and leadership for their successful implementation and accomplishment;

- Reform initiatives cannot be treated as discrete projects. They interact, they create externalities which affect other reforms, and they are not mutually exclusive;

- Different reforms may pull institutions and processes in different, and possibly contradictory, directions;

- Different donors, as well as different stakeholders within the country, have different agenda, and these agenda need not be - and often are not - mutually reinforcing or supportive.

Thus, different types of reforms systematically will have different kinds of implementation obstacles: these impediments will occur at different stages in the implementation process; and they will occur at different "sites" of decision-making and action. Two issues related to the "site" of decision-making are:

> Certain reforms should theoretically occur "prior" to others and must be in place before others can be achieved, either for reasons of their economic rationale or for reasons of political and institutional capacity;[17]
>
> The "locating" of reforms, both in terms of the path they take through institutions, and in terms of interests affected, is important.

Finally, the intent here is to identify systematic problems of implementation. However, this is not to suggest that a simple blueprint can be offered. In fact, quite the opposite is true. Implementation issues are contextual: the context in which reform is introduced and in which reform is implemented is critical. Different environments, different behavioral modes and responses, different institutional settings, different regime goals - all of these affect the paths toward implementation and the viability of reform. The dynamics of implementation do not occur outside of the context of the country in which reform is being conducted (Grindle, 1977; 1980).

What is argued here is that if we can identify **ex ante** and theoretically, and empirically, those potential obstacles that affect implementation, then we may be able to design interventions that will assist in the alleviation of some of the implementation problems, prior to their appearance or in response to their appearance.

In this section three issues will be discussed: First, an attempt is made to provide a typology of adjustment or reform initiatives. Strategies of adjustment can be distinguished based upon their economic purposes. Second, I suggest there are a series of critical issues related to implementation. A growing body of literature attempts to address the bottlenecks of the implementation process, and argues that different implementation issues affect different components of the policy-making arena and policy outcomes in different ways.[18] Finally, an attempt will be made to link "clusters" of reform initiatives to the discussion of the effects of different implementation problems.

A. <u>Types of Adjustment Policies</u>[19]

The various reform initiatives that have been pursued throughout the 1980's by the donor community and host governments can be characterized and typologized according to the objectives of these initiatives.

1. **Liberalizing the Economy.** A first set of reforms or "adjustment" policies has as its objective the liberalization of the economy, primarily (although not exclusively) through macroeconomic policy change.

Within this category, three different sets of reforms can be distinguished. A first set of policies aims at the reduction of effective demand and utilizes traditional tools of demand management. These policies may be characterized by their relatively short-term time horizon, by their emphasis on reducing imbalances in the external accounts and the domestic budget through expenditure reductions, and by their focus on the macro- financial conditions of the host country (Cornia, Jolly, and Stewart, 1987).

It is these policies that we ordinarily associate with the International Monetary Fund, which we most often think of as the "stroke of the authoritative pen" policies involving central government decision makers (Korten, 1986).[20] As Cornia, et al. (1987: 50-51) note, these policies generally include such actions as the tightening of monetary policy, removing or reducing wage controls, reducing credit ceilings, and policies aimed at restricting real incomes.

A second set of policies aimed at liberalizing the economy is often associated with the approach of the World Bank. Policies aimed at the shifting of productive resources from the non-tradeable sector to the tradeable sector, and from consumption to investment, have as their objective the expansion of the supply of goods and services within the country.[21] Macroeconomic structural adjustment policies aimed at the expansion of the supply of goods and services tend to have a longer time frame than stabilization policies and are intended to complement the thrust of stabilization policies. Key to these policies is an emphasis on allocational efficiency, encouraging market-oriented incentives, and utilizing the state as a stimulus to private sector market efficiency rather than as a regulator of the private sector (Cornia, Jolly, and Stewart, 1987).

Examples of policy instruments would include those policies that enhance the mobility of factors of production (labor and capital), particularly through the alteration of pricing policies and subsidies, tax policies, and other trade interventions. Again, a number of these policies are often thought of as one time reforms, requiring little more than an authoritative stroke of the pen subsequent to the realization of some political consensus. While I argue that the implementation of these "pressing reforms" at the macro level may require less bureaucratic and institutional actions and more high level political commitment, it is overly simplistic to ignore the potential institutional implementation issues that may be associated with these efforts (Grindle and Thomas, 1987).

A third set of reform efforts to liberalize the economy focuses more directly on specific sectoral activities to expand the supply of goods and services. While these initiatives are in many ways indistinct from the above "expenditure switching" policies at the macro level in terms of objectives, there are clear distinctions to be made regarding the implementation issues that may arise. Examples of these reform initiatives would include specific price and subsidy policies aimed at benefitting a specific sector, such as, for example, agricultural producers. These reforms are much more likely (although not necessarily) to involve non-central ministry institutions and to require actions at the line ministry level, among a particular group of producers, or in geographically distinct areas. As a result, the kinds of implementation issues that arise may be very different.

The recent shifts in the emphasis of the World Bank, as well as the long-standing focus of much of USAID reform policy, are sectoral in nature. Here, allocational efficiency becomes comparative sectoral efficiency.[22] In particular, much of the thrust of structural adjustment and policy reform distinguishes between macroeconomic policy and the special needs of the agricultural sector.[23]

It is important to note that the earlier distinctions among stabilization and adjustment policies have become somewhat arbitrary of late, and the distinctions between macroeconomic policy and sectoral policy reform initiatives aimed at liberalization have also recently taken on increasing importance. This is particularly true of the approach(es) taken by the World Bank.[24] Similarly, the International Monetary Fund has moved away from strict stabilization short-term policies toward "structural adjustment", through the creation, in 1986, of its Structural Adjustment Facility with SDR 2.7 billion available, and the adoption of a three-year planning and policy horizon.[25]

2. <u>Reforming Organizations</u>. A second clustering of reforms has as its objective changes in organizations themselves. Here, actions aim at reducing both the fiscal drain of the public sector on the economy and at reducing the distorting effects of the public sector. In many ways, it is in these reforms that the bias by the donor community against the public sector becomes most explicit. While concern for the size and efficiency of the public sector are expressed in these initiatives, actions that

will ensure the organizational and political palliatability of these reforms are rarely examined carefully. This type of reform initiative particularly involves the need for focusing on implementation problems. Again, we can distinguish among these reforms aimed at altering the organizations of government directly.

A first objective of reforms targeted at government itself is a reduction in the civil service. A second objective of these reforms is to reduce the size of and/or alter the efficiency of the parastatal sector. In this category one finds much of the effort toward divestiture and privatization.[26] Finally, a third objective of these reforms is to restructure or reorganize the public sector itself.

Each of these objectives aims at improving the efficiency of public sector operations and to improve the capacity of the public sector to respond to, and stimulate activities of, the private sector. Thus, improving market oriented incentives, reorienting the behavior of the public sector away from an "inward orientation" and toward an "outward orientation," improving the planning and budgeting or financial management within government ministries, and decentralization, privatization, and speeding up overall government efficiency are the clarion calls of these reform initiatives.[27]

Each of these reform or adjustment initiatives suggests a different set of potential implementation obstacles. The content of reform initiatives implies different institutions affected and different paths to effective implementation. Among the key questions that need to be addressed for different reforms are the following:

Who needs to be consulted in the negotiation process?

Where must consensus be reached regarding the reform initiatives?

What institutions in the host country are immediately affected by the need to implement activities?

Which reforms may require long-term gestations before "sustainability" can even be evaluated?

What are the potential impacts on larger societal forces, and do these forces present potential demand-making capabilities?

What are the potential impacts upon vested interests or stakeholders inside government (bureaucracy, political party officials, etc.) and outside in society?

For example, Grindle and Thomas (1987), and Korten (1986) have argued that for macro-policy or pressing reforms, the principle issues are regime stability, regime maintenance, and political consensus building and commitment. There are fewer key institutional "sites" of decision-making and these are of high level. Sustainability, then, is the ability to maintain high level political consensus and, in essence, the social contract. Decisions about "who" will implement reforms of this kind are guided by where there are (1) "sites" that can generate political consensus; (2) "sites" that can accomplish high level technical decisions; and (3) "sites" that are linked by an information flow to leadership.

On the other hand, "chosen reforms," or Korten's micro-policy reforms, involve more sites of decision-making, have greater organizational content, and decisions about the 'who' of implementation are guided more by the technical logic of the reform than by the political logic of reform. As we move increasingly toward sectoral and organizational reforms, issues of regime maintenance and legitimacy play less of a role, and organizational/bureaucratic concerns become more central.

