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Policy Reforms and Structural Adjustment in Zambia

The Case of Agriculture and Trade

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Contents

Foreword

Policy reform — geared towards restoring macroeconomic stability and creating an efficient, effective economic environment — is one of the urgent challenges facing Southern Africa today. Most, if not all, members of the Southern Africa Development Community (SADC) are working to create economic environments that are conducive to growth and development. Two primary aims of these structural adjustment programs are (*a*) to transform economic policies and (*b*) to correct imbalances caused by years of economic mismanagement and pursuit of misguided development strategies. The policy changes pursued by these countries are typically based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.

Through a USAID subgrant provided through TechnoServe Kenya, the University of Swaziland has coordinated research to examine structural adjustment activities in four Southern African countries — Malawi, South Africa, Zambia, and Zimbabwe. As this research demonstrates, reform programs have had different rates of implementation and success in the different countries of the region.

This report presents the findings of research concerning reform activities in Zambia. A 1983-87 economic reform package supported by the International Monetary Fund (IMF) and World Bank was the first comprehensive attempt to solve Zambia's economic adversities. But this program was interrupted in May 1987 when the Government of Zambia (GOZ), under pressure from its people, abandoned it. However, in mid-1988, the government recognized an economic need to return to the reform program, and the GOZ decided to gradually liberalize the economy.

The resulting reforms have resulted in significant progress in a number of sectors. Considerable progress has been made in liberalizing agricultural production, marketing, distribution, and import and export trade. (However, a 1991-92 drought and, ironically, the reform program's cash-based budget system combined to stifle grain output.) Financial liberalization has led to positive changes in interest rates, exchange rates, and foreign exchange.

This study is timely and informative with its reflection on the accomplishments and challenges of the country's recent economic reform initiatives. This report should serve as guide for government and donors in planning future and on-going economic reform and structural adjustment efforts in Zambia, especially with regard to incorporating "social dimensions of adjustment" considerations in such reform programs.

This report is one in a series of studies on Africa's regional trade and agricultural comparative advantage, a joint activity of the Africa Bureau's Food Security and Productivity Unit in the Office of Sustainable Development, Productive Sector Growth and environment Division (AFR/SD/PSGE), and the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA)

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Executive Summary

Macroeconomic policy reform is arguably the single most pressing national challenge facing most economies of Sub-Saharan Africa today. The overall objective of these programs is transforming the policy environment and correcting structural macroeconomic imbalances which have arisen from years of economic mismanagement and pursuit of inappropriate policies and development strategies by these countries. In an effort to create an environment that would foster economic growth and development, the policy changes pursued by most countries in Southern Africa are typically based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.

This report is an in depth exploration of the nature and scope of Zambia's structural adjustment program during 1983-95, with particular emphasis on assessing the impacts on agriculture and trade of the reform program. The study highlights the strategic role of the agricultural sector in export revenue generation especially in light of the dismal performance of the mineral (copper) industry caused mainly by unfavorable world market conditions and accelerating domestic inflation. In the area of privatization, the reform program appears to be ambitious given the institutional capacity limitations and resource constraints that continue to impede the process. Through its exchange rate liberalization efforts, significant progress is reported in reforming intra-regional trade in agricultural commodities, thereby giving additional incentives to non-traditional exporters to penetrate the regional export market. On the whole, in liberalizing the agricultural and many other productive sectors, the study finds that serious difficulties and conflicts have resulted from the Zambian government's attempt to simultaneously undertake far-reaching structural reforms as well as tough macro-economic stabilization. This strongly suggests a need for future reform programs to give due consideration to the timing, sequencing and speed of the reform process while also taking into account the economy's characteristics and capacity constraints.

Glossary of Acronyms and Abbreviations

ASIP	Agricultural Sector Improvement Program
ARPT	Adaptive Research Planning Team
COMESA	Common Market for Eastern and Southern Africa
FEMC	Foreign Exchange Management Committee
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
IMF	International Monetary Fund
NAMABORD	National Agricultural Marketing Board
OGL	Open General License
PFP	Policy Framework Paper
PTA	Preferential Trade Area for Eastern and Southern Africa
SAP	Structural Adjustment Program
SADC	Southern Africa Development Community
SDA	Social Dimensions of Adjustment
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
ZCF	Zambia Cooperative Federation
ZPA	Zambia Privatization Agency

1. Introduction

This paper explores the contents of Zambia's Structural Adjustment Program with a view to determining the degree to which agricultural development and trade have been enhanced over the years up to early 1995. The paper begins with the economic background to reforms in Zambia, covering the 1964-1983 period. The structure of the economy is exposed and the problems of agricultural production and trade highlighted. This is followed by the analysis of the policy reforms covering the 1983-1995 period. The general policy climate and the actual policies embarked upon are revealed. The implications of the policy reforms for the agricultural sector are also treated in this section.

After the analysis of the pre and post reforms is made, the paper looks at the economic performance so far at both the macro economic and agricultural sector levels. The paper ends with an overview and conclusions pertaining to policy reforms and structural adjustment in Zambia, in general, and agriculture and trade, in particular.

2. Economic Background to Reforms: 1964-1983

STRUCTURE OF THE ECONOMY

At independence in 1964, Zambia's rich mineral resources were well developed and during the first ten years, world market conditions were generally favorable. During this period the pattern of government expenditure actually reflected the country's steady export receipts from copper. The major decline in copper prices in 1974 marked the beginning of Zambia's protracted economic decline.

Between 1974 and 1988, for example, the country's foreign exchange earnings from metal products fell by 23 percent. Copper production also declined steadily from 1978. This was largely due to the increase in overburden to ore ratios in the open-pit mining, in addition to the difficulty in accessing mineral deposits. Besides, both inadequate foreign exchange earnings and accelerating domestic inflation barred the mining companies from reinvesting in spares and maintenance needed to sustain output levels. In terms of value added, the mining sector's output actually declined by 33 percent over the 1974-85 period. Mineral revenue as a proportion of GDP stood at 3.8 percent in 1975 but declined to below 2 percent over the 1975-85 period. The share of the strategic mineral revenue during the pre-SAP period is shown in Table 2.1.

Both external factors and government policy over 1970-85 contribute significantly to Zambia's external balance during this pre SAP period. Table 2.2 shows the balance of payments position for the country during this period.

The current account during this period was adversely affected by external shocks that came in quick succession first in 1973 when the price of oil quadrupled and next in 1974 when copper prices declined considerably. For a country that depended on this product for more than 90 percent of its export revenue, the economy experienced severe difficulties in adjusting to the sudden shocks and by

Table 2.1 Share of Mineral Revenue

Year	Mineral Revenue as % of Total Revenue	GDP	Total Revenue as % of GDP*
1975	12.9	3.8	28.4
1980	5.3	1.4	26.4
1985	8.4	1.8	22.0
1986	13.4	3.1	23.4
1987	11.1	2.4	22.1
1988	10.2	1.8	17.9
1989	13.0	2.5	19.2
1990	15.0	3.3	22.6
1991	8.0	1.8	23.8

* Total revenue includes grants

SOURCE: World Bank (1992), Republic of Zambia: Public expenditure, Review, Vol. II, Washington, p. 6.

Table 2.2 Balance of Payments: 1970-90 (US$ million)

	1970	1975	1980	1985	1990
Exports of GNPS	959	868	1608	911	1342
Imports of GNPS	658	1345	1765	936	1369
Resource Balance	301	-477	-157	-25	-27
Factor Services	-47	117	-205	-308	-332
Net Transfers	-	-	-	-36	-43
Current Account Balance (w/o grants)	107	-726	-538	-369	-402
Long Term Capital Inflows	-139	370	468	211	-150

SOURCE: World Bank (1993), Zambia: Prospects for sustainable and equitable growth, Washington, World Bank, p.35.

1975, Zambia was faced with a sharp decline in government revenue as well as an escalation in the balance of payments and budget deficits.

Perhaps the major weakness of economic condition in Zambia during the pre SAP period was the government's failure to diversify the country's export base away from the declining copper sector. When copper prices plummeted in 1974, the country experienced severe economic difficulties. The government's efforts to develop the agricultural sector in a bid to offset the damage caused by the declining mining industry was not rewarded due to a host of constraints emanating from its own crippling policies which included a single channel marketing system; fixed agricultural producer prices, including that of maize; regulated road haulage rates; marketing and consumer subsidies in the maize area.

The nontraditional exports (i.e., non-copper exports) also failed to provide a substitute to the declining export revenue. During this period, very little effort was made to broaden the country's export base mainly due to the government assumption then that the crisis in the copper sector was only temporary. Hence, trade in agricultural products maintained its relative insignificance in Zambia's total export earnings and positive fluctuations that were registered during this period were largely a function of movements in international commodity prices.

Against the above gloomy picture, Zambia's economic stagnation has persisted since 1974. For example, between 1974 and the time SAP was attempted in 1985, GDP growth was at an average of only 1 percent per annum, which was well below the population growth rate of 3.3 percent. Government revenue declined sharply from 28 percent of GDP in 1975 to less than 18 percent by 1989.

The policy response to the above economic adversity was both inadequate and, in large part, inappropriate. Faced with decreased foreign exchange availability and the reluctance to permit a decline in consumption, the government erected a control regime and borrowed heavily from abroad under the impression that the crisis was only a passing phase before a sustainable economic improvement materialized. Since the country then was in the category of medium income group, access to such multilateral institutions as the World Bank and the IMF at non-concessionary terms was easy and it borrowed heavily to maintain its public consumption.

