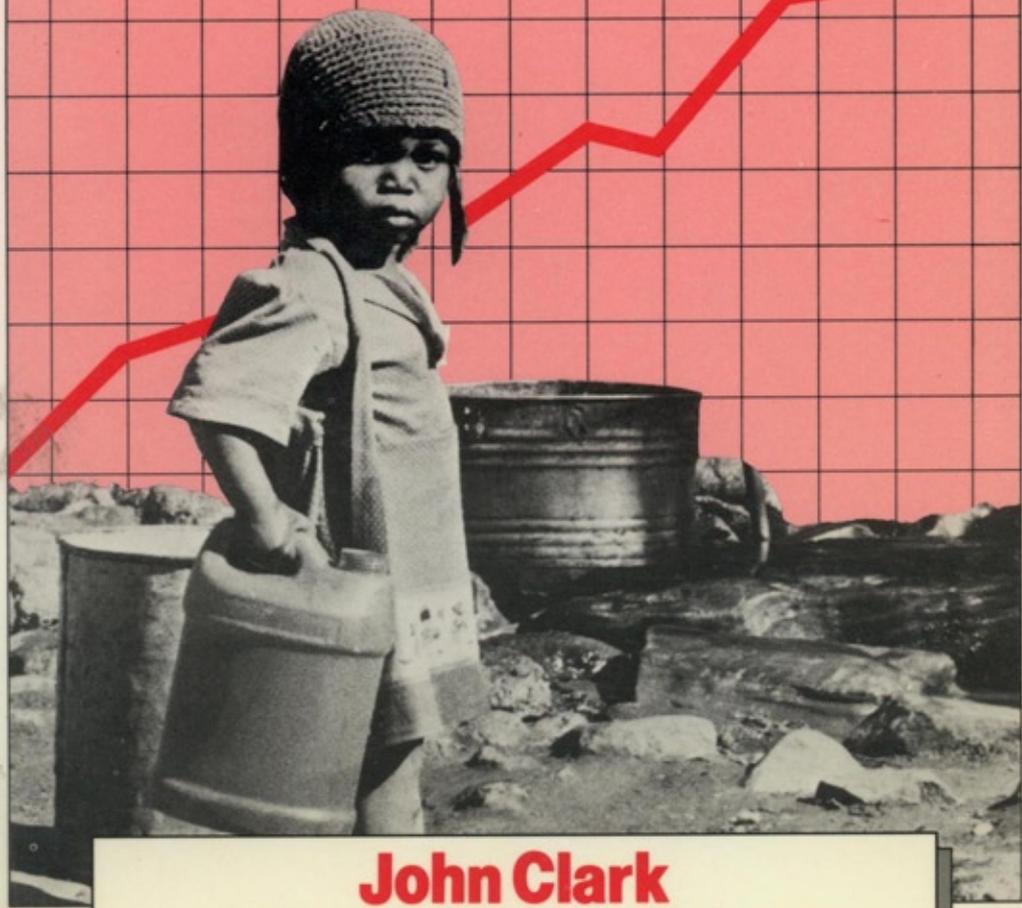


ZAMBIA

DEBT & POVERTY



John Clark
with Caroline Allison

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Foreword

Zambia: Debt and Poverty is based on research carried out during the period 1987 to mid-1988. An earlier version of this material was released as a report *Debt and Poverty: A case study of Zambia* in June 1988. The purpose of that report was to try to influence discussions then taking place about Zambia's debt crisis.

The original report had a considerable impact and was welcomed by a number of governments, including that of Zambia. Kirsti Kolle Grondahl of the Royal Norwegian Ministry of Development Cooperation wrote: "The report contains a very useful analysis of Zambia's severe economic and social problems... We agree with the report's emphasis on the need to protect the poor from the negative effects of structural adjustment programmes."

The original report has been updated to reflect, as far as possible, developments since mid-1988. The text has also been simplified and examples of Oxfam's work and stories of individual Zambians have been added.

Preface

It was in June, 1987, when I went to a poor quarter of Lusaka (Zambia's capital) called Chawama Compound that I met Florence. Prior to the debt crisis, this young woman would have been regarded as one of the better-off in Zambia. By the time I met her, she was one of what has become a new stratum in the country – the 'nouveau pauvre' – and she was close to breaking point. For four years, prices of basic foods had been rising rapidly and it had become more and more difficult to survive on the salary of her husband, a junior clerk in a government office. Often the family had to exist on just one meal a day and they could only afford the luxury of meat on pay-day. Florence's two children became prone to diseases and in November 1986 the youngest developed an acute respiratory infection.

The doctor prescribed a course of medicine but the clinic had run out of the drug because the Government could only afford enough foreign exchange to import one seventh of the country's requirements of essential drugs. Florence managed to find a chemist's shop which would sell her the medicines she needed at a high black-market price. The family's food allowance for the week went at a stroke. She had to borrow.