Lamb (1987) offers a somewhat different "strategic mapping" of potential implementation issues. He suggests that several issues need to be resolved during the policy process to assure effective policy management (as opposed to conventional institutional development approaches).[28] Synthesizing his concerns, the following key questions must be addressed:

> What functions need to be performed to carry out the reform? That is, what are the key components to the policy decision-making process?
>
> What units, agencies, or organizations control these functions? This may mean tracking a policy across organizations or units.
>
> What policy analytic capabilities are needed, and how can the reforms be made less institutionally demanding?
>
> Who are the effective stakeholders in the process?

And, I would add:

> Are there key sequencing and timing issues that need to be considered in the implementation of a given reform or combination of reforms?

Thus, there are a series of strategic choices that must be made during the design and implementation process, choices regarding program design, institutional setting, analytic capabilities required, impact of and on beneficiaries or stakeholders, and timing of initiatives. Different reforms will involve different strategic choices. Therefore, there are different "paths" of implementation for reforms dependent on the content of the reform. As a result, different potential implementation issues become of relevance. A schematic representation of these issues suggests itself:

Different reforms have different theoretical objectives ----> different prescriptions ----> different instruments of action ----> different implementation problems arise ----> different types and sites of interventions.

In the following section we will examine some of these potential implementation bottlenecks in the process.

B. Potential Bottlenecks Related to Implementation

Our discussion of the types of reform initiatives suggests that there are meaningful ways of clustering reforms both from an economic as well as a politico-administrative perspective. The prior section focuses on the identification of these clusters. Here we take several steps back to identify issues that have been raised as potential bottlenecks in the implementation process. The key question here is: can we identify generic factors and variables that affect the implementation of any policy?

A first factor that will affect the implementing of policy change is the **intensity** of the change required by policy initiatives. Some reforms are much more intense in terms of the political will required to sustain them, while others are more intense in terms of the administrative or organizational needs for sustainability. Some reforms are intense in both political and administrative terms.[29]

Political intensity of reforms suggests that some issues require careful consideration of the degree to which sustainable political commitment will be required for the continuity of reform. In particular, the salience of reform for powerful political interests in the society needs to be considered. Do reforms "threaten" powerful groups who may be able to affect the viability of political consensus about these reforms? Do reform initiatives require a modification of the political or social "rules of the game," that is, the social contract extant in society?

Often, those reforms described as "stroke of the pen" are characterized by the high degree of pre-existing consensus that is required for sustainability. Many macroeconomic reforms require little beyond sustainable political will and leadership. Here, the strategies for sustainable implementation may require:

(1) bolstering the legitimacy or the political will of the regime; (2) improving regime (and donor) capabilities to "read" the political climate; (3) strengthening particular legislative or executive institutions to serve as "barometers" and gathering points of legitimacy and consensus building; and/or (4) providing visible "success measures" to reinforce existing commitment. For example, in some cases the donor community may be able to provide external surrogates in the form of increased aid packages to compensate for the absence of sustained political commitment.

A second issue of intensity is **<u>administrative</u>**. Some reforms require greater concern for the organizational and administrative complexity of change. Does a particular policy reform require changes in the administrative goals, procedural characteristics or institutional behavior of the bureaucracy? Does the reform require re-routinization of behaviors or can it be adapted to existing bureaucratic behaviors? Does reform require the establishment of new operational activities for the bureaucracy?

A related issue of administrative complexity is the issue of "<u>siting</u>" of reform. Reforms involve greater or fewer numbers of sites of decision-making before and during the process of implementation. The greater the number of sites of decision-making that may occur during the implementation process, the greater the possibility that reforms can be distorted, or worse, effectively blocked. Mechanisms to limit the number of sites of decision-making can facilitate the implementation effort. However, the converse may also be a problem. Where decision-making is overly centralized and hierarchical, implementation may be more problematic as well. The fewer the number of sites of decision-making, the greater the intensity of decisions made at those sites.

Another potential implementation bottleneck is the **<u>containability</u>** of reform initiatives. Are specific reform initiatives "contained" within a single institution or are decision-making and the effects of reforms spread across institutions? Where there are multiple institutions involved in the implementation process, coordination among these is critical. Similarly, some reforms generate externalities that affect other reform efforts. In that sense, some reforms are less self-contained in terms of their relationship to other initiatives. Where there are strong externalities of a reform or where there is multicollinearity among reforms, the issue of coordination becomes even more pronounced.

The interrelatedness of reform initiatives raises yet another issue: the **<u>sequencing</u>** and **<u>timing</u>** of reforms. As noted earlier, there is a clear economic rationale for sequencing reforms based upon the prior necessity of certain actions for the successful implementation of subsequent actions. The economic logic of stabilization prior to structural and sectoral adjustment is key to the joint actions of the IMF and the Bank. Similarly there are important considerations of organizational political, and social timing that arise during the implementation process. These issues of timing involve factors such as the need for analytic capabilities prior to the introduction of a reform, or the strengthening of a given organizational unit's decision-making capacity prior to the introduction of reforms requiring implementing action on the part of that institution. Similarly, the strengthening of procedures and functions within an organization, such as planning and budgeting, may need to precede actions on reforms which require that institution.

In addition, the issues of timing and sequencing address increasing concerns about the absorptive capacity of reforming governments. Often, for example, one hears that the reason for "failure" has been 'too much, too soon.' Yet, little prior advice is offered in terms of how much is too much, when it is too much, and what can be done to increase appropriate absorptive capacity in a systematic way.

A further factor that may affect the sustainability of a reform initiative is the degree to which that initiative requires organizational "learning". Much of the work that David Korten has done concerning micro-policy reform focuses attention on this issue. The greater the need for social and organizational learning, information, and feedback in a reform initiative, the greater the probability of difficulties in the implementation process.

We can identify an additional implementation bottleneck that may arise, one that focuses our attention on the larger picture. All of the above political, administrative, and inter-institutional issues occur in a context or environment of reform. The degree to which any or all of these factors may be more or less salient is contextual and subject to change as the context itself changes. A concern with sensitivity to, and the monitoring of, the larger context is a critical issue that cuts across the set of issues noted above.

Finally, there is a need to address the issue of the reforms themselves. Part of the problem of implementing reform initiatives may reside in the reforms and in the donor community. Some of the problems of implementation are as closely associated with the capacity of the donor community to carry out the reform in terms of the predilections, comparative advantages, style, and "match" of the donors with the reforms as they are with the capacity of host countries to implement adjustment.

For example, given the style and role of the IMF, are there certain kinds of reform issues for which it is better suited than others? Does the absence of a field-based continuous presence on the part of the IMF limit its ability to sustain reform initiatives of a certain type? Are micro-policy reforms more appropriately left to other types of actors in the reform community? Just as Korten notes the limited ability of the major multilateral donors to conduct and effectuate micro-policy reform, is it not also likely that PVOs and NGOs are inappropriate agents for implementing macro-policy initiatives?

C. A Matrix of Implementation Problems

While our intention here has not been to provide either an exclusive or exhaustive characterization of potential implementation issues, we are concerned with those that are the most salient. We have identified nine such factors that may affect implementation (**I**):

> Political intensity (**PI**);
> Administrative complexity (**AC**);
> The number of sites of decision-making (**S**);
> The degree of bureaucratic routinization or change required ([illegible]);
> The degree of sequencing or timing required (**T**);
> The containability of reform initiatives (**C**);
> The amount of organizational learning and information required (**L**);
> The relatedness of reform to the larger context or environment (**E**); and
> The donors' compatibility with the intended reform in terms of organization, skills, and goals (**DC**).

Thus, the potential for bottlenecks in the implementation of a specific reform or a package of reforms is a function of the degree to which these factors are relevant:

I = (PI, AC, S, [illegible], T, C, L, E, DC).

One can think of the strategic management of policy reform as the effort to account for these potential implementation pitfalls in the design and conduct of reform. Strategic management requires the design of management interventions that respond to implementation obstacles as they are manifested in different reform initiatives.

Our ability to "forecast" or diagnose the potential pitfalls of implementation is related to our ability to determine how a given reform type moves along the path toward implementation, and the degree to which these implementation bottlenecks are relevant. The identification of these linkages in the implementation process is a process of strategic mapping. Strategic mapping requires the identification of "locations" where either potential or manifest implementation obstacles appear as places for designing interventions.

In Figure 2, I attempt to provide a matrix for the examination of these relationships between categories or clusters of reform and potential implementation issues. The horizontal axis provides a categorization of various objectives of reform, as described in the first section of this chapter. The vertical axis provides a typology of the potential bottlenecks of implementation.