It is worth noting that there appears to have been a strong correlation between the decline in copper revenue and the government's appetite to borrow abroad in a bid to maintain its import capacity for both consumption and investment. When both copper production and prices declined sharply in the early 1980s, Zambia's net external borrowing per annum tripled (at constant prices) while world interest rates increased. Consequently, despite the severe revenue decline, the government expenditure increased from 27 percent of GDP in 1974 to over 30 percent during much of the period prior to 1985 when the structural adjustment measures were put in place. It was external borrowing that financed both the fiscal and current account deficit that stood at almost 10 percent of GDP during this period. This was how, by 1984, Zambia became the most indebted country in the world relative to its GDP. The increased public expenditure on consumption adversely affected domestic savings which, in turn, reduced domestic investment considerably. Thus, although Zambia's capital formation during the 1971-76 period averaged 13 percent of GDP, this declined to only 10 percent of GDP at the time SAP was introduced in 1985.

Turning to the productive sector, it is observed that although the overall policy of the Zambian government during the pre-SAP period was to support foreign direct investment, on the one hand, a number of policies adversely compromised this position, on the other. The following government policies during the pre-reform period were prominent in the country:

- import substitution;
- state control, ownership and management of economic activities;
- government direction of investment, including that of the private sector; and
- protection of domestic industry from foreign competition.

Other pre-SAP government policies further compromised the development of a sustainable economic base. Firstly, the government sought to control and influence private investment through the system of industrial licensing. Secondly, the policy of nationalization was initiated through the 1968 Mulungushi Reforms that covered the major fields of the industrial sector. This was followed by the 1969 Matero Reforms that saw the expropriation of 51 percent controlling shares in the foreign mining business [Saasa, 1987]. The government established nearly 80 parastatals by 1975 and it owned controlling shares in most of them. Considering that these companies accounted for as much as 50 percent of output in manufacturing and transport by 1975 while manufacturing alone accounted for 25 percent of GDP, their vulnerability to the post-1975 balance of payments problem was translated into serious difficulties for the whole economy.

The policy of expropriation of foreign assets was coached under nationalistic sentiments and bordered on the socialist demands for state control of the major means of production and distribution. The motive force behind this policy was to limit what was perceived as foreign domination of the economy and, in the process, check foreign investors' repatriation of unacceptable volumes of profits and dividends. Consequently, there emerged in Zambia a proliferation of state owned enterprises (parastatals) that operated under a sheltered market and, thus, enjoyed a wide range of preferences, including privileged access to state subsidies and foreign exchange; subsidized credit; guaranteed market; preferential tax concessions; and special treatment in access to import licenses.

In the field of foreign trade, the other aspect of preference regards protection from external competition. In the pre SAP controlled regime in Zambia, fairly high nominal tariff rates were set for consumer goods, particularly 'luxury' ones. At the same time, low tariff rates were set for industrial inputs. As can be seen from above, the country's tariff structure constituted the main instrument of protection and strongly influenced Zambia's direction of industrial growth. Against this background, it is obvious that the Zambian government during the pre-SAP period created a policy environment in which competition was limited and industry grew as an import- substituting activity behind very high tariff walls. The high degree of protection and the resultant absence of competition, later reinforced by decreasing capacity utilization, had led to decreased efficiency and evidently escalated costs. In the parastatal sector, this poor picture was reinforced by weak management and conflicting objectives of profitability, on the one hand, and employment creation and the promotion of low consumer prices, on the other. Zambia's productive sector was largely composed of firms that were internationally uncompetitive. They were not only unable to compete in the export market but also with incoming imports had the tariffs and other protective barriers been lowered. This adversely distorted the price structure in the country.

Additionally, the noteworthy macro economic policy in the pre-SAP Zambian economy in the area of trade was the system of import licensing and foreign exchange allocation. After 1975 and mainly due to foreign exchange shortfalls, the government placed quantitative restrictions on imports and put in place an elaborate system of import licensing and administrative allocation of foreign exchange.

Perhaps the most damaging aspect of the policy of nationalization in Zambia was the absence of competition in the economy. In short, the policy of expropriation of private enterprises by the state accentuated the magnitude of monopoly in the economy. Additionally, the overly centralized state holding companies (i.e., those that served as umbrella bodies for the nationalized enterprises) were generally unable to provide positive incentives to their companies to improve their efficiency, reduce costs, and enhance profitability, let alone upgrade the quality of their products.

Similarly, the policy of price control was particularly damaging to enterprise performance and profitability. In so far as price control had a high propensity to reduce corporate profitability, this inhibited both new investments and the ability (and willingness) to finance plant maintenance. From the point of view of the manufacturing sector, price control in Zambia and the resultant enterprise inefficiency had tended to place supply at a much lower level than effective demand.

Another aspect of the pre-SAP external sector in Zambia concerned the shortcomings in the government's foreign exchange management system at the time when the balance of payments crisis took shape. During this period, the state failed to recognize the exchange rate as an important instrument of balance of payments management. This was presumably because of the assumption that devaluing the Kwacha would merely increase inflation without a corresponding improvement in the country's balance of payments situation. Consequently, the government opted to ignore market signals and instead administratively maintained an overvalued exchange rate that fueled excess demand. By 1984, for example, the price of US dollars were going at a rate that was about one third lower than what the market was willing to offer. This development resulted in the deepening of the foreign exchange crisis in an economic regime that possessed an in built bias in favor of the state sector in its highly selective and subjective system of foreign exchange rationing.

In conclusion, the economic effect of the domestic economic policies analyzed above was serious especially when combined with external shocks (mainly the rise in oil prices and the decline in copper prices). The balance of payments problems; the consolidation of the import substitution industries; and the dominance of the inefficient import-intensive and parasitic state sector that succeeded in stifling the emergence and growth of the private sector all played their part in the economic stagnation of Zambia during the pre-SAP period. Consequently, although the GDP share of domestic investments averaged 20 percent prior to 1974, the economy's annual growth was only 2.4 percent during this period. Table 2.3 shows the average annual rates of real GDP growth for periods before and after SAP was adopted up to 1991. Particularly noteworthy from Table 3 vis-a-vis the theme of this paper is the neglect of the agricultural sector during the pre-SAP period. The sector's contribution to GDP grew at only 2 percent per annum.

PROBLEMS OF AGRICULTURAL PRODUCTION AND TRADE

Basic Attributes

It is worth noting at the outset that Zambia's potential to grow a wide variety of crops and to rear livestock is enormous. In this country, nevertheless, maize is the predominant and staple crop accounting for 60-70 percent of cultivated land. In terms of value, maize is the most important economic commodity next to copper and possesses considerable potential as an export earner.

The agricultural sector's average annual growth

Table 2.3 Average Rates of Real GDP Growth: 1965 - 1991

	1965-74	1975-84	1985-88	1989-91	1965-91
GDP Total	2.4	0.4	3.2	-1.1	1.1
Agriculture	2.5	0.5	8.3	-2.1	2.0
Manufacturing	10.1	1.4	2.0	-1.8	4.4
Mining	-3.7	-1.4	-4.8	-2.9	-2.5
Construction	8.6	-7.5	-3.1	-1.2	-2.6
ICOR	67.8	-1.7	8.4	-13.6	-26.3
GNY	2.5	-0.9	6.8	4.8	0.5
INV/GDP	47.3	21.1	13.4	17.6	29.5
Imports/GDP	64.6	32.2	24.5	19.1	42.0

SOURCE: World Bank (1993), Zambia: Prospects for sustainable and equitable growth, op cit., p.15

rate in the past two decades has been approximately 2.5 percent, which is well below the population growth rate of 3.3 percent. Consequently, Zambia has been unable to become self-sufficient in this strategic crop, a phenomenon that makes the country a net importer of food. For example, during the early 1980s, Zambia's food imports amounted to as much as 10 percent, on average, of the total imports value while agricultural exports, accounted for largely by tobacco, stood at less than 2 percent of the country's export receipts.

In terms of agricultural sector performance, the general picture has been disappointing. During the 1980s and early 1990s, agricultural products' production levels fluctuated considerably and this has been due to a host of reasons that included uneconomical prices paid to the farmers; poor rainfall patterns; and inefficient marketing systems. Although over the past decade, the agricultural sector registered quantitative increases in output (e.g., 65 percent for maize; 176 percent for wheat; 113 percent for mixed beans; and 42 percent for oilseed), much of such 'achievements' were at great cost to the global picture. For example, increased maize production has been achieved at the expense of other food crops given the government's supportive bias in favor of this crop. Equally revealing, the above gains, as the Ministry of Agriculture lamented, "... were primarily the result of land area expansion, with little growth in productivity; furthermore, taking population growth into account, per capita food production declined. Additionally, the gains realized were achieved at a very high cost to government and there was little growth in agricultural exports. Finally, the farmers who achieved these production increases have little to show for their achievement."

Against the above background, what factors explained the poor agricultural record in a country with great agricultural potential but one that uses less than 15 percent of its arable agricultural land? The reasons for the country's failure to realize its potential during the pre-reforms period were (a) excessive government regulation and intervention in the agricultural markets and (b) weak infrastructure support services. These are examined briefly below.