At about this time she discovered that she was pregnant. This should normally be a happy time. They wanted a third baby but she could not stop worrying about how the family was going to survive. A week later her husband came home with news that due to the IMF austerity programme, introduced to rescue the economy, the price of maize-meal, the staple food, was going to double. "When my husband told me I just couldn't believe it," she said. "Then I looked into his eyes and saw it was true. Suddenly it occurred to me that we just wouldn't survive – we would all go hungry! And then I just burst into tears."

The price rise prompted thousands of the urban poor in Zambia to take to the streets and riot, and the food subsidy was restored after a few days. Even so, the incident shows just how close to breaking point successive price rises had pushed a family which was formerly reasonably well off. And the restoration of the food subsidy caused tension between the IMF and the Zambian Government – tension which was to culminate in Zambia's break with the IMF.

Since May 1988, a Zambian style 'New Economic Recovery Programme' has been in place. But this has been beset with its own difficulties, some of the Government's own making and some due to the continuing hostile international economic climate Zambia finds itself in. The key question now is 'Where to Zambia?'

Most of those who have the responsibility for dealing with Zambia's debt in the IMF, the official aid agencies and government departments are looking at it as an economic crisis. Indeed it is, but it is much more than that. It is a *human* crisis. It is the purpose of this report to draw attention to and to urge action on this aspect.

For me, Florence Tembo is the human face of the debt crisis.

John Clark

May 1989

Introduction

The countries which comprise Southern Africa are in the grip of an economic crisis. The symptoms of that crisis are there for all to see. Debts and the costs of servicing them are growing, import bills exceed income from exports, government spending is outstripping revenues and foreign exchange is in short supply.

As wages fail to keep pace with soaring prices many people increasingly just can't get enough to eat. Poverty, which for many years seemed to be on the decline, is now increasing relentlessly.

In the early post-independence years many African countries achieved significant increases in average life expectancy, reduced infant and child mortality, increased school attendance, supplied more pure water, housing and basic health care. Over the last decade many of these trends have slowed, stopped or even been reversed.[1]

The hardship of Florence Tembo and her family finds a million echoes in poor communities and villages across the region. But what are the roots of such suffering? And what can be done to alleviate it?

Causes of the Crisis

Although broad agreement exists on the symptoms of the current crisis there is far less consensus as to the underlying causes. Some analysts have placed the blame on the policies pursued by individual governments.

Others have argued that the inadequacies of domestic policies have certainly contributed to the economic decline but that changes in the world economy are primarily responsible. A combination of international recession and the development of alternative sources of supply have led to a fall in demand for the primary commodities on which African economies depend.

The resulting difficulties for many countries, it is argued, have been compounded by prolonged periods of drought, and in some cases floods as well, while countries in Southern Africa have also felt the impact of South African acts of aggression and destabilisation.

Moreover, the lending policies of many donors and commercial banks have been irresponsible and sometimes highly exploitative.

Structural Adjustment

As the major multilateral donors, the International Monetary Fund (IMF) and the World Bank have had a dominating influence over measures introduced to deal with the crisis.

The IMF approach is known as STABILISATION and is first and foremost a short-term strategy designed to get economies back onto an even footing. The package usually includes:

- Devaluation of the currency making imports more expensive and exports cheaper the aim is to reduce demand for imports while helping export sales;
- Major reductions in government spending and restraints on borrowing again to help reduce demand for imports and to ease the debt burden;
- The removal of trade barriers to expose protected areas of the economy to the full rigours of market competition.

The longer-term World Bank led strategy of STRUCTURAL ADJUSTMENT is intended to be complementary to STABILISATION, being more growth orientated. Structural adjustment policies seek to encourage the export of agricultural and other primary commodities to boost income and hence earn more foreign exchange. Integral to this is, again, a policy of liberalisation designed to increase the role of market forces and the private sector in managing the economy.

Structural adjustment, like stabilisation, also often involves cut backs in public expenditure, through for example reduced spending on education, health, water development, housing and transport; the introduction of fees for basic services; the removal of subsidies; a freeze on wages; a reduction in the number of jobs in the public sector; and incentives to farmers to grow more cash- and export-crops.

An agreed frame of adjustment has increasingly become a precondition for external financial assistance from both donors and commercial banks. This means that governments in need of help may have very little choice about whether they adopt a

structural adjustment strategy. Their views as to the appropriateness of such a package often seem to count for little.

Until recently structural adjustment programmes have tended to be viewed as economic exercises. Social and political realities have tended to be ignored and the consequences for different groups of people have not been thought through.

Little account has been taken, for example, of the particular vulnerability of women. By focusing only on those economic activities which are included in national/international accounts, the economic activities women are engaged in are in many cases excluded or underestimated because they are often unpaid and unrecognised.