The argument here is that some of the cells in the matrix are more important as potential implementation pitfalls requiring actions to minimize their impact. For example, under macro policies aimed at liberalizing the economy through the reduction of demand, the potential for problems of heightened political intensity are of great salience. Thus, instruments for ameliorating these tensions are appropriate strategies for intervention.

Similarly, reforming the civil service may have repercussions at various levels and at various times. Ultimately, however, the implementation of civil service reform requires the establishment of bureaucratic procedures for determining civil service needs, qualification systems, testing procedures, mechanisms for the release/retirement of personnel, and pension and other in-kind remuneration schemes. All of these, and other issues, are ones of administrative intensity and complexity. Yet, the potential of civil service personnel to form a salient stakeholding force with the capacity to make demands is an issue of political intensity. Resolution of the issue, therefore, may require action at both levels.

I will return to an application of this typology after a discussion of the specific context of Zambia's reform initiatives.

FIGURE 2:
MATRIX OF REFORM INITIATIVES AND IMPLEMENTATION PROBLEMS

	LIBERALIZING THE ECONOMY			INSTITUTIONAL REFORMS			
	A	B	C	D	E	F	G
	REDUCE DEMAND	EXPAND SUPPLY	SECTORAL	CIVIL SERVICE REFORM	PARA-STATALS (SOEs)	ALTER PUBLIC SECTOR	POVERTY ALLEVI-ATION
Specific reforms:	devalue	raise producer prices	mar-keting boards	redun-dancy	divest SOE	re-organize ministry	social funds
Potential implementation issues (I)=							
Political intensity (PI)	Eg: How does an issue (devalue) affect PI, where, when, who?						
Administrative complexity (AC)							
# Sites (S)							
Change ( )							
Sequencing (T)							
Containability (C)							
Learning (L)							
Relatedness							
Salience of issues							
Donor match (DM):							

IV. AN HISTORICAL BACKDROP TO ZAMBIA'S: POLICY REFORM INITIATIVES

Zambia's development crises of the 1970s and 1980s are not unlike those that have plagued most of sub-Saharan Africa. Constraints to development are found both in a set of **internal** factors that accompanied the post-independence period, as well as in **external** factors that have exacerbated conditions dramatically in the past decade.

Internal Constraints to Zambia's Development

Any short list of these internal constraints would include: the incredible scarcity of skilled manpower, particularly at higher levels; the disjuncture between political independence and economic independence, manifest most clearly in the ownership and management of trade and industry by expatriates, as well as by their presence in the wage sector; political fragility and institutional weakness; and unarticulated or disarticulated national economies.[30]

These internal constraints of the post-colonial period have been severe. In the period immediately following independence through 1975, Zambia was one of the most prosperous countries on the African continent. However, economic prosperity did not mean economic independence. Similarly, political independence did not mean economic independence. Post-colonialism was characterized by the lack of indigenous capital accumulation of a self-expanding nature, effectively limiting growth in the economy. Non-indigenous capital was only minimally involved in domestic political processes, and the emerging state was developing with limited autonomy from non-indigenous groups. Much of the prosperity, however, was tied to a single export product: copper. While other mineral exports (zinc and cobalt) contributed to export earnings, it is clear that copper was and is king in Zambia. While copper prices remained high in the international market, Zambia was able to generate large financial surpluses, surpluses that financed the economic nationalism of the Kaunda government.[31]

In the immediate post-colonial years government did little to alter the inherited economic structure except to introduce large increases in social welfare activities. However, by 1967 the clear recognition of the gap between control of the polity and control of the economy was evident in the emergent doctrines of humanism and economic reform. These reforms were aimed at increasing indigenous control of the economy by (1) reserving sectors for exclusive indigenous control (retail and wholesale trade building materials industries, and transportation), and (2) state takeovers of expatriate manufacturing industries and, in 1969 of the giant copper mining companies. The irony of this emergent philosophy was that it was clearly more anti-imperialist than anti-capitalist, resulting in a reduced share of the economy by multinationals, but also in the continuation of maintenance through expatriate influence, knowledge, and skills. There was no clear impetus to develop domestic management capabilities because of the continued reliance on expatriate skills.

The acute shortage of manpower was perhaps more dramatic in Zambia than for many of the other newly formed African nations. The deliberate colonial policy of withholding secondary education until the 1940s, and of locally based higher education throughout the colonial period, had a severe impact on manpower development. Training for Africans within the civil service was weak until the establishment of a staff training college in 1962. Similar weaknesses were evident in small scale artisan training as well. This problem was so severe that Zambia entered independence "without a single African technician in one of the most industrialized societies on the Continent."[32]

An early manpower study suggested that approximately 62% of the total employment of trained manpower was expatriate (Jolly and Colclough, 1972: 210). At the start of 1964, there were a mere 109 Africans with a university education and slightly over 1,200 with secondary school degrees (Dresang and Young, 1980: 60). Thus, at independence Zambia was faced with the dramatic constraints that limited skilled national manpower implies. However, in addition "Zambianization" was not only a matter of replacing colonial officials, but also of coping with the rapid growth under the impact of its first two development plans and sharp increases in the public sector.

Evidence of other internal constraints abounds: the overwhelming dependence on the copper industry; limited indigenous industry, even on a small scale; and the paucity of indigenous control over key sectors of the economy, such as commerce, financial institutions, and commercial agriculture. While a series of domestic economic reforms were introduced in the early years of independence with the expansion of state control, little change occurred in the problems of dependence on expatriate managerial talents, the dominance of an export-oriented, import-substitution industrialization (ISI), or a capital intensive development policy with a strong urban bias.

Nor did change occur in the problems of a lack of a coherent public sector apparatus (Tangri, 1980: 60-68). Data from 1975 suggest the severity of the problem, as well as the even more dramatic problem of expatriate presence in upper level positions. As can be seen in Table 5, there is close to an inverse relationship between level of employment and **Zambianization** of the positions: the higher the position classification, the less likely that a Zambian would occupy the position. While 93 percent of the clerical and related positions in Divisions I and II (the upper levels of the civil service) were held by Zambians by 1975, only 41 and 14 percent respectively were Zambian in the senior civil service positions of superscale and professional.

TABLE 5:
ZAMBIANIZATION IN DIVISIONS I AND II
(By position)

Category by hierarchical order	Total Employed	% Zambian
Clerical & related	5,489	93.0%
Secretarial	1,389	69.8
Executive & Administrative	5,429	77.5
Technical	4,208	66.9
Professional	1,322	14.4
Superscale	1,235	41.4

Source: Zambianization in the Public Service, as cited in Dresang and Young (1980: 77).

The institutional weaknesses of the public sector stemmed not only from the severe lack of manpower; it was also a function of a piecemeal expansion of governmental functions acquired by the state. Jerry-built administrative structures in the parastatal sector compounded the administrative difficulties of the central governmental structure.[33] As one author notes:

> Very few civil servants were experienced in the formulation and implementation of policies for rapid economic development. In the private sector, local managers had hitherto been entirely dependent upon policies originating in Rhodesia or South Africa. Almost by definition, the parastatal organizations were federal in character and management. Thus upon independence, parastatal institutions from the Agricultural Rural Marketing Board to the Bank of Zambia had to be created **ex nihilo** in a very short space of time (Elliot, 1968. Cited in Tordoff, 1980: 6-7).

Not only was there a constancy of reorganization and expansion of the functions of the central ministries, but in addition, the growth of the parastatal sector was nothing short of phenomenal.[34] During the five year period between 1963 and 1968, there were four jobs created in the public sector for every job created elsewhere in the economy. While this increase slowed down, so too did economic growth: as a result, there was still the creation of two and one-half positions to every one elsewhere in the economy (Dresang and Young, 1980: 90).

This expansion of the state was a clear element of Kaunda's Humanism and its emergence as an economic doctrine. In 1968, the State took over, on a 51 percent shareholding basis, twenty-six large firms in construction, commerce, and transport. These firms were "invited" to sell 51 percent of their shares to the Zambian government. One year later, the mining companies followed, and in 1970 insurance and building industries were taken over. While these actions increased the State's participation in and control of the economy, the irony in much of the takeover is that it was occurring just as the economy was beginning to slacken. In particular, while copper prices were high immediately upon the assumption of control by the State, five years later the decline in the price of copper would make that State control something of a financial burden.

Nowhere is this state expansion more evident than in the parastatal sector:

> State-owned companies and statutory bodies, operating to a varying extent independently of civil service and parliamentary controls, continue to extend the long arm of the State into the most vital areas of Zambian economic and political life" (Tordoff, 1980: 20).