Main Constraints

Government Interventions

The marketing and producer price policies during the pre-SAP period have had a serious adverse effect on the performance of the agricultural sector. The marketing of most agricultural commodities were monopolized by the parastatal sector and government instituted cooperatives. The National Agricultural Marketing Board and, later, the Zambia Cooperative Unions exclusively handled the marketing of most cereals. Grain milling was also, by government policy, the exclusive preserve of three parastatals, namely, the Indeco Milling Company; National Milling Company and Mulungushi Investments. State intervention was also applied to tobacco, cotton and oilseeds.

With respect to the handling of agricultural inputs, Nitrogen Chemicals of Zambia Limited, another parastatal, monopolized fertilizer production and importation. Seed marketing was exclusively assigned to Zamseed, a parastatal. The National Agricultural Marketing Board (NAMBOARD) and later the Provincial Cooperative Unions and the Zambia Cooperative Federation (ZCF) possessed the virtual monopoly over most agricultural inputs. Moreover, for all the controlled agricultural commodities, the government regulated both the procurement and sale prices. Transport rates were also determined by the government. Hence, in order to maintain uniform prices of controlled goods and services, the government had to extend subsidies.

Producer Price Policies

The producer price for the country's staple crop (maize) continued to be set by the government so that it remained the same throughout the country (pan-territorial) and throughout the year (pan-seasonal). Started in the 1974/75 crop season, uniform farmgate floor prices were set for producers, according to the government then, to ensure a "fair" and "equitable" compensation to all farmers. Such uniform prices failed to recognize variations in transport costs. The government fixed maize prices using four main criteria, namely, production costs; export and import parity; crop profitability; and fairness to both consumers and producers. Of all these criteria, fairness to consumers' seemed to have been more influential particularly in so far as the government aimed to appease the politically charged urban-based consumers. Consequently, by trying hard to keep the consumer prices low, the government actually succeeded in making producer prices remain well below both import parity and free market prices.

Consumer Price Policies

The percentage of the average household income that is spent on food has been increasing in the past decade. For example, whereas in the mid 1980, 60 percent of low-income households expended about 40 percent of their earnings on cereals, mainly maize meal, this had increased to over 70 percent in the early 1990s. When this state of affairs is complemented by the fact that the urban areas now keep more than 50 percent of the total population (i.e., a population that consists of mainly consumers), one recognizes that, in the Zambian case, increases in meal prices and/or disruptions in meal supply could easily translate into social unrest, as it happened in December 1986 and June 1990. Consequently, the former government remained fully mindful of the potential threat to its political survival should maize meal prices go beyond what the urban consumers consider reasonable.

Consequently, for much of the pre-SAP period, the government controlled the retail price of breakfast (i.e., refined) and roller meal. To ensure that prices were kept at controlled levels, a large proportion of marketed maize meal was sold through state shops. The coupons system was introduced in January 1989 and constituted yet another form of subsidizing the cost of maize meal. It was exclusively targeted towards the politically sensitive urban and peri-urban households that earned annual incomes of less than K20,500.

The marketing of maize has also benefited from government subsidies, initially through NAMBOARD and later through ZCF and the provincial unions. Under the system, millers were able to procure maize at prices that were closer to producer prices. It is equally noteworthy that the government also used to set into-mill price for maize and ensured that the price was uniform throughout the country. When the government suspected large-scale private millers were not complying with the price control regime, it nationalized them in 1986.

Marketing Subsidies

The budgetary implications of the pre-reforms heavy maize subsidies were significant. In particular, between 1980 and 1990, maize subsidies ranged between 21 percent and 145 percent of the total budget deficit. Table 2.4 shows the government budget deficit and maize subsidy in Zambia over the 1980-90 period when government intervention in the agricultural sector was highest.

Weak Government Support

It is obvious from the above analysis that the government's pricing and marketing policies in the agricultural sector during the pre-reforms period failed to provide sufficient incentives for increased output by farmers. The state dominance of the agri-

Table 2.4 Government Budget Deficit and Maize Subsidy in Zambia: 1980-90

Budget	Deficit (K'million)	Total Maize Subsidy (K'million)
1980	160.3	154.0
1981	155.7	87.1
1982	658.1	138.0
1983	288.6	124.7
1984	284.8	81.6
1985	280.4	134.0
1986	1025.7	565.0
1987	2146.8	638.4
1988	1531.2	1413.0
1989	3699.0	1585.6
1990	2801.4	3363.9

SOURCE: GRZ (1990), 1990 and maize sector study, Lusaka, NCDP.

cultural sector at both inputs supply and actual production (e.g., through state ranches/farms, rural reconstruction centers, etc.) did indeed discourage the emergence of private sector-led agricultural development. Complimentary to such faulty state policies and interventions was the weak infrastructure support to the farming community.

The following weaknesses were quite pronounced, maize bias, inadequate financial resources, and inadequate infrastructure and services.

Maize Bias. Because of the policy bias in favor of maize, infrastructure and service support to the agricultural sector discriminated against other equally rewarding activities in this sector targeted at both the domestic and external markets. Consequently, a badly distorted and lop-sided agricultural sector emerged that was dominated by a single crop, maize, that was encouraged even in areas that were not suited for its production. The crop covered, and still covers about 70 percent of all cultivated land in Zambia. Similarly, throughout the 1980s, subsidies targeted at maize marketing and fertilizer claimed between 5-10 percent of the government's total budget. These subsidies, together with the coupons system, exceeded 16 percent of the budget in 1988 and 1989. Such huge government expenditures on one crop fueled inflationary budgetary deficits as earlier shown.

Inadequate Financial Resources. Apart from the one-crop bias, the Zambian government policy neglected the agricultural sector in terms of financial resource allocations. This is despite the reality that the majority of the people depend on agriculture for their livelihood. During the 1980s, the agricultural sector's share of total government expenditure ranged between 11-16 percent. Capital expenditure suffered considerably and any noticeable improvements in resource allocations (e.g., in 1986 and 1987) was largely a function of donor support under SAP. Table 2.5 shows government resource allocation to the agricultural sector over the 1980-90 period. One noteworthy phenomenon from the table is that personnel costs (wages and salaries) had increasingly claimed substantial proportion of the total recurrent

Table 2.5 Government Resource Allocation to Agriculture, 1980s

Year	AE/TE	AC/TC	AR/TR	AC Index	Pc/Tc
1980	23	21	23	100	0.82
1981	13	17	12	82	0.83
1982	16	16	17	99	0.71
1983	11	21	10	103	0.70
1984	14	16	13	68	4.71
1985	11	6	12	66	3.60
1986	15	16	14	152	1.89
1987	15	26	13	160	0.84
1988	8	23	5	139	2.28
1989	4	14	1	85	1.92
1990	4	12	2	-	1.50

NOTE: From 1988, subsidies are not included in agricultural recurrent expenditures nor in total government agricultural expenditure. The shares for these expenditures are thus much lower since 1988.

AE/TE = Total government agricultural expenditures in relation to total government expenditure.
AC/TC = Agricultural capital expenditures in relation to total capital expenditure.
AR/TR = Agricultural recurrent expenditures in relation to total recurrent expenditures.
AC Index = Index of agricultural capital expenditure.
Pc/Tc = Personnel costs in relation to total departmental recurrent costs.

SOURCE: Adam C. et al. (1994), Evaluation of Swedish Development Cooperation with Zambia, Stockholm, SASDA, p.51

costs, thus, suggesting that strategic expenditure as those related to servicing and materials were sacrificed. This necessarily affected the government's ability to provide the farming community with essential services.

Inadequate Infrastructure and Services. In spite of policy statements during the pre-SAP period that suggested government commitment to the support of the farming community, inadequate infrastructure and agriculture support services had hindered positive developments. Such infrastructural provisions as roads, rail systems and transportation (vehicles) had tended to favor farmers based in urban areas while rural areas have generally been neglected. Thus, surplus produce from the majority of farmers could not easily reach the market. Agricultural storage facilities were/are also inadequate, a state of affairs that demands that grain must be transported to safe centralized storage facilities before the onset of the rainy season to prevent it from going to waste. With poor transportation system, an unacceptable volume of grain output is destroyed in this way every year.

Similarly, such agriculture support services as extension, marketing and credit tended to be inadequate and their operations biased in favor of large-scale commercial farmers. Inadequate information on appropriate farming systems is also a major constraint. The government attempted to link research data to actual production by establishing Adaptive Research Planning Teams (ARPTs) in all the provinces. However, poor funding of ARPTs had compromised their effectiveness in productively disseminating valuable data to the farming community.

International Trade

During the pre-reforms period, the exportation and importation of commodities, including agricultural products, were controlled by the government through a system of licensing. For maize and maize meal, exports were not permitted when the government believed that this could adversely affected national food security requirements. At the time, only NAMBOARD and, later ZCF, were allowed to be involved in the maize import/export activity.

During the pre-SAP period, the inadequate local production and supply of food due to a combination of factors, including the weather, forced the country to import a variety of commodities. Zambia is also a major receiver of food aid particularly during drought years. The country's food imports have been growing since independence. During the 1980s, the cost of food imports (mainly cereals) ranked second to manufacturing. The commodities included maize, wheat, and rice.