It is now generally accepted, however, that structural adjustment can seriously worsen the plight of many categories of poorer people and that this needs to be taken into account in the design of adjustment packages.

Debt and Poverty in Zambia

This book looks at debt and poverty in Zambia. The case study is an interesting one in so far as Zambia has attempted to implement a stringent IMF programme of structural adjustment, rejected this and developed its own economic recovery programme. It is now reconsidering the need to implement policy changes normally associated with IMF programmes, e.g. devaluation, removal of subsidies, increased privatisation.

What, we may ask, has been happening to people in this whole process of economic reform? The book attempts to address this question from the perspective of Oxfam's concern with poverty and the poor.

In Chapter One the origins of Zambia's debt from colonial to contemporary times are outlined and its experience of adjustment under the IMF programme are examined. In Chapter Two some of the reasons why the Government chose to break off from the IMF and introduce its own 'New Economic Recovery Programme' are looked at.

Chapters Three, Four and Five examine the ways in which different people in Zambia have been affected by debt and associated adjustment. Chapter Three looks at the experience of the urban poor, Chapter Four at rural poverty and Chapter Five at

the impact of the crisis on health and education in Zambia. Some of the experiences of Oxfam's partners in Zambia are related showing how people in different communities have been grappling with the crisis.

Chapter Six outlines some possible ways forward for Zambia, bearing in mind that it is ultimately the Zambian people themselves who have the inalienable right to determine their own destinies.

Finally, Chapter Seven looks at what people in Britain can do to promote positive change in the attitudes of Northern governments and their constituencies. For, in an interdependent world, positive change is not a one-sided equation.

Chapter One: Background to the Crisis

Colonial Legacy

The principal legacy of British colonial rule in Zambia was an economy geared overwhelmingly towards the export of copper with manufacturing and agriculture left severely underdeveloped. This pattern of economic development inherited from the colonial period has made Zambia particularly vulnerable to growing indebtedness in recent times.

British policy towards Zambia (then Northern Rhodesia) was not the creation of a viable, self-sufficient state, but the integration of the country into the British colonial plan. Zambia's manufacturing and farming sectors were neglected while other British colonies in Southern Africa were developed to fill these gaps.

At independence, Zambia inherited a debt of over K50 million from the colonial government.[2] The debt was one which Zambia has never since been able to shake off.

So long as world market trends were favourable to Zambia (as they were until the mid-70s) and so long as black people in South Africa were quiescent, Zambia's inherited vulnerability to external shocks was disguised.

If Zambia's agricultural sector was ill-equipped to provide the cheap food needed by the country's large urban population, then this problem could be contained – for a while – by using a large part of Zambia's copper revenues to fund food subsidies for urban people. If employment was required, the maintenance of costly overstuffed government departments helped to provide it.

But while the cracks could be papered over, the underlying economic structure was basically unsound. Neither in colonial times, nor since, have copper revenues been used effectively to diversify Zambia's export base, to develop manufacturing industries or support agriculture.

Fair Exchange or Robbery?

In the mid-1970s the world price of copper fell, the price of imports – especially oil – rose, and interest rates increased as a result of changing financial policies in the North. These changes cruelly exposed the weakness of Zambia's colonially established economic structures. At this time copper accounted for about 90 per cent of Zambia's exports, just as it had done at independence.

Zambia was dependent on imports, because it did not produce many of the goods it needed. It also depended on copper exports to earn the necessary cash to buy these imports. This made it particularly vulnerable to falling commodity prices and the rising costs of imports. The combination of world recession and rising oil prices was devastating.

By 1982 Zambia was having to export more than four times as much copper to import the same volume of goods as it had in 1970 (see Table 1).[3] Zambia has virtually no control over world copper prices, which severely constrains its ability to control its own economic destiny.

In 1986, Zambia's total export earnings continued to fall as copper prices deteriorated further.[4] 1987 saw some respite as

Table 1.

Year	Export Price Index (A)	Import Price Index (B)	(B) – (A)	Terms of Trade Index
1970	100	100	00	100
1971	78	105	27	74
1972	80	111	31	72
1973	111	126	9	93
1974	134	157	23	85
1975	84	194	110	43
1976	100	217	117	46
1977	97	248	151	34
1978	103	299	196	35
1979	185	374	189	50
1980	201	486	285	41
1981	198	584	386	34
1982	180	695	515	24

Kawama Compound

In Mufulira, a large copper-mining town north of Lusaka, Oxfam supports a community animation project in Kawama Compound, one of the poorest districts.

Kawama has been hit particularly badly by the recession. About 60 per cent of men are unemployed and depend on the informal sector which itself is shrinking as the mines lay off staff. A recent survey has shown that, on average, in each family two children die, mostly from malnutrition, diarrhoea and other diseases of poverty. The situation has been getting steadily worse as food prices continue to rise.