In the first years of independence, both new and extant parastatal organizations were used to provide a whole range of new services, to reorient transport systems, and to take majority ownership in the commercial, industrial, and mining activities in the country. However, the expansion has been erratic, and not well coordinated, and the "resulting jerry-built structure has been the object of increasing attention and experimentation as the country's leadership has struggled to define further the role which these now powerful bodies should play..." (Johns, 1980: 104).

Zambia's major "commercial" state corporation, INDECO, was given vast new responsibilities and powers in the negotiation of the takeovers and in operating these and other commercial activities in the economy.[35] In so doing, INDECO almost immediately became a super-agency, an enormous industrial corporate giant involved in production and distribution systems. By 1980 INDECO encompassed 29 firms in such industries as food processing, building supplies, metal products and chemicals. It provided jobs in 1979 to 25,000 or 55% of the total manufacturing employment. The INDECO model was to serve for future state actions in the economy: MINDECO was created for the mining sector and FINDECO for directing most of the financial sector.

Finally, all three of these were placed under the direction of a newly created "all-embracing conglomerate." ZIMCO (Johns, 1980: 107). Further reorganization of ZIMCO substantially increased its power in 1978. As a result of the reorganization, ZIMCO would retain only two relatively autonomous holding companies, INDECO and NIEC, the national corporation controlling imports and exports. All others were abolished. As a result, all subsidiary bodies (of which there were 117) came to fall directly under the ZIMCO Board. Also, several statutory boards were placed under ZIMCO in an effort to increase their self-sufficiency, including the Zambia Railways, Zambia Airways Corporation, the Rural Development Corporation, and the Posts and Telecommunications Corporation. This reorganization resulted in much greater autonomy for the parastatals, bypassing the national planning process (NCDP), among other inter-ministerial functional needs. At the same time, operating on a for-profit basis and under cost efficiency rules, the hope and the effort was to reduce the inefficiencies of the state sector.

Similar expansion occurred in the non-commercial statutory bodies and smaller state corporations. Reorganizations led to the creation and dissolution of a number of state-owned organizations, including, among others: (1) the creation of NAMBOARD from the merger of the Grain Marketing Board and the Agricultural Rural Marketing Board; (2) a new Rural Development Corporation responsible for rural credit; (3) the Zambian Electricity Supply Corporation (ZESCO); (4) the National Transport Corporation (NTC); and (5) the National Hotels Corporation (NHC). Reorganization followed reorganization as the government attempted to rationalize and streamline the operations of these multi-faceted bodies in addition to efforts to make them responsive.

The evolution of this somewhat haphazard system of quasi-governmental expansion has meant a governmental organizational mix that is partially removed from the control and oversight of either the legislative body or the central bureaucracy. In addition, their relative autonomy has meant a lack of openness to political control, limited effective coordination among themselves and with larger national central development planning agencies, and in many cases insulated inefficiencies and costs to government.

The case of NAMBOARD is instructive in this regard. Government control of maize marketing goes back forty-five years and by independence most longer-distance agricultural marketing was government operated or subsidized. Independence saw the expansion of this involvement. NAMBOARD is one of the oldest state agencies, created in 1969 by the merger of two marketing parastatals serving large farmers and small farmers Kydd, 1986: 246).

Several authors have pointed to the constantly recurring problems of poor performance and mismanagement, much of it inherent in the conflicts and overlaps between NAMBOARD and the quasi-parastatal provincial cooperative marketing unions (Good, 1986: Kydd, 1986). The existence of two official marketing organizations resulted in the duplication of functions and inefficiencies (Good, 1986: 2

Out of the realization of these overlaps came the call for the phasing out of one or the other or for a merger. In the 1970s, the response of the Zambian government was to expand the role of farmer cooperative unions for general purpose marketing in rural areas, especially in terms of their purview over intra-provincial marketing. In the early 1980s, the coops inherited NAMBOARD's monopoly in certain products. As a result, NAMBOARD responsibility was reduced to inter-provincial trade, stock holding, and import/export. The result was massive contraction of NAMBOARD: 80% of the staff was released and there was a loss of depots outside major towns. (Kydd, 1986: 248).

However, in the ensuing years the coops exhibited even more mismanagement and corruption than had NAMBOARD. The same problems of cash flow and liquidity crises appeared. Cooperatives seldom made purchases from farmers from their own financial resources, relying instead on government grants or through bank-guaranteed overdrafts, or both. One effect exemplifies the problem: checks issued by the Eastern Cooperative Union, valued at over K15 million, were dishonored by Barclays Bank (Good, 1986: 261). By the end of the third season of coop control, the government gave control back to NAMBOARD (January, 1985) for intra-provincial maize marketing, yet the cooperatives were not abolished. Since the coops still had the depots, they effectively had to be worked through by NAMBOARD (Kydd, 1986: 249). One consequence was the increasing power of NAMBOARD in the post-1985 period by their withdrawal of marketing functions from the cooperatives. By mid-1985, total confusion was evident in the functional and organizational structure:

> NamBoard had acquired increased powers and functions [for purchase, haulage, and storage of crops] which it was known to be unable fully to carry out. The cooperatives had supposedly been deprived of their marketing functions, but were expected to render important assistance to NamBoard in areas where they had lost powers. Furthermore, inefficiencies and

mismanagement in related activities further affected the capability of the harvest to be successful: state of the roads, availability of spare parts, fuel, grain bags (primarily imported)" (Good, 1986: 261).

The overlap of activities involved the Ministry of Works, the Ministry of Power, licensing through the Ministry of Commerce (for fuel import licenses), foreign exchange secured through the Bank of Zambia (for fuel and jute bags), NAMBOARD, the co-operative unions, the Truckers Association, and the Ministry of Agriculture. This case illustrates many of the problems inherent in the vagueness of lines of authority and responsibility, the relative autonomy of the parastatals, and the general incoherence in the administrative structures of the government.

By the late 1970s, the parastatal sector was the largest component of the Zambian economy, generating well over half of GDP and providing a third of all wage employment (Johns, 1980: 120). Even while overall formal sector employment declined in the mid-1970s, employment in the parastatal and public sectors continued to grow (Table 6).

While this growth of the parastatal sector was not an alarming concern for the government during the years of economic prosperity (in fact it had been encouraged openly), the period since 1977 has seen increasing concern expressed. While policies of economic retrenchment that began to characterize Zambia in the period since 1977 increased the awareness of needed action in the parastatal sector, it still remains unclear as to their degree of commitment to the dismantling of large portions of the sector.

Thus, by the late 1970s a clear set of internal factors could be identified that hampered the developmental promise of Zambia. Many of these constraints were administrative in nature. For example, we have pointed to the following key management and administrative factors:

TABLE 6:
EMPLOYMENT BY SECTOR

	Private	(%)	Parastatal	(%)	Public	(%)	Total
June 1975	137,420	34.5%	133,150	33.4%	128,270	32.2%	398,840
June 1976	113,330	29.9	134,220	35.4	131,850	34.8	379,400
June 1977	103,050	27.7	138,370	37.1	131,050	35.2	372,470

Source: Fincham, 1980: 304.

-continued lack of skilled personnel at all levels, and most particularly in the upper reaches of management and professional service;
-a lack of skilled personnel in both the public (and quasi-public) and private sector;
-great volatility within the civil service at senior levels;
-weak training facilities;
-a massive and rather haphazard expansion of the state sector;
-institutional weaknesses within the central government;
-the increasing role of a portion of the state sector without clear lines of authority and communication in policy terms; and
-unclear lines of communication between the political and bureaucratic-administrative structures of government, with the supremacy of the party (UNIP) over both the legislative and administrative functions of government.

External Constraints on Zambia's Development

In addition to these internal factors that have plagued Zambia's development in its recent past, there are significant exogenous factors that have played a major role.

Again, the litany of **external** factors that have exacerbated the development crises of Africa are well-documented.[36] In quantitative terms, much of the emphasis has been placed on the growing balance of payments deficit, prompted in part by soaring oil prices in the 1970s, the slowing of primary commodity trade, severe losses in terms of trade, and rapid increases in central government expenditures as a "holding mechanism" to avert immediate collapses. Debt and the long-term prospects for the resolution of the debt crisis are at least as severe in sub-Saharan Africa as elsewhere, as noted in Tables 1 and 2 above.

Several comments suggested by those data are warranted. First, the rate of growth of the ratio of indebtedness to exports in the region has exceeded even that of Latin America in the 1980s.[37] In 1980, that ratio for Africa was 87.6; by 1985, the ratio had deteriorated to 166.0, almost doubling in five years. More significantly, on a current account basis some countries find themselves devoting more than one-fourth of total earnings from the export of goods and services to servicing the debt (Table 2).