Unauthorized cross boarder trade is know to exist between Zambia and her neighbors. Some estimates of 'illegal' trade in maize has been put at "several million bags annually." The over valued Zambian currency at the time chiefly explained the inclination for cross border trade. The highly subsidized cheap maize meal also provided an incentive to people along the borders to sell it across with handsome returns. The Shaba in Zaire is known to depend quite considerably on Zambian maize while some 'illegal' flows were noted from Zambia to Malawi, Namibia, Angola and Mozambique.

LESSONS FROM THE PRE-REFORMS EXPERIENCE

What did Zambia learn from the economic regime that existed before structural adjustment policies were adopted? The following seem to flow from the preceding analysis:

- The country's macroeconomic policies ultimately determined the structure of incentives to agricultural production and trade. Zambia's policy of price interventions, which was a component of the economy wide control policy, worked against the necessary incentives to increased agricultural output and the direct and indirect benefits derived from that. Agriculture contributed, on average, a meager 2.5 percent of GDP during the 1980s.
- The government policy of self sufficiency in the country's staple food crop (maize) has been achieved at a great expense to other crops that do possess a comparative advantage in intra

regional trade. National food security had also been threatened by the policy induced restraint on crop diversification.

- Government subsidies on consumption not only inflated the huge government deficit but diverted resources away from the more productive pursuits of the government, including agricultural extension and supportive infrastructure provision.

3. Policy Reforms: 1983-1995

GENERAL POLICY CLIMATE

It is evident from Section 2 above that the pre-structural adjustment period in Zambia was basically by a 'command economy' characterized by a policy environment in which government intervention; price controls; and the absence of competition restricted both agricultural and industrial growth. The high degree of protection (emanating from the import substitution policy) and the subsequent absence of competition, had resulted in decreased efficiency and escalated cost structures. Similarly, the policy of price control seriously affected the productive sectors' performance and profitability. In so far as the policy of price control had a high propensity to discourage efficiency, this inhibited new investment among both the farming community and manufacturers. From the point of view of the production of any commodity, price control in Zambia and the attendant inefficiency had tended to place supply at a much lower level than effective demand.

In order to cope with the above problems, the government began in 1983 to work towards economic stabilization. Appendix 1 gives the matrix on how the reform program in Zambia has been implemented so far. The matrix also shows the conditionalities attached to the various components. Although a number of stabilization packages agreed with the IMF date back to 1973, most of these were aimed at demand management and hardly amounted to a comprehensive structural adjustment package. It was really the 1983-87 package, agreed with the IMF and World Bank, that constituted the first comprehensive approach to solving Zambia's economic adversity. The program covered a much wider range of structural policies (see below). This program was interrupted in May 1987 when the government, under pressure from the people, unilaterally abandoned it. The political discontent that mounted against the program, particularly from the strong organized labor under the Zambia Congress of Trade Unions, burst out into food riots in December 1986. This resulted in several human losses and one of the components of the reforms (the auction system) was particularly blamed for what were generally seen as insensitive policies.

However, after mid 1988, the government recognized that economic realities pointed to the need to return to the IMF, and the World Bank, supported reform program and it decided to gradually liberalize the economy. In June 1989, a comprehensive list of decontrol measures were put in place by the government, evidently in preparation for a smooth return to a highly flexible regime with movement towards full-scale liberalization. The economic and financial Policy Framework Paper (PFP), covering the 1989-1993 period, was prepared by the government with assistance from the IMF and the World Bank. However, the political wind of change swept President Kaunda out of office and a new government of President Chiluba took over the reigns of power after multi- party elections in October 1991. The new government committed itself to adopting the structural adjustment program with added political will and policy commitment. This has continued up to now.

SPECIFIC POLICIES

In spite of the characteristic 'stop-go' experience with structural adjustment program in Zambia, the basic components of the reforms remained basically the same. Zambia's rather rocky position on structural adjustment can be categorized into five phases: (a) 1980 to 1983 being the period before SAP proper; (b) 1983-1987 when SAP was adopted; (c) mid-

1987 to 1989 when the government abandoned SAP; (d) 1990-1991 when liberalization was reintroduced; and (e) late 1991 to the present day (1995) when a new government came into power and full-scale and accelerated SAP has been adopted. During the periods of economic reforms, the following constituted the basic attributed of SAP in spite of variations in actual commitment over the years.

Fiscal Policies

Zambia's fiscal policies under SAP revolve around prudent fiscal management that aim at balancing the budget by way of gradual reduction and eventual elimination of the large budget deficit. A number of strategies have been adopted to realize this. First and foremost, the government decided to eliminate subsidies on maize and fertilizer. The government recognized that subsidies suppressed agricultural production since their prices failed to reflect market forces. The plan for subsidy elimination was phased. Initially, fertilizer and mealie meal (i.e., maize flour) subsidies were eliminated by June 1992 while that on maize handling was postponed to a later period since the 1992 drought conditions complicated such an action. By 1994, all consumer subsidies on maize and maize products were completely eliminated and the price of mealie meal liberalized. Complimentary to this decision was the government's policy to totally withdraw from the marketing and distribution of mealie meal in order to allow for private competition.

Another fiscal policy decision under the structural adjustment program in Zambia that has had considerable impact on the level of government subsidies is the policy of privatization. The structural adjustment program's policy of competition enhancement was best expressed through the government decision to privatize the parastatal companies. Given the background of the poor performance of these state enterprises, the decision to privatize them constituted the heart of the country's economic restructuring exercise. The Privatization Act was passed in July 1992 and, subsequently, the Zambia Privatization Agency was created to handle the privatization process. The Act has authorized the divesture of government from commercial enterprises by way of trade sales; management by-outs; share floatations; leasing; management contracts; and dilution of government shareholding.

Yet another fiscal policy measure that has long term positive effects on the budget deficit is that of retrenchment in the civil service to make it leaner, efficient and productive. The aim is to reduce the civil service as part of the civil service reform. Related to this is the government decision to extend financial autonomy to city and municipal councils and, thus, remove undue control and support from the central government.

Lastly, in an effort to promote prudent fiscal management, the government adopted a cash-based budget system in January 1993. Under this system, the government has made a policy decision to curb inflation by reducing money supply. Hence, the government is expected not to incur any expenditure that is not covered by existing revenue. The cash budget has so far operated as follows: all domestic expenditures on both capital and recurrent expenses are expected to be covered by existing domestic revenue; donor's balance of payments support is expected to meet the country's external debt servicing. Implied in this strategy is that external debt servicing, the largest component of government expenditure, is financed by external budgetary support. The servicing of domestic debt, on the other hand, is being done by sales of treasury bills. In this respect, the government finances maturing domestic debt obligations by rolling over maturing treasury bills.

Monetary Policies

Monetary policy management under structural adjustment program in Zambia aims mainly at complementing the government's on going efforts to reduce inflation. One key guiding principle in this respect is the central bank's withdrawal from commercial and semi commercial activities so as to allow commercial banks perform such functions. The Bank of Zambia, thus, now concentrates mainly on controlling both primary liquidity and money supply. Before, the Bank of Zambia was involved in the administrative allocation of foreign exchange, for instance. Thus, the central bank's main areas of monetary policy activity focus on the reduction of rapid growth in money supply through, inter alia, a reduction in government borrowing.

A number of other monetary policies have accompanied Zambia's structural adjustment reforms. These are briefly presented below.

Interest Rate Liberalization

The government decided to move away from government determined/regulated interest rates towards attaining positive interest rates that would encourage savings. When the adjustment program was embarked upon, interest rates were negative in real terms. Thus, with the policy of liberalizing interest rates, the government hopes to realize positive rates that would induce the much needed savings, investment and an efficient allocation system to service competing users of finance. Complete interest rate liberalization was, thus, effected in 1992. Since January 1993, the sale of government treasury bills are being administered by the central bank at rates of interest that are market-determined. Under the tender system, the amount of bills offered for tend is equivalent to what the government needs to meet the maturities for the following week.

Exchange Rate Liberalization

The exchange rate management has also been used in Zambia as a policy tool to enhance the realization of the reform measures' objectives. In this respect, the government has pledged to adjust the exchange rate to a level that clears the market. In February 1990, the government quickened the pace of effective exchange rate adjustment by introducing, as a temporary measure, a dual foreign exchange regime that possessed two windows. The copper sector's foreign currency receipts were sold at the first window (the official rate) while receipts from nontraditional (i.e., non-copper) exports and external loans and grants were channeled through the second window (market rate).

Exchange rate liberalization resulted in immediate devaluation of the Zambian Kwacha. In early January 1992, a 30 percent devaluation of the Kwacha was effected. Two months later, exporters of nontraditional exports were allowed by the government to retain 100 percent of their foreign exchange receipts unlike in the past when 50 percent of this had to be surrendered to the central bank. In October 1992, *bureaux de change* were allowed to operate and two months later, the official and the *bureaux* rates of exchange were unified. Since then, the market has been allowed to determine the exchange rate of the Zambian currency with a view to allowing it to achieve full convertibility.

Creation of Capital Markets

It is government policy to create capital markets by facilitating the growth of the banking sector so as to allow for a diversified system of financial intermediation. The government expects that this would allow for the creation of a sophisticated money and capital market instruments through which borrowers can source the needed productive investment capital.