Evidence of this dramatic deterioration can also be seen in the continuing deterioration of the terms of trade. Using 1980 as the base year, the terms of trade have hovered consistently at 90% or lower. In addition, these terms of trade had been declining fairly steadily in the decade prior to 1980.

The case for Zambia is more striking than most. Data from the end of 1985 and early 1986 tell the story:

In terms of total debt outstanding, Zambia ranks fifth among African nations, with $4.5 billion outstanding;

Scheduled interest payments plus charges for the use of IMF credit as a proportion of the export of goods and services was 39.7%; only the Sudan was higher;

Total debt outstanding plus the use of IMF credit as a proportion of GDP was 455.5, the highest by far for Africa;

Debt as a percentage of GNP was 150.8% in 1986; only Mauritania was higher;

The annual average loss of income due to the deterioration in the terms of trade during the 1971-1981 period was 25.5%;

Average annual growth of GDP per capita for the 1970-1981 period was -2.7%;

Investments as a percentage of GDP declined on a five year average basis from 36% in 1976 to 23% in 1981; and

Gross domestic investment declined at an average annual rate of 3.6% over the period from 1965-1980 (Brau, 1986; World Bank, 1987; IMF, 1986; Harber, 1987a).

As Zambia entered the 1980s, prospects for its ability to overcome its economic and financial dilemmas worsened. The crises had become acute, worsening in large part due to the economy's incredibly high dependence on external trade and government activity. As of 1986, imports and exports accounted for approximately 35% of GDP; government expenditures also amounted to some 35% of GDP (World Bank, 1986b).

The past several years have exacerbated the crises. Gross domestic investment declined over the period from 1980-1985 at an average annual rate of 14 percent.[38] Production in most sectors of the economy has declined consistently in the past five years, due in large part to reductions in the capacity to import needed inputs.

Nowhere is the manifestation of this dampened economic environment more evident than in balance-of-payments and debt difficulties. Steady declines in copper prices and production levels, declines in agricultural production, and increases in scheduled debt service obligations all added fuel to the fire. It is important to note that in 1985 copper still accounted for 90% of foreign exchange earnings and 15% of gross value added in the economy.[39] However, the terms of trade index (1980=100) affected directly by the decline in copper prices, declined precipitously from 262 in 1970 to 82 in 1983 (Jaycox, et al., 1986: 55). This represents a fourfold decrease in the ability to generate foreign exchange. Between 1983 and 1986 the trade value of copper and cobalt combined declined by approximately 62 percent. Yet, they still accounted for 86 percent of total exports in that year, according to Zambian government figures.[40] Zambia's trade balance fell into deficit in 1986 and there is no expectation that it will do anything but continue to deteriorate in the near future.[41]

This foreign reliance became manifest in other ways as well. The trade surpluses fueled a rapid rise in government spending. However, government "development policy" emphasized industrialization through import substitution, high reliance on capital-intensive, urban-biased, and consumer-oriented production, strong protective tariffs and other import restrictions, access to investment funds and credit, operating subsidies, the expansion of internationally uncompetitive parastatal industries, and a self-serving bureaucratic elite more responsive to <u>ad hoc</u> political directives than a coherent development strategy.

The establishment in 1972 of a one-party state was the ultimate consolidation of the dominance of political directive over rational economic policy. UNIP became the supreme policy-making body in the country, with final authority even over the cabinet.[42] Government policy resulted in reliance on foreign intermediate and raw good imports, on foreign administrative and technical management skills, and on foreign credit which, in turn, was used to purchase foreign capital equipment.

All of this was achievable and sustainable because of the high prices of copper internationally. Through 1974 prices remained high, almost twice world average production costs.[43] However, the period since 1975 has witnessed a rapid deterioration in the Zambian economy.

The world oil crisis affected import costs directly. However, other factors in the external environment were perhaps more important. As Whitaker notes,

> "The closure of the Benguela railroad, congestion at the port of Dar es Salaam, and some cutbacks on copper exports in agreement with other members of the Intergovernmental Council of Copper Exporting Countries [and] ...low prices of copper...resulted in a large drop of sales and receipts (1979:207).

Thus, by the early 1980s, Zambia found itself faced with a debt crisis of proportions unparalleled in its history and in that of most of its fellow debtors.[44] As one source notes, the crises are due to:

> exogenous shocks;
> unwillingness or inability to cut back on consumption in response to decreases in income;
> resultant cut backs in investment;
> inability to expand agricultural production;
> inappropriate policy choices in investment priorities; and
> continued market protection for industry (World Bank, 1981).

However, until early in 1983, the policy response to these conditions resulted in: (1) the expansion of public sector interventions to ameliorate the consequences of crisis, by means of (2) increased borrowing at relatively hard terms, adding to repayment and debt arrears problems. The result was cost-price distortions arising in a highly administered environment. These distortions were evident in price and interest rate controls, in the regulatory environment, and in tax and tariff policies (World Bank, 1986b).

V. THE REFORM INITIATIVES IN ZAMBIA

Response to Crisis: Stabilization and Demand Management (1978-1983)

The recognition of the need for reform can be traced back to October 1977 and President Kaunda's address to the nation. In that address emphasis was made on the need to cut back on government expenditures, as well as the need to find new sources of exchange. Discussions with the IMF resulted, in 1978, in a negotiated stand-by agreement, and with it a period of initial reform.[45]

The period from 1978-1983 was the first phase of the reform agenda, characterized by efforts at demand management and stabilization. Virtually all of the efforts during this period were aimed at correcting and stabilizing monetary imbalances via short-term adjustment strategies. However, as we shall see, in the absence of real concern for the more difficult questions of longer term change and sustainable implementation of alternative institutional arrangements these efforts meant that much time and energy was wasted. The policy environment in Zambia prior to 1983 was "more rhetorical than action" (USAID/Zambia Cable, 11/7/86). In spite of strong words at a 1979 consultative meeting about the need for restructuring, particularly away from copper and more toward the agricultural sector, little action was forthcoming in the next several years.

A foreign exchange crisis in 1978, prompted by declining copper prices, escalating consumer goods and capital imports, previous rapid monetization of public (and private) sector investments, the closing of the border with Zimbabwe and its effects on transport via the Tazara railway, led to the IMF standby agreement. The agreement required an anti-inflationary policy of sharp reduction in current expenditures and the diversification of the economic (particularly agricultural) base (Bryant, et al. 1979; Jaycox, 1985). Further pressure from the multilateral and bilateral lending community led to a series of (somewhat abortive) efforts in the ensuing several years. Below is a chronology of efforts during the period.[46]

1979-1980:

The first two years of concerted effort for policy reform in Zambia, in response to economic crisis and pressures from the IMF and the World Bank, can be characterized more by words than by deeds. Initial efforts focused on stabilization policies and on the agricultural sector. Significant actions included:

An increase of 32% in producer prices for maize in 1979;

- The improvement of producer incentives more generally through timely price increases;
- The expansion of the Planning Unit within the Ministry of Agriculture and Water Development;
- The signing of an agreement with USAID to improve agricultural policy analysis and extension services; and
- The passage of the Local Administration Act for the administrative decentralization of planning and implementation of local development programs and some (minimal) revenue functions (Convers, 1981).

1981:

By 1981 the pace of the introduction of reform initiatives had picked up considerably. Clearly, most reform efforts focused on stabilization policies and easing price controls. These included:

- The timely increase of prices for maize and other crops, ranging from 12% to 60%;
- A reduction of the consumer subsidy on maize by more than 50%;
- The reduction of the fertilizer subsidy which increased prices by 60%; and
- Increased producer incentives through alterations in the tax and tariff structures. For example, income taxes were reduced for agricultural producers from over 50% to 15%; accelerated depreciation for agricultural equipment was introduced; and tariffs on agricultural equipment imports were eliminated.

Some efforts began to focus on the structure and efficiency of government itself, including:

- The role of NAMBOARD (discussed earlier) was reduced in a further move to decentralize functions and activities;
- A large scale project aimed at revamping training in the civil service began (Carmichael);
- The role of the tobacco parastatal was reduced dramatically by the sale of lands and assets; and
- Efforts to improve financial management and planning were initiated, although real activity did not progress rapidly.

1982:

Efforts at demand management continued in an accelerated fashion:

- All retail prices except for maize and wheat were decontrolled in December. Producer prices rose dramatically in real terms. Examples include increases in groundnuts (3%), cotton (5%), soybeans (8%), maize and sunflowers (10%), and wheat (15%). In addition, producer prices for sorghum and cassava were announced in a timely fashion. Decontrol effectively made official producer prices a "floor price," allowing farmers to sell directly to processors or consumers at a higher price (Kydd, 1986: 249).

- The kwacha was devalued by 20%.
- Efforts to improve financial management in the two major parastatals, ZCCM and INDECO, were intensified with the assistance of the World Bank. For example, in 1983, the ZCCM was reorganized in an effort to make parastatals recover their own costs.
- Budget reduction efforts began in earnest in the 1982-1984 period. However, one clear effect of these initial reforms was the decline in real terms of government capital expenditures by 35 percent in the two year period (Kydd, 1986: 242).

What is clear from this brief review of the period through the beginning of 1983 is that Zambia absorbed significant reform initiatives. Most of the reforms, oriented toward the reduction of demand, reduction of government expenditures in the form of subsidies, and reduction of government control, involved macroeconomic policy changes with little reform of the institutional apparatus of government or society. Stabilization policies were intended to provide a "climate" for further measures in readjusting and stimulating production. These, then, are the "stroke of the pen" kind of reforms that require little further action for their implementation beyond strong commitment on the part of regimes. In the case of these reforms, what is startling is the fact that a great deal of social (particularly urban consumer) dislocation was beginning to occur and yet was being absorbed by the regime. President Kaunda's personal commitment, although shaken, remained.

Increasingly, however, rumblings concerning the speed and intensity of even these macroeconomic reforms began to affect that political consensus. Also, an increasing awareness of the multiplicity of the impacts of single reforms and reforms in combination was becoming understood. This shaking of political will and recognition of the need for coordinated action (by donors and government) would increase in the ensuing years.

From Demand Management to Structural Adjustment (1983-1985):

While the hallmark of the early years of reform was an emphasis on policy changes that required little institutional alteration and that were seen as laying the prerequisite groundwork for structural change, the period from 1983 through 1985 witnessed increasing efforts directly at structural change.

The acute financial and economic crisis in Zambia by 1983 led to renegotiations with the IMF and the World Bank early in the year.[47] Under strong pressures, a far-reaching adjustment program was negotiated.[48] By any standards, the package of reforms adopted is impressive, and suggests both the severity of the crisis and the determination and political will of the GRZ to meet the challenges. It also suggests something of the surrealistic nature of the conditionality requirements and the expectations of policy change by the multilateral donors themselves.

Between 1983 and 1984, reform efforts were aimed at decontrolling domestic prices, reducing subsidies on foodstuffs and fertilizer, opening maize marketing and fertilizer distribution to private traders, adjusting agricultural producer prices, relaxing interest rate ceilings, and introducing a more flexible (crawling peg) exchange rate policy. In addition, efforts to attack the budget deficit directly included attempts to introduce a freeze on government salaries. The reform initiatives received high marks from the donor community, and plans to sustain reform through increased foreign financial resources were a high priority in 1984 and early 1985. Specifically, these reforms included:

1983:

Maize producer prices increased yet again, by between 30%-40%.
The bank lending rate was increased from 7.5% to 10% in a further attempt to reduce demand.
The beginning of an income policy became clear, with the announcement of a wage ceiling of 10 percent, well below the rate of inflation (estimated at 14% for 1982 and 24% for 1983). However, no formal wage guidelines accompanied the announcement.
The kwacha was devalued by 20 percent and allowed to float against a basket of major trading partner currencies.
Subsidies on fertilizer were reduced and the price allowed to rise (60%).

1984:

A number of policy actions in 1984 continued to focus on internal and external financial stabilization, including:

Continued devaluation of the kwacha (by 40%) and the pegging of the currency to a basket of currencies.
Maize producer price increases of 22%.
Increases of from 30% to 60% on petroleum products.
A dramatic increase in the bank lending rate from 10% to 17.5%.
More dramatic still, the total decontrol of wheat prices in November.
The introductions of variations in the preexisting pan-territorial pricing policies with the introduction of

border pricing and transport haulage fees.

However, economic conditions in Zambia continued to deteriorate and increasing social pressures for "reforming reform" became evident. The social impacts of reform were being felt seriously.[49]

Concern with the ramifications of "too much, too soon" was evident in the country, and concern for Zambia's commitment was evident in the donor community:

> New resource support for Zambia was proposed by the World Bank and approved by the newly created Consultative Group in recognition of the real effort being made and the short-term need.
> However, several weeks later the Paris Club increased the level of repayment required by the government. The result was inconsistency and further deterioration in credit, along with a continued deterioration in economic indicators (Jaycox, et al., 1985: 60-61).
> In November, the IMF stand-by credit was suspended, principally because of the government's unwillingness to devalue further (Kydd, 1986: 249).[50]

The response of the Zambian government in 1985, partially as the result of substantial pressure both from the multilateral and the bilateral donor community, was to introduce yet more radical (liberalizing) changes in economic policy. New or expanded initiatives included:

- the introduction of a foreign exchange "auction";
- increased liberalization of trade and payments systems;
- decontrol of interest rates and the introduction of a treasury bill auction;
- further supporting monetary and fiscal policies;
- efforts to reduce the government deficit (and limit it to 10% of GDP) and recourse to domestic bank borrowing through reduced government expenditures, including reductions in the civil service;
- requirements that parastatals operate on a profit basis and the granting to parastatals of the right to adjust prices; and
- efforts to improve the management of parastatals to reduce inefficiencies.[51]

Once again, however, the implementation and sustainability of reform initiatives did not keep pace; implementation has taken a back seat to the introduction of new initiatives. By January, 1987, reform initiatives were being challenged on multiple fronts. Reversals occurred in the implementation of decontrol of breakfast meal prices, as well as reversals in earlier efforts to denationalize parastatal control of maize mills. Thirteen maize mills were nationalized, increasing parastatal control from two-thirds to almost 90 percent of total milling capacity (USAID 1987: 13). Both of these came in direct response to food riots and 15 riot-related deaths that occurred in the north of the country in December 1986.

External stabilization was threatened with the closing of the foreign exchange auction at the end of January, 1987. While a modified (two-tiered) auction was reintroduced in mid-March 1987, continued dramatic declines in the value of the kwacha threatened future efforts at stabilization. The auction was suspended again on May 1. The slowing of the implementation of tariff reform reflected limited willingness of the government to confront strong vested interests in the country. Interest rates were "recontrolled" in early 1987. In February, the Bank of Zambia reduced interests rates by one-third, commercial lending rates were recontrolled and reduced, and Treasury bill rates were reduced by more than one-third, effectively placing the Treasury bill auction and decontrol of interest rates in suspension. In addition, the implementation of parastatal reform, civil service reform, and control over budget deficits slowed to a halt (USAID, 1987: 14-16).

Again, policy reform had taken a back seat to regime political necessity. Finally, on May 1, 1987, Zambia called a halt to the structural adjustment process, rejecting both IMF and World Bank conditionality programs as noted above.

In each of these cases, and other "failures" in Zambia's reform initiatives, one can point to issues of ineffective planning, the failure to focus attention on implementation, and the continuing institutional weaknesses in the government's capacity to carry out mandates, **even** when political will may have existed. In the next section of this paper we will attempt to identify and draw out lessons that the Zambian experience provides. The question that concerns us, then, is what are the critical implementation obstacles that help to explain the inability of the GRZ to continue on its reform path?

VI. IMPLEMENTING REFORM: THE CONTINUING DILEMMA

While it is instructive to focus on the grave difficulties experienced in the implementation of policy reforms in the Zambian case, it is worthwhile to reintroduce a caveat noted earlier: it is not clear that with the best of policy design and implementation that the Zambian structural adjustment "package" would have been successful. The Zambian structural adjustment program may be a case of too much, too soon. Virtually every reform initiative that has been experimented with in the African case found its way into the Zambian reform initiative. Further, these components of the initiative found their way into the program almost simultaneously. In a sense, the adjustment package "over-programmed," both in terms of the capacity of the donor community to coordinate programs and impacts, as well as in terms of the capacity of the Zambian polity and economy to absorb such massive change.

But, before we lay blame on the ambitions and energies of reformers for a lack of realism in either their economic or institutional perspectives, it is well to consider the context. Unlike a number of African countries, Zambia had not gone through "economic adjustment" prior to the institutionalization of the reforms. Zambia had experienced rapid growth in the early years of independance and only now found itself in a downward economic spiral.

The country had been able to "buy off" some of the painful requirements of cutback management or reduced governmetntal social welfare activities through continued reliance on a viable export crop: copper. In fact, Zambia continues in its downward spiral, with or without reforms. This is not a particularly propitious environment in which to experiment with highly politicizing policy changes, changes that exacerbate existing social and regional cleavages. Setting an agreed upon agenda, building and maintaining a consensus on the content of that agenda, introducing tense institutional and bureaucratic reorderings, and attempting major socio-economic restructuring all at the same time undoubtedly will strain even the most viable of regimes and reforms.