Trade Policies

Zambia's trade with the world has been liberalized under structural adjustment program. Access to foreign exchange for exporters and importers has been liberalized while administrative and other non-tariff barriers to trade have been substantially eliminated. External trade performance in Zambia has been closely linked to the country's exchange rate policies. The experience of the country over the 1980 to 1994 period confirm the strong correlation between export volumes and the real exchange rate and the government's decision to liberalize the latter is in recognition of this reality. Figure 3.1 confirms this phenomenon reveals that non- traditional exports increased by close to 80 percent in the two years following the introduction of reforms in 1983. When Zambia abandoned SAP in mid 1987 which resulted in a considerable appreciation of the real exchange rate, export growth in the nontraditional sector dramatically reversed such that by 1990, the export levels were similar to the 1983 ones. Expectedly, ing subsidies have been eliminated. Hence, maize market-when the government returned to the policy of liberalization around 1990, an appreciable degree of nontraditional export growth was registered. The 1991 election, which registered a relatively stable, albeit slightly appreciating, real exchange rate, was accompanied by the weakening of the nontraditional export sector. Copper exports are rather insensitive to the real exchange rate since the sector's revenue and a significant part of its costs are denominated in the convertible US dollar. Nevertheless, the Kwacha devaluation does positively affect the sector's profitability to the extent that there are local costs such as personnel remuneration.

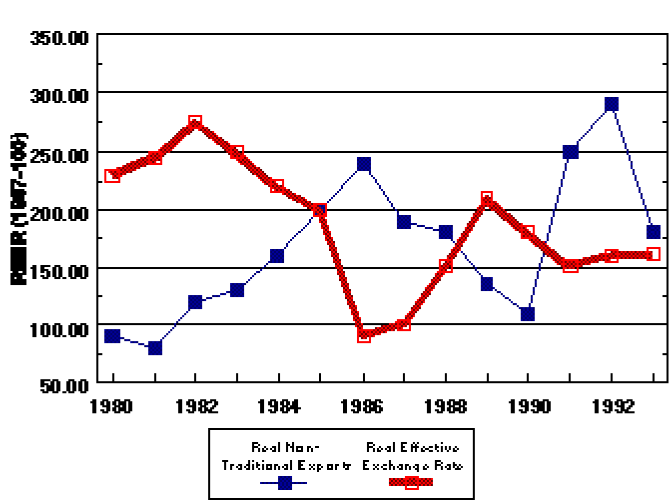
POLICY IMPLICATIONS FOR THE AGRICULTURAL SECTOR

The above, discussed macroeconomic policy changes have had far reaching implications for the agricultural sector in Zambia. Firstly, through the Agricultural Marketing Act of 1989, the government has deregulated the marketing of agricultural products and inputs. In this respect, the state shall intervenes in the private sector led agricultural marketing only for the purpose of ensuring the maintenance of strategic national food reserves to fill whatever deficit that the private sector may be unable to meet. To implement this policy, all parastatals that were/are involved in marketing activities have been either abolished (e.g., NAMBOARD) or are earmarked for privatization.

Related to the issue of marketing is the policy decision that exports of all agricultural commodities, as long as they adhere to health regulations, are freely permitted. Similarly, in order to expose Zambia to the competitive external market, imports of agricultural commodities and inputs are allowed subject to the payment of duty and tax. The government strives to set such tariffs that are low enough in order to avoid the creation of barriers to trade in farm products. It is noteworthy that the government has decided to convert the current sales tax to Value Added Tax (VAT) effective July 1995. It is expected that the VAT system would enhance, inter alia, Zambia's export competitiveness by eliminating the cost of input sales tax for exporters.

As a result of the above liberalization measures in the agricultural sector, maize production and mar

Figure 3.1 Real Exchange Rate and Nontraditional Exports



SOURCE: Adam, C. et al (1994), Evaluation of Swedish development cooperation with Zambia, Stockholm, SASDA.

ing decisions and prices are now, in principle, being governed by market forces. Under its policy of liberalization, the government still recognizes that the creation of a market economy does not necessarily entail that the state must have no interest or involvement in commodity, input or resource markets. To the contrary, government involvement is still being recognized as essential. However, such involvement is being perceived to be indirect and supportive rather than direct and competitive. This implies government's involvement in some transitional functions such as those related to the provision of support services and guaranteeing of national food security. For example, although the government has decided to surrender the responsibility of grain storage to the private sector, a transitional leasing program for public grain storage facilities is seen to be essential.

With respect to the export market, the government's economic reform program identifies as among of the main agricultural sector's objectives the need "to significantly expand the sector's contribution to the national balance of payments by, among other things, expanding agricultural exports in line with international comparative advantage." Table 4.1 in Section 4 gives the timetable of stabilization and structural measures for the agricultural sector over the 1990-93 period.

In conclusion, the development of a competitive agricultural sector constitutes the principal element of the Zambian government's structural adjustment strategy in this area. The ultimate goal is to achieve and sustain self sufficiency in the country's food production as well as to produce adequate surplus for the export market. Food security at the national and household levels is yet another broad objective. It is in the context of these policy targets that the government strives to restructure the above discussed agricultural marketing and pricing systems as well as the elimination of subsidies; realization of equilibrium pricing of all agricultural commodities; enhancement of private sector participation in the sector; and the removal of tariffs and non-tariff barriers to agricultural exports.

4. Performance

MACROECONOMIC LEVEL

The policy reforms have resulted in considerable progress in many areas. Firstly, the fiscal deficit was reduced from over 10 percent in 1991 to 3.5 percent in 1992. This major reduction was explained principally by the substantial removal of agricultural subsidies. However, the fiscal success was adversely affected by the severe drought that affected the country in 1992. This resulted in the costly importation of large volumes of grains. This development, taken together with the government's decision to increase salaries by 150 percent in 1992 largely explained the high rate of inflation in that year compared to the previous years. Table 4.2 gives the summary of the government's budget deficit, growth in money supply and inflation rates over the 1985-93 period.

By 1992, the inflation growth rate reached 191.2 percent as opposed to 111.1 percent the previous year. The situation improved in 1993 when inflation recorded a 138.3 percent growth rate. Due to the government's financial stringency especially follow-

Table 4.1 Timetable of Stabilization and Structural Measures for Agricultural Sector, 1990-93

Measure	Timing/ Implementation
Permit private trading in maize and fertilizer	September 1990
Revise rules for, and implement revised floor pricing system with seasonal and geographical variations	Early 1991
Establish clear rules for operation and financing of maize strategic reserves	Early 1991
Decontrol of price of maize and maize meal production	Mid-1991
Eliminate transport subsidies for maize	1993
Phase out all subsidies on fertilizer and deoontrol of fertilizer prices	1991
Implement hammer mill program and encourage other private milling to stimulate competition	1990-93
Establish priority expenditure program for the agriculture sector	1990-93

SOURCE: GRZ (1991), New Economic Recovery Program: Economic and Financial Policy Framework Paper, 1991-93, Lusaka, Ministry of Finance & NCDP

Table 4.2 Government Budget Deficit, Growth in Money Supply, and Inflation Rates
(percentages)

	Govt. Budget Deficit/GDP	Money Supply Growth Rates	Inflation Rates
1985	-7.3	23.5	58.7
1986	-15.9	93.1	35.2
1987	-8.9	54.3	48.0
1988	-8.7	61.6	57.0
1989	-3.9	65.2	158.0
1990	-6.7	45.5	106.8
1991	-6.1	95.0	111.1
1992	-3.5	98.0	191.2
1993	-2.5	107.2	138.3
1994	N/A	N/A	35.1*

SOURCE: GRZ (1994) Adjustment in Africa: The Zambian experience, Paper presented by the Ministry of Finance/Bank of Zambia to the World Bank seminar on adjustment in Africa, Harare, Zimbabwe, May.
*Derived from GRZ (1995), Budget Address by the Minister of Finance, Lusaka, Zambia, January.

ing the strict adherence to the cash budget, the average inflation growth rate in 1994 was as low as 35.1 percent. Several factors explained the high inflation growth rate during the pre-1994 period. The high expansion rate of aggregate demand had superseded supply while the large government deficit; high wage settlement; and over money supply all worked towards increasing the growth in demand.

The generally poor economic performance over the 1991-93 period had an adverse effect on the real growth of the Zambian economy. The value of the manufacturing output declined by 10 percent in 1991 compared to the 7.8 percent increase the previous year. The poor performance has been explained by:

- reduced ability of most manufacturing firms to import the needed raw materials and requisite equipment;
- poor plant rehabilitation record; and
- liquidity problems due to low profit margins and prohibitively high interest rates on commercial loans.

In the area of financial liberalization, some positive changes have taken place with respect to interest rates, exchange rates and foreign exchange. Interest rates remained quite high during the pre-1993 reform period. However, they began to respond positively when the government introduced the treasury bills tender in January 1993. Interest rates on commercial loans had moved from over 100 percent in 1993/94 to less than 50 percent by March 1995. With regard to foreign exchange liberalization, significant progress has been achieved. The rationing of foreign exchange through the Foreign Exchange Management Committee was abandoned in 1990 when an Open General Licence (OGL) Import System was introduced. The OGL initially operated on a positive list concept but was later switched to that of negative list. Foreign exchange controls were finally abolished in January 1994 and subsequently, the OGL system was also abandoned. After the merger of the official with the bureaux de change rates, the Kwacha depreciated significantly. During 1994, the exchange rate fluctuated between K647 and K720 to the U.S. dollar, reflecting the general stability of the foreign exchange market, relative to the previous period. It was only until February/March 1995 that the rate climbed to over K800 to the U.S. dollar and concern emerged. The government decision to replace the Central Bank Governor in early 1995 had been attributed to the need to bring back confidence in the financial market following the negative rate movement.