While this paper makes no pretense about the "solution" to the implementation crises of policy reform, we have identified key areas where implementation of policies may require careful coordination of political, institutional, and contextual variables. That is, reform policies must be managed, and developing institutional capacity, strategic management capabilities, and policy analysis skills <u>in</u> context are critical for successful implementation.

Many of the implementation bottlenecks identified in section III came into play in the Zambian case. One of the clear lessons learned from this examination of Zambia's experience with adjustment is that policy reform and adjustment are more than simply technical exercises. Yet, it is technical rationality that drives reform and the logic of implementation on the part of the donor community. The donor community has expended great energy and effort in the design and analysis of macroeconomic policies, but little effort at analyzing the institutional, managerial, and political needs of implementation for sustaining reform.

The growing vocalization of opposition to reform within the UNIP party, as well as the not-so-subtle efforts to undermine reform initiatives, suggest that the political intensity of opposition had grown during 1986, prior to the December food riots and prior to the January 1987 crisis. While President Kaunda and several major political actors remained reasonably committed to reform in late 1986, even during increasingly difficult times, critical elements within the UNIP, within the academic community, and within the leadership cadre of the bureaucracy had grown openly defiant.

Under these circumstances, every "technical effort" became politicized. Even projects aimed at strengthening technical skills and expertise in support of reform had become political hot potatoes. The example of the USAID Human and Institutional Resource Development project exemplifies this; even efforts to place TA had become problematic. Decisions and negotiations about relatively straight-forward technical components of projects became "high politics," and efforts to dissipate the political spin-offs of technical exercises were thwarted. For example, decisions about the provision of TA to politically sensitive units within the government became battlegrounds over the entire reform package. Political intensity had changed.

Reform initiatives had become oversold prescriptions for the good life. As we have noted, the economic and technical logic of reform suggests the importance of sequencing and timing in the introduction and implementation of initiatives; reducing demand ordinarily is prior to the alteration of the nature of production. Yet, in the Zambian case neither the economic logic nor a political logic of sequencing was adhered to in the period from 1985 through 1987. The overburdening of the system with virtually every component of the classic wish list of reform, of stabilization and adjustment and political reform simultaneously meant that there rarely was an opportunity to provide visible signs of success to rebuild needed commitment and acceptance.

Expectations as to the speed and complexity of the implementation difficulties had been underestimated by all parties. In part, the failure of realism in implementation support was a result of focusing on the administrative weaknesses within single institutions, a focus on vertical institution strengthening. Yet, by their very nature policy reforms rarely are contained within an institution in terms of the impact on decision-making; "policy enclaves" tend to locate at multiple sites across institutions.

Efforts at strengthening management or institutions usually has meant the provision of technical assistance to project implementing units, and not strengthening the policy process. Rarely has the effort focused on strengthening institutions involved throughout the very complex policy process. In the Zambian case, by the time such cross-cutting institutional and human resource development support was to be put in place across institutions in support of policies, time had grown very short.

The irony of these reform initiatives was that the public sector was never the subject of reform initiatives. Rather, the public sector was the object of reform. Reform was to occur to the government sector, and/or in spite of the presence of "perverse government," and the issue of governance was ignored. Thus, too little focus existed on severe handicaps to the successful implementation of reform by government: weaknesses of inter-ministerial communication; weaknesses in the flow of timely information and information systems that needed to be in place prior to reform; limited recognition that different institutions (and managers) played very different, yet active, roles and had very different goals; insufficient attention to the lack of continuity at the ministerial level. What all of this suggests is a the failure to recognize the need to strengthen governance by creating a "lean and mean" state apparatus capable of carrying out the mandate of reform. Adjustment and policy reform need to be conceived in the context of a clear recognition that the state is not going to wither away.

In a word, institutions count.

NOTES

1. A number of sources are exceptions to this statement. Increasingly, USAID and World Bank staff have become cognizant of the links between macroeconomic policy, microeconomic policy, organizational change, and implementation. See the work done by Lamb (1987) for a clear analysis of the linkages between policy and management in the context of adjustment. Grindle (1980) and her colleagues also provided early recognition of these linkages. Several other notable exceptions include White (1987); Steedman (1987); Grindle and Thomas (1987); Please (1984); and Israel (1987)

2. This argument is central to the work of Grindle (1977; 1980). There are, of course, a number of exceptions in the literature on development administration, including Graham (1968); Cleaves (1974); Daland (1967); Picard (1987). Also, see Robert Bates (1981).

3. It is ironic that the Lagos Plan, which offers a strong endorsement of a dependency approach and an equally strong critique of the World Bank approach, is weak on a discussion of domestic governing factors as well. See John Ravenhill (1986: 1-35).

4. This terminology was suggested in discussions with Louis Picard.

5. Please also notes that the Bank must take steps to build credibility in monitoring and implementing SALs. To date, he suggests, they have not been very effective in this regard, due in part to the project legacy, but also due to a lack of seriousness attached to the covenants. Policy and institutional changes need to be central to the process, not simply add-ons. However, there is an active debate as to whether multilaterals such as the Bank ought not to do less in the policy lending area, and focus on project activities where there comparative advantage may lie.

6. Recent evidence of the recognition of this can be seen in the efforts of USAID to provide workshops for its mid-level and senior personnel in the area of structural adjustment. One such effort conducted by USAID is the Development Studies Program in Washington, D.C. That interdisciplinary program is conducting extended (7-week) workshops to provide this "gearing up."

7. A similar argument has been made recently by Elliot Berg (1987b).

8. This irony was suggested to the author in interviews with

officials of the International Monetary Fund who clearly recognize the "catch-22" of conditioned assistance to those countries in the most dire circumstances.

9. This is more true in the case of many African countries than in Latin America. In the latter case, stabilization policies often either precede structural adjustment or occur without structural adjustment as a concomitant policy.

10. There are now a multitude of sources that have documented some of the conditions, causes, and crises of structural adjustment. The literature on Africa, in particular, has become voluminous. Several worthwhile sources include Bierstaker (1986); Ravenhill (1986); Lancaster and Williamson (1986); Berg and Whitaker (1986); and Callaghy (1987). Literature in the Latin American case has tended, until very recently and with the exceptions of Argentina, Brazil, and Chile, to focus on the ramifications of the debt crisis. See, for example, Balassa, et al. (1986); Feinberg and Kallab (1984); Edwards (1987); and Pastor (1987). A second body of related literature has had a reasonably long gestation period in the Latin American case, i.e., literature on the state and public enterprises. More important for our current interest, an emerging body of literature on the structural adjustment implications for the state, domestic institutions and policies in Latin America is only now becoming evident. See, for example, Boneo (1985); Hartlyn and Morley (1986); Grindle and Thomas (1987); Connolly and Gonzalez-Vega (1987); and Saulniers (1988). A useful bibliography on policy reform, structural adjustment, and the public/private interface is provided in Moore (1988).

11. I say "may have," because it is not clear in the aftermath of Black Monday and the end of 1987 that the United States has "turned it around."

12. It is with some irony that we note a renewed interest on the part of commercial bankers for the possibilities of profitability in the Third World. Recent efforts to reduce and change the nature of the debt burden, such as debt-for-equity swaps and privatization, have resulted in this renewed interest. Most notable has been the enthusiasm of investment bankers. Truell (1988) reports that the March meetings of the Inter-American Development Bank in Caracas witnessed the presence of investment bankers from the major banks "in unprecedented numbers".

13. Morrison (1986) points clearly to another problem in effective management of reform initiatives in relation to the public employment issue. The lack of meaningful and accurate data on public sector employment and on public sector wage structures provide little guidance. Estimates of recurrent costs of productivity, and ultimately of the fiscal drain are made more

difficult.

14. The 1981 World Development Report provides a useful classification of LDCs based upon their outward-looking or inward-looking characteristics. See Chapter 6 of that report.

15. Furthermore, it is often argued that getting the official prices right is much less important due to the existence of informal and parallel (black) markets which counterbalance official prices.

16. This approach closely parallels the definition of implementation offered by Grindle (1977: 5-6): "...an on-going process of decision-making by a variety of actors, the ultimate outcome of which is determined by the content of the program being pursued and by the interaction of the decision makers within a given politico-administrative context."

17. The argument that adjustment policies have a sequencing is accepted wisdom from an economic perspective. In fact, the logic of implementing stabilization policies prior to adjustment policies is based upon this assumption. See Edwards (1987) and Blejer and Sagari (1988) for discussions of the sequencing issue in liberalization policies. However, little attention has been paid to the political or organizational issues of sequencing.

18. While we are focusing on implementation issues in the Third World context, several classic studies in the U.S. context are also worth citing. See the work done by Wildavsky (1965), Pressman and Wildavsky (1973), and Derthick (1979) for clear examples of the recognition of these issues in U.S. policy analysis.

19. Much of this section is strongly influenced by the analyses of Cornia, Jolly, and Stewart (1987), and Lamb (1987), among others.

20. As noted above, the IMF has moved away from this short-term time horizon with the creation of its Structural Adjustment Facility. Increasingly, the distinctions among donor approaches and objectives has become blurred.

21. These distinctions between demand management policies and policies aimed at stimulating supply are somewhat artificial. There are no demand management measures that do not have supply stimulation impacts. Berg (1987a) gives a clear example. Austerity measures (demand management) lead to public expenditure control programs; decisions about essential and non-essential expenditures need to be made; these decisions lead to sectoral investment decisions, which, in turn, affect productive allocations. Similarly, Cornia, Jolly, and Stewart (1987: 51) point to pricing policies as clear examples of the ways in which

policies have both demand and supply effects.

22. Within the Bank there has been a dramatic shift away from broad macroeconomic lending policy, to a focus on sectoral policy reform through the creation of the new Sectoral Adjustment Facility.

23. Grindle and Thomas (1987) make a similar distinction between macroeconomic policy and sectoral policy reforms.

24. The approach of the World Bank, emphasizing macroeconomic structural adjustment and lending, is particularly instructive. While project-based lending remains the predominant form of most World Bank loans, the structural adjustment lending facility (SAL) ceiling has grown from 10 percent of total lending in the late 1970s and 1980s to 25 percent of total lending today (Shakow, 1988). However, much of the "project" lending is in fact policy-based lending, as can be seen by the conditions attached to it. Berg (September 8, 1987) has suggested that as much as 50 percent of the Bank's lending is policy based.

25. A second facility, the Enhanced Structural Adjustment Facility (ESAF) was established in December, 1987 with SDR 6 billion made available (Bell and Sheehy, 1987; Gardner, 1987; Finance and Development, 1988). Both facilities are made available based upon the Policy Framework Paper first designed for the SAF, developed in conjunction with the Bank.

26. Recent work by NASPAA has moved toward both of these objectives. Work by Moore with the World Bank has focused on improving performance measurement and productivity within central government ministries. Other recent work by Moore has focused on civil service reform and reduction schemes, particularly in sub-Saharan Africa. Earlier studies by NASPAA focused attention on the issues of privatization and public/private service delivery alternatives. See Moore (1988a; 1988b), Moore, et al. (1987), and Moore and Lim (1988).

27. Again, NASPAA has worked extensively in these areas. With regard to the third type of activity identified above, recent NASPAA efforts in Guinea and earlier efforts in Panama are instructive.

28. Recent work by Arturo Israel at the World Bank adds new insight into the issues of the requirements of institutional development. See Israel (1987).

29. This issue of political commitment and sustainability is central to work done by Joan Nelson. See Nelson (1984).

30. While these factors are clearly important, they provide only a partial picture of developmental roadblocks. The World

Bank report of 1981 (Berg Report) focuses almost obsessively on these internal factors.

31. While economic nationalism was pursued in much of post-colonial Africa, it is important to distinguish between policies of Africanization via private enterprise and state involvement (as in Kenya, Nigeria, or the Cote d'Ivoire), and policies of localization of the economy with the abolition of capitalism, as in Zambia. In the latter case, initial restructuring of the national economy was accomplished through the use of the state as the principal instrument (Tangri, 1985: 50-53).

32. President Kenneth Kaunda in a speech to the UNIP National Council at Mulungushi, November, 1968. ZIS Background Paper No. 84/68. Cited in Tordoff (1980: 6).

33. At independence, Zambia had only 14 parastatals (Callaghy, 1987: 34).

34. At independence, Zambia had only fourteen parastatals; by 1986, the country had 147 parastatals (Callaghy, 1987: 34).

35. INDECO was created in 1960, and subsequently reorganized shortly before independence, as an investment corporation aimed at stimulating foreign investment. After independence, INDECO expanded its role in the industrial sector as a joint partner with foreign capital.

36. The reader is directed to examine several important volumes that have both documented the crisis and influenced the response, including: World Bank (1981), also referred to as the "Berg Report;" World Bank (1984); Lancaster and Williamson (1986: 1-9); and Brau (1986).

37. Data utilized in this analysis are derived from several sources. The reader is cautioned that data on these characteristics and others are illustrative and not definitive, particularly for many sub-Saharan African countries. For example, data on debt and balance of payments in Zambia are inconsistent from ministry to ministry. One major project currently funded by the World Bank has as its focus the reconciliation of data inconsistencies on debt in the country.

38. World Bank, World Development Report, 1987, Table 4.

39. Ibid. As one source notes in their study of Zambian agricultural reform policy, the dominance of copper in the export structure remains high. While the combined trade value of copper and cobalt is estimated to have declined by 62 percent between 1983 and 1986, they still accounted for 86 percent of total exports in 1986. Weidemann, et al. (1987). In 1987 there was relatively strong, albeit short-lived, improvement in the price

of copper providing a brief respite for the country.

40. This is noted in Weidemann, Koropecky, and Thomas, 1986, p. 3.

41. The Zambian case also provides dramatic support for the argument that policy change and structural adjustment require extended commitment and support of the reform process. Not only is it necessary to continue payment rescheduling and to increase levels of support, it may also be a clear case of the need for contemplating straightforward debt relief and forgiveness.

42. This is drawn from the analysis by Chikulo (1985).

43. The average price of copper per pound during the period was $0.93. In every year during the period except 1967, Zambia had a trade surplus in excess of $100 million. See Jonathan Kydd (1986: 234) and Whitaker (1979).

44. Richard Harber notes that it is important to think in relative terms about the impact of debt. While we associate the impact of debt most often with the crises of Brazil, Mexico, or Argentina, in relative terms several sub-Saharan African nations are in equally difficult conditions. Zambia's per capita debt in 1987, for example, was estimated at $840 compared with $785 for Brazil; he estimates that debt was equal to 380% of GDP in 1986 compared with 50% for Brazil. Zaire and Sudan, two other "worse case" stories for sub-Saharan Africa, had per capita debt of $195 and $365, and debt to GDP ratios of 140% and 80% respectively. See Harber (1987: Annex 4).

45. As noted earlier, this was the second negotiated stand-by agreement, neither of which had much teeth.

46. Much of this chronology draws on several sources, including USAID (1983), USAID (1987), World Bank (1986b). One particular document that provides a chronology of reforms is an unclassified cable from USAID/Zambia prepared for USAID/Washington. That chronology is recounted in Appendix C of Weidemann, et al. (1987).

47. As we have noted, Zambia had prior experience with negotiated stand-by agreements with the IMF in 1976 and 1978. Stabilization negotiations in 1981 were also responsible for some of the austerity measures noted here. However, the short-term nature of the reforms, together with the austerity required and the hard borrowing terms of the credit did little either to restructure the economic base or alleviate conditions, and certainly did little to improve the government's capacity to manage reforms. See Jaycox, et al. (1985: 58-60).

48. The 1983 CDSS for Zambia suggests this use of pressure

openly: "Recent action by the GRZ in response to the current crisis **and with pressure from IMF, World Bank, and AID,** has resulted in a 20% devaluation, lifting of most consumer price controls..." CDSS, FY1985, January, 1983, p. ii. (bold faced by this author).

49. For example, the inflation rate more than doubled between 1983 and 1984, rising from 24 percent to 60 percent. For the first six months of 1986, the rate of inflation was 40 percent. From October 1985 (the date of the establishment of the foreign exchange auction) through November 1986, the kwacha was devalued by more than 75 percent. Loss of domestic purchasing power, of foreign exchange, and the elimination of numerous consumer subsidies (including subsidies for staples), exacerbated tensions continually during this period. (World Bank, Country Economic Memorandum, 1986 and interviews conducted by the author in Lusaka in January, 1987.)

50. Jaycox, et al. (1986), pp. 60-61. Again, the limited coordination and ability among the institutional mechanisms to provide continuity and consistency in debt management is not simply an issue for the Zambian government. Clearly, this need for coordination is a principal difficulty for the donor and international financial community as well.

51. World Bank, Country Economic Memorandum, 1986; USAID (1987); and interviews conducted by the author in Lusaka in January, 1987.

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