Lastly, the privatization process has started, albeit at a slower pace than anticipated. The Zambia Privatization Agency was established to manage the sale of state-owned companies. The government has so far approved the sale of more than 100 companies although only about 10 have successfully been sold.

Notwithstanding the above achievements with the reform program, a number of disappointments have been registered in several areas. Firstly, the financing of maturing treasury bills through roll overs rather than paying them out of the government's revenue has avoided the crowding out of the limited resources for other domestic expenditures. However, the 'roll over' approach has prompted the escalation of the government's debt stock from K45 billion in January 1993 to about K150 billion by October 1994. Although this latter amount represents a bearable percentage of GDP, the system's potential danger of worsening the government's domestic debt burden does raise concern.

Secondly, the fiscal stringency of the cash budget, much as it has significantly explained the decline in the 1994 inflation growth rate, did bring about severe hardships to many government and government-aided institutions that have been starved of both recurrent and capital expenditure resources. Real wages have also declined particularly for the public service employees.

AGRICULTURAL SECTOR LEVEL

Despite considerable progress made in the liberalization of agricultural production, marketing and distribution, there still remained a good number of constraints. Grain output has been hampered by both natural calamities and the transitional fiscal stringency under the cash-based budget system. Immediately the new government dedicated itself to major structural reforms in the agricultural sector, the worst drought in living memory hit the entire Southern African region. Its most immediate adverse effect was on food security and the general agricultural output. Maize production experienced the worst decline, falling from 12.2 million 90Kg bags in 1991 to 5.2 million in 1993. Due to the magnitude of the problem, the government was unable to immediately and completely liberalize maize marketing and remove subsidies. By the 1993/94 marketing season, nevertheless, the government had removed all maize production and marketing subsidies, thus, leaving the market to be in control.

The speed of liberalization in the agricultural sector also appears to have caused serious transitional difficulties for both farmers and private sector agents involved in crop and inputs marketing and handling. Beginning with the farmers, under the fiscal stringency of the cash budget, the government was unable to pay them around August/September 1993 and, instead, offered promissory notes which were scheduled to be redeemed in February 1994. The farmers complained bitterly about this arrangement and the entire episode casted a dark shadow over the "not so harmonious relationship" between the farming community and the government.

With respect to the policy of marketing liberalization, the private sector has been unable to respond positively and promptly to the new environment due to a host of reasons. First, due to quite high positive interest rates against capital from commercial banks, the private sector failed to fill the space left open by the government withdrawal from this service provision as they could not easily access marketing finance. Consequently, considerable amounts of maize remained unpurchased during the 1993/94 marketing season. This caused severe hardships to many farmers who needed cash payments for them to pay off their agricultural loans and be prepared for the next season. Second, the private sector has been quite slow in investing in storage facilities.

The above problems tended to compromise the support that the farming community in Zambia initially extended to the reform program. As two analysts ably summarized the anxieties, these problems undermined confidence in the agricultural reform program and led to calls to reverse liberalization. In an anti-reform backlash, old statist and urban bias reflexes were reasserted throughout late 1993. Politicians expressed the fear that liberalization would result in excessive consumer food prices. Even within the cabinet, contradictory statements were made about the sustainability of the program and the desirability of rapid liberalization, which only served to confuse economic agents about the government's intentions. Against the above background, it appears that the problems in the agricultural sector liberalization during the reforms period have been more a function of the fiscal squeeze necessitated by the reform's stabilization components.

There are also constraints to the agricultural sector that, strictly, may not be attributed to the reform measures but which, nevertheless, served as serious disincentives to the farming community. Firstly, there is absence of a vital information system. An adequate and reliable market information system is crucial in a liberalized agricultural sector so that the government, producers and traders are facilitated to make sound business decisions. It is such information system that is supposed to give farmers market signals to which they have to respond promptly. Secondly, the absence of an adequate and fairly decentralized capital market has limited access to funds for purchasing crops and agricultural inputs. Crop financing, even under the liberalized system, continues to be provided mainly by the government. Under the fiscal discipline of the cash budget, crop financing has continued to affect the agricultural sector. Lastly, insufficient storage facilities as well as poor road and transport infrastructure have also combined to negatively affect the smooth implementation of the reform program in the agricultural sector.

With respect to the effect of the economic reforms on regional trade in agricultural commodities, one notes that there still has not been considerable non-traditional export flows. Zambia has, nevertheless, liberalized both the import and export trade in agricultural products. As a member of such regional organizations as COMESA (formerly PTA) and SADC, Zambia also strives to harmonize its trade policies with other regional member countries.

In recognition of the many constraints to improved agricultural performance and the fragmented donor support in the area of agricultural growth enhancement, the government, with the support of the World Bank and other donors, has come up with the Agricultural Sector Investment Program (ASIP). This Program adopts the integrated sector approach and consists of three main components:

- policy and institutional reforms;
- support for private sector investment; and
- rehabilitation and strengthening of the public sector agricultural services.

5. Overview and Conclusions

The analysis in this paper has revealed a number of important elements and factors regarding agriculture and trade in the context of Zambia's economic reform measures. The poor economic development that characterized the pre 1983 period was explained by both external shocks and internal problems. The latter was characterized by both faulty government policies and weak institutional capacities. The pre-reform period's absence of competition; price controls; state sector dominance; and the subsequent suppression of private sector development and consolidation all worked against positive growth trends in the economy. For the agricultural sector, in particular, limited resources targeted towards the farming community and consumer subsidies adversely distorted both the investment patterns and the price structure in the sector. The policy environment also encouraged the dominance of one crop, a phenomenon that partially explains why less than 20 percent of the country's arable land is currently under cultivation. All the above developments adversely affected the development of the Zambian economy, in general, and the agricultural sector, in particular. It was against this background that the implementation of structural adjustment measures was attempted in 1983.

With the exception of the brief period when the policy of liberalization was abandoned (1987-88), the government has tried to adhere to the reform measures. A number of structural and strategic difficulties still persist that seem to compromise the speed of the adjustment process and the level of policy rewards. In the field of privatization, the program seems to be too ambitious given the institutional capacity limitations and resource constraints that continue to slow down the process. The government intends to privatize in one year alone and by the end of 1995, 113 companies out of a total of 150 parastatals. And yet, by the end of January 1995, only 12 companies were privatized. Supportive institutions in the privatization process, particularly the Zambia Privatization Agency (ZPA) and the Investment Center, have continued to suffer from both financial and human resource constraints. The lack of previous experience with privatization; the heavy ZPA dependence on foreign consultants that operate without a clearly defined skills transfer program; cumbersome bureaucratic processes; weak domestic venture capital markets; etc, all seem to compromise the privatization process. Government ministers are increasingly accused of being too over zealous in the privatization process in a way that seems to suggest that politicians have run faster than the technocrats. The case of the agricultural sector illustrates this concern more vividly. Agricultural marketing has failed three years in a row chiefly because the resource and capacity limitations made the private sector fail to respond promptly and positively to the liberalized mode of doing things particularly in the non-commercial sector. The 1993/94 agricultural marketing season has been described as the worst in living memory where the break-neck speed with which the government intends to balance the budget and lower down inflation has introduced crippling austerity measures that significantly reduced resources to the agricultural sector. Thus, capital dwindled (amidst prohibitive interest rates); resources to purchase farmers' produce dried up; and the inability of the liberalized system to collect grain to safe storages all worked against the farming community's confidence in the policy reforms.

The experience of the process of liberalization in the agricultural sector (and in many other productive sectors) suggests that considerations of the timing, sequencing and speed of the reform process must always be taken into careful account vis-a-vis the economy's characteristics and capacity constraints. It is evident in the Zambian case that there has been serious difficulties resulting from the government's attempt to simultaneously undertake far-reaching structural reforms as well as tough macro-economic stabilization. As has been observed recently, the government's strict austerity fiscal and monetary stance, dictated by the overarching objective of keeping inflation low, complicated structural reform in agriculture. In particular, macroeconomic policy was at least partly responsible for the sector's enormous financial difficulties. Most economists now argue that most successful cases of structural adjustment in the Third World followed a prior successful stabilization exercise. By attempting to achieve them simultaneously, the government was running a significant risk that both would come into conflict.

Lastly, with respect to the enhancement of intra-regional trade in agricultural commodities, Zambia's exchange rate liberalization has provided an added impetus to the nontraditional exporters to penetrate the regional export market. Zambia is a member of both SADC and COMESA. In the latter, members aim to remove both tariffs and non tariff barriers to intra-regional trade. Considering the speed with which Zambia has liberalized its economy, many producers in the country complain that they are exposed to an 'unleveled playing field' in their regional trade interaction. Hence, it is generally argued that Zambian exporters are being subjected to unfair competition.

Fundamentally, Zambian exporters' complaints are founded on the existing interrelationship of (a) the PTA/COMESA preferential tariffs; (b) lower duty and duty drawbacks on inputs that are being enjoyed by the country's neighbors, particularly Zimbabwe; and © weak capacity (explained mainly by corruption and limited manpower) to collect import duty, thus, allowing for duty evasion. Zimbabwean producers do not pay duty on their imported inputs (or when they do, these are reimbursed once the finished good is exported). This feature has given Zimbabwean exporters an 'unfair' comparative advantage over their Zambian counterparts that operate under liberalized external trade policies. Nevertheless, faced with considerable pressure from producers, the Zambian government announced in the 1995 Budget the suspension of duty on raw material imports which were previously subjected to a 20 percent duty rate. However, the main threat to Zambian goods' competitiveness is no longer tariffs but duty evasion whereby Zambia-bound exports enter the country without proper documentation and/or are subjected to 'under-the-table' deals with customs officials in spite of the improved vigilance of the newly established Zambia Revenue Authority that replaced the Department of Customs and Excise. South Africa's export subsidies to its exporters are also said to place Zambian non exports, including agricultural commodities, at a comparative disadvantage. It is against this background that a recent study recommended that in its industrial policy, the Zambian government should include the following: review of the present tariff structure before an effort is made to further change/liberalize it; explore possibilities, allowable under PTA/COMESA, to eliminate preferential access to the Zambian market by those countries that operate a drawback system that places Zambia into a disadvantaged position; and synchronize further tariff reductions with those that prevail in the country's PTA/COMESA partners, including negotiating a common external tariff among regional members.

Ultimately, increased trade interaction among Eastern and Southern African countries shall be promoted through reciprocal trade arrangements that recognize the importance of comparative advantage in intra-regional commerce and trade.

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Appendix 1

Matrix on the Implementation of the Reform Program in Zambia

Table A.1 Policies Listed in the 1992 PFP

	Strategy and Measures	Planned Timing	Actual
External Policies			
Exchange rate	Unify official and second-window rates	April 1991	April 1991
	Step devaluation of 30 percent	From January 31, 1992	Devaluation of 155 percent during 1992
	Manage the exchange rate so as to satisfy the 1992 balance of payments objectives and move increasingly toward a market-determined exchange rate	During 1992	Retention rate increased to 100 percent in April 1992; introduction of bureaux in October with market-determined rice; unified rate managed leading to above-mentioned devaluation during 1992; in December, weighted bank-bureaux rate adoped as official rate
Exchange and trade system	Shift OGL to a negative list	Mid-1992	September 1992
	Widen OGL coverage from 90 percent to at least 95 percent of base period imports	Mid-1992	By end of 1992
	Further reduce list of controlled exports from 4 to 1 (ivory)	End of 1992	
Tariff reform	Continue to rationalize and reform tariff structure	1992-93	Done
External debt and aid	Reduce arrears to the Fund to their July 1, 1990, level	During 1992	Agreed program of arrears reduction as part of RAP
	Eliminate arrears to other multilateral creditors and meet payments falling due to all multilateral creditors	From January 1992	Agreed program of arrears reduction as part of RAP
	Clear recent arrears to Paris Club and other bilateral creditors int he context of arrangements for debt relief and new external disbursements	1992	Agreed program of arrears reduction as part of RAP
	Discuss with commercial banks and other private creditors means of addressing debt service problems	1992	Largely donor-financed debt buy-back operation in 1994

Table A.1 Policies Listed in the 1992 PFP (continued)

	Strategy and Measures	Planned Timing	Actual
	Continue efforts to strengthen monitoring of aid/debt flows	1992	Improved debt management in MoF and BoZ 1992 onwards
Fiscal Policy			
Revenue mobilization	Expand income tax base to include fringe benefits and reduce tax rates	Announced in 1992 budget	Done
	Harmonize domestic and import sales tax at a uniform rate	Announced in 1992 budget	Done
	Convert sales tax to VAT	1993	Scheduled for July 1995
	Restore real value of non-tax revenue to 1988 level	1992-94	Real non-tax revenue averaged about 25 percent its 1988 level in 1992-94
Expenditure restructuring	Eliminate transport subsidies for maize	1992	1992
	Eliminate subsidies for breakfast meal	Implemented January 1992	Done (reinstated during drought and then withdrawn)
	Reduce subsidy on roller meal to 20 percent	December 1992	1992
	Eliminate subsidy on roller meal	Mid-1993	1992
	Eliminate subsidy on fertilizer	March 1992	1992
	Increase share of recurrent budget allocated to supplies and maintenance	1992-94	
	Improve targeting of current expenditure toward priority sectors and vulnerable groups	1992-94	Increased share for social sectors achieved in 1994 (part of ESAC conditionality)
Fiscal management	Strengthen monitoring and control of expenditures	1992-94	Cash budget introduced in 1993
	Increase tax department budgets and computerize	1992	Computerized budget system introduced 1993; ZRA began operations in April 1994
Civil Service reform	Improve incentives for technical and managerial positions, while reducing size of public service	1992-94	Public Sector Reform Plan initiated in November 1993; reviews and workshops of Ministry functions taken place during 1993-94

Table A.1 Policies Listed in the 1992 PFP (continued)

	Strategy and Measures	Planned Timing	Actual
Monetary Policy			
Money supply	Introduce and make active use of new liquid asset requirements	1991-92	Introduced when??? and managed at high levels (maximum of 50 percent for core liquid assets plus 32.5 percent statutory reserve at end 1993)
	Continue to impose limits on kwache created through debt swaps in consistency with monetary objectives	1991-92	Done
Credit	Limit net borrowing by Government from banking system	1992-94	Cash budget introduced in 1993, setting borrowing requirement to zero
Interest rates	Increase interest rates by 5 points to bring lending rates in line with targeted inflation for Q1 1929	Implemented February 3	
	Raise rates further if warranged by inflation performance	1992	Interest rates liberalized in September 1992
Paranatal Reform			
	Grant managerial autonomy and eliminate subsidies	Mid-1992	Commercial principles established in 1992; government budget subsidies eliminated (except Zambia Airways) by 1993
	Institute regulatory system for public utilities and agree price adjustment mechanism	1993	Automatic price adjustment instituted in 1993; reulatory system in place when??
	Implementation of agreed action for ZIMCO/ INDECO	1992-93	INDECO closed when??; ZIMCO converted to holding company when?? and to be restructured (probably closed) by March 1995
	Managerial and institutional reform measures and adopt action plan for public utilities	1993	1993-94
Privatization			
	Overall plan	July 1992	1992
	Sale of first group and offer of next ten	Early 1993	By end 1994 12 companies sold

Table A.1 Policies Listed in the 1992 PFP (continued)

	Strategy and Measures	Planned Timing	Actual
Agriculture			
	Establish floor price of maize with variations based on transport costs so as to eliminate transport subsidy	Mid-1992	Done
	Develop rules for operation and financing of maize strategic reserve	Developed 1992; implemented 1993	Government planned to restruct role to strategic reserve in 1993 but was forced to enter market by lack of private capacity; currently ambiguity on this issue from different parts of GRZ
	Take other steps necessary to encourage private sector participation in maize and fertilizer marketing	1992-94	Maize marketing remains problematic
Mining			
	Formulate a detailed medium-term investment and production program for ZCCM	1992	Plan implementation begun in 1994
	Improve operating efficiency of ZCCM	1992-94	Measures started 1992 and continuing
	Begin process of divesting ZCCM of non-mining activities	1992	Begun (slowly) in 1992 and continuing
Industry			
Role of sector	Issue a major policy statement on the role of the private sector and issue Investment Guidelines	1992	Investment Centre created and law passed 1992
Legislative reform	Implement recently enacted investment code to streamline procedures and liberalize treatment of foreign investment	1992	1993
Transport			
Expenditure reforms	Give high priority to maintenance, rehabilitation, and repair of existing road transport system	Announced in 1992 budget	
	Develop and implement restructuring plans for Zambia Railways and Zambia Airways	1992-94	Too little too late on Zambia Airways; partial commercializastion and elimination of subsidies to Zambia Railways in 1994

Table A.1 Policies Listed in the 1992 PFP (continued)

	Strategy and Measures	Planned Timing	Actual
	Implement short-term measures to stem losses incurred by Zambia Airways	1992	Not done
	Improve maintenance of feeder roads through institutional reform and increased resource mobilization	1992-94	
Energy			
Price reforms	Increase petroleum price	Implemented January 1992	Done
	Maintain petroleum prices and electricity prices at economic level	1992-94	Automatic price mechanism introduced
Expenditure	Allow expenditure in power and petroleum sectors to maintenance, repair, and rehabilitation of existing infrastructure rather than creation of new capacity	1992-94	Done
Health and Population			
Expenditure reforms	Adequately fund health sector activities and give priority to maintenance and repair of existing primary health facilities	1992-94	
	Shift emphasis to preventive health care from curative care	1992-94	
	Increase real funding for nonsalary recurrent costs	1992-94	
Revenue reform	Continue and expand cost recovery program on ability-to-pay basis	1992-94	

Table A.2 Conditionalities Attached to the Economic Recovery Program (ERPI)

Measure to Be Supported by the Credit	Planned Timing	Actual Timing
Restructure Public Expenditure		
Agreed program for restructuring	September 1986	Done, through a succession of public expenditure reviews
Changes incorporated in the 1987 budget	January 1987	Done
Study of tax structure and agreed implementation plan	December 1986	Study completed in 1986 and many recommendations adopted in subsequent budgets
Improve Planning and Budgeting		
Agree guidelines to ministries for preparing 1987 annual plan	June 1986	
Central Committee and Cabine approval of planning and budgeting procedures	September 1986	
Guidelines of government absoprtion of parastatal debt	September 1986	
Broaden Scope of Foreign Exchange Auction		
Plan to include government imports	Agree plan by December 1986 and implement by March 1987	Dropped from list of 2nd tranche conditions
Improve Management of Froeign Exchange Resources		
Review operations of BOZ	December 1986	
Agreed timetable of actions for improving forex management	September 1986	
Eliminate Maize Subsidy and Promote Private Sector Involvement in Maize Marketing		
Complete study on impact of subsidy removal on poor	December 1986	Done
Remove subsidy to higher income groups	September 1987	Dropped from list of 2nd tranche conditions
Remove subsidies on maize for livestock feed and opaque beer production	December 1986	Done

Table A.2 Conditionalities Attached to the Economic Recovery Program (ERPI) (continued)

Measure to Be Supported by the Credit	Planned Timing	Actual Timing
Implement recommendations of agricultural marketing strategy to increase role of private traders	September 1986	
Agree on floor pricing methodology for maize	September 1986 (implement in 1987 season)	Not done
Improve Functioning of Ministry of Agriculture and Water Department		
Agree plan and identify TA needs and implement	Agreement by June 1986 and implementation by December 1986	
Improve Delivery of Credit to Farmers, Especially Smallholders		
Merger of AFC into ZADB and adequately capitalize ZADB	September 1986	Done
Encourage Exports of Agricultural Goods		
Review export licensing system for agricultural goods and confirm changeover to registration	Not stated	
Improve Operations of Public Enterprises		
Agree plan for closing or restructuring individual public enterprises	September 1986	Some action 1985-89 and privatization announced with resumption of reform in 1990
Rationzalize Tariff Structure for Greater Uniformity in Effective Protection		
Review tariff structure	Review by December 1986 and implement in 1987 budget	Some reductions for effectiveness; study undertaken in in 1987; reductions in tariffs post-1992
Improve Operatons and Financial Availability of Mining Industry		
Sign contract for ZCCM audits by international company	September 1986	Done
Review tax system applicable to ZCCM	Study by July 1986 to be implemented in 1987 budget	

Table A.3 Conditionalities Attached to the Second Economic Adjustment Credit (ERC II)

	Credit Support Measures	Planned Timing	Actual Timing
Macroeconomic Stability			
	Agreement on acceptable fiscal and monetary programs	Board presentation	Done
	Net banking credit to governmetn in Q1 1991 not to exceed K 4726	Second tranche condition	Done
Agriculture			
	Initiate measures toward reform of maize pricing	Board presentation	Started 1992
	Increase in consumer and producer price of maize to limit subsidy to level given in 1991 budget	Second tranche condition	?
	Adoption of floor producer prices for maize	Not stated	Done - but was discontinued to all but educational market
	Decontrol of fertilizer prices	Not stated	Done
	Appoint agent to manage strategic reserve	Not stated	In process
	Allow private sector to establish new maize mills	Not stated	Done
Trade Policy			
	Adjustment of second window rate toward market clearing by March 1991	Board presentation	Done
	Expand OGL to cover all items except small negative list and petrol and petroleum products	Second tranche condition	
	Remove all restructions in exports except maize, maize products, petrol and petrol products, fertilizer, and ivory	Second tranche condition	Done
	Remove all exemptions from import duties and sales tax except those in force at start of 1991	Second tranche condition	Partially done
	Introduce minimum levy of 15% on most zero-rated items; reduce up-lift factor to 1.2; lower maximum levy from 100% to 50% (except for a few luxuries) and eliminate discretionary exemptions from import duty and sales tax	Not stated	Done

Table A.3 Conditionalities Attached to the Second Economic Adjustment Credit (ERC II) (continued)

Credit Support Measures	Planned Timing	Actual Timing
Agreement on program of reform to be announced in 1992 budget	Not stated	Done
Public Sector		
Increase real budgetary allocation for education by 5% and road maintenance by 100%	Board preentation	Done 1993 through the introduction of fuel levy
Submit PIP consistent with program and finance no investment outside PIP	Second tranche condition	Done
Physical survey of employees to ensure payments only to bona fide employees	Second tranche condition	Not done
Identify staffing needs in priority areas and possible redundancies	Not stated	Done but not implemented due to lack of funds
Agree timetable for cost-effective early retirement and retrenchment	Not stated	On-going
Parastatal / Private Sector		
Announce commitment to privitazation of most parastatals	Board presentation	Done
Develop modalities for privatization	Not stated	Done 1992/3
Employ consultants for second stage of parastatal reform program	Not stated	Done
Complete review for restructuring Zambia Railways, ZPTC, and Zambia Airways	Not stated	Done. Zambia Airways was in liquidation
Eliminate public sector monopoly in insurance	Not stated	Done
Offer at least six parastatals for sale	Second tranche condition	Done
Social Action Program		
Evaluate efficiency of maize meal coupons to assist vulnerable groups	Second tranche condition	Program abandoned in 1991

Table A.3 Conditionalities Attached to the Second Economic Adjustment Credit (ERC II) (continued)

Credit Support Measures	Planned Timing	Actual Timing
Ensure adequate budgetary provision for health, education, sanitation, and services aimed at poor and vulnerable	Not stated	Done - introduction of user fees
Agree implementation schedule for Social Action Program	Not stated	Done - changed to Social Sector Recovery
Replace licensing with registration for small-scale enterprises	Not stated	Done

Source: policy matrix from World Bank (1991).

Table A.4 Conditionalities Attached to the Privatization and Industrial Reform Credit (PIRC I)

Measures to be Taken	Planned Timing	Actual Timing
Macroeconomic and Fiscal Policy		
Elimination of maize meal subsidies agreed except drought relief and provery-focused subsidies	May 1992[1]	Done
Liberalize fertiliser prices and remove all subsidies	March 1992[1]	Done
Removal of early production bonus on local maize and increase import price of yellow maize	Second tranche	Done and abandoned by 1993
Final elimination of maize subsidies	Third tranche	Done
Transfer OGL to negative list	Second tranche	Done
Reduction of tariffs in 50% band	Third tranche	Done
Reform of business taxation	Third tranche	Done
Private Sector Development		
Time-table from reform of business laws	May 1992	Done
Adoption of anti-trust laws	Third tranche	?
Parliamentary enactment of business-related laws	Third tranche	Done - Formulation of investment policy
Issue policy statement toward private sector and investment guideline	End 1992	Done
Satisfactory streamlined operatoin of Investment Centre	Third tranche	Done
Institutional measures for development of stock exchange	End 1992	Done - establishment of stock exchange mid-1993
Reform legal framework for effective BOX supervision	Third tranche	Done - 1994 act
Review performance of Export Board	Commence in 1992	Done
Issue guidelines for trading of equity shares and money/ capital market transactions	Third tranche	Done
Address support needs of small-scale sector and purpose action plan	End 1992	Done

Table A.4 Conditionalities Attached to the Privatization and Industrial Reform Credit (PIRC I) (continued)

Measures to be Taken	Planned Timing	Actual Timing
Privatization Programme		
Adopt overall plan and strategy, including timetable for core public enterprises	May 1992	Done
Enactment of Privatization Law	Effectiveness	Done
All steps necessary by Government for privatization of first ten companies. Review of progress in privatization.	Second tranche	Done
Invitation for sale of fruther ten companies (giving 10% turnover on a cumulative basis)	Second tranche	Done
Implementation of privatization program, including all steps necessary by government for divestiture of further companies up to 10% of turnover on cumulative basis	Third tranche	Done
Have in place agreed program for assisting redundant staff	Third tranche	Ongoing
Strategic decisions on (i) emphasis on competition; (ii) pre-divestiture capital expenditure; (iii) amendment to Stock Exchange Law; (iv) closure of loss-makers; (v) no new parastatals	May 1992	Done
Traiing program for privatization staff	Mid-1992	In process
Parastatal Reform		
Establish managerial autohomy of key public utilities, including removal of routine subsidies and institution of price mechanism	May 1992 (autonomy & subsidies); Third tranche (price mechanism)	Done
Prepare a business plan for four core public enterprises	May 1992	Done
Grant autonomy to parastatals	May 1992	Done
Establishment of regulatory system for utilities	Third tranche	Done

Table A.4 Conditionalities Attached to the Privatization and Industrial Reform Credit (PIRC I) (continued)

Measures to be Taken	Planned Timing	Actual Timing
Study of 15 commercial parastatals	Start mid-1992	Done
ZIMCO to adopt resolution on restructuring	Second tranche	Done
ZIMCO to have abolished subholding companies and be transformed into investment holding company	Third tranche	ZIMCO to be abolished end of March
Establishment of performance standards	Mid-1993	
Remove remaining parastatal privileges in financial sector	Partially achieved for insurance. Others: 1992	Done
Prepare action plan for non-ZIMCO parastatals	Third tranche	Done
Public Sector Management / Social Safety Net		
Commence elimination of surplus staff and complete exercise to identify and remove ghost workers	May 1992	Done
Retrench public sector so as to reduce employment by about 10,000 by early 1993; development of deeper redundancy program; measures to soften hardship	Third tranche	Done
A further 10,000 redundancies in 1993	During 1993	Partially done
Adopt policy of restricting investment to that in PIP	Mid-1992	Partially done
Development of improved social action plan; satisfactory progress in plan implementation	May 1992; progress - Second and Third tranches	

Note: (1) implemented at start of program.

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