Impure and insufficient water is one of the main health problems (for some families it takes 25 minutes just to walk to the nearest tap, where there may be a long queue). Poverty has worsened dramatically in the last two years, especially as the adjustment programme triggered fast price rises.

For years the community has been asking for improved water supplies. 13,000 residents had to share just four communal taps. Having formed their own strong community organisation, which Oxfam supports, they decided to go it alone. They drew up plans for 15 boreholes costing in total K385,000 and approached embassies in Lusaka for help.

The French embassy gave two pumps and the community itself will contribute the labour and a portion of the costs. With the boreholes, not only will queues at the taps and long walks with heavy pots of water disappear, but also the community plans to introduce all-year-round vegetable gardens. (This project is now fully funded, with a third of the costs being met by Oxfam.)

The community are also running their own health programme – supporting the training of six Community Health Workers organising vaccination drives, and running an anti-malaria campaign – and have plans to set up their own education centre.

Since the Kawama residents mostly work in the informal sector, selling things to the copper miners and other formal sector workers, the community group is also building an Oxfam-financed market place on the main road leading to Mufulira centre. This will bring in more trade, and will mean they can continue trading when it is raining.

copper prices rose, but such benefits were temporary. By the beginning of 1988, copper prices were falling once more, although they have risen again since, with copper reaching its highest ever figure at just over £2000 per metric tonne on 8 December 1988. Prices have remained high during the first half of 1989 but Zambia has been in no position to cash in. The mines are running out and the extraction of the ore has become more expensive. Copper still accounts for about 83 per cent of all Zambia's exports.

The depletion of the country's copper reserves is a major concern in Zambia today. It is estimated that if the present rate of extraction continues, deposits will be exhausted within 15 to 20 years. As copper continues to be the most important source of Zambia's export earnings, this would be economically devastating.

But even if Zambia could easily diversify into other exports, it would meet a brick wall of protectionism in most Northern markets for all but the handful of primary commodities which developing countries compete with each other to supply.

In this respect, as with high interest rates, we must seriously ask:

- How much 'structural adjustment' is needed in the North, rather than in the poorer 'debtor' countries of the South?
- Is it not time for Northern governments to practise the policies of market liberalisation which they are so fond of preaching? Without this how are countries like Zambia to be able to rescue their economies?
- What are the chances of countries like Zambia increasing their export earnings while a small number of international commodity traders determine the prices of the exports they depend on?
- How are the books of 'debtor' nations going to become more balanced while interest rates and capital availability are determined by the policies of the finance ministers of the 'big seven' advanced industrial economies in the North?

Unwelcome Neighbour

Trends in the world economy have imposed a huge strain on the Zambian economy. This strain has been magnified by 'destabilisation' in Southern Africa as the struggle against apartheid



A young Mozambican woman and her baby in the Lilongue refugee camp. They crossed the Zambesi river into Zambia to escape MNR attacks on their village.

has intensified. Regional tensions have given rise to increased defence spending, which Zambia's struggling economy can ill afford.

South Africa provides about 25 per cent of all Zambia's imports and is the biggest single source of supply. Moreover, over 40 per cent of Zambia's trade uses South African transport routes, a pattern established in colonial times.

So Zambia is vulnerable to South African action. And because Zambia is an SADCC country, hosting the African National Congress (ANC) headquarters and calling on the international community for sanctions, it has been targeted for destabilisation by South Africa. (The Southern African Development and Co-ordination Conference was set up in 1980 to enhance regional economic cooperation and reduce economic dependence on South Africa. Its nine members are Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.)

Zambia has frequently threatened to boycott South Africa and seek alternative trading partners. But any diminution of Zambia's economic links with South Africa would put more pressure on Zambia's troubled economy.

In addition, Zambia has had to cope with growing numbers of refugees fleeing from intense fighting in Angola and Mozambique, as well as from Namibia and South Africa. It has been estimated that the total cost of destabilisation by South Africa – including increased transport costs and trade losses – already amounts to about US\$5 million each year.[5]

Since Zambia's independence in 1964 there has not been a single day free from war in neighbouring countries. This has created serious communications difficulties. Rail routes through Angola and Mozambique have been cut off. Trade has been lost. Refugee costs have increased. Defence needs have risen. No assessment of the economic difficulties of Zambia is complete without a full analysis of these difficulties, yet they are often glossed over by members of the international donor community.

The Path to the IMF

As Zambia's economic crisis deepened in the late 1970s and early 1980s, the Government found it difficult to cut spending. In part this was because it had, since independence, been striving to

meet the basic needs of the Zambian population. As the Government sought to maintain employment and wages in the formal sector and continue to subsidise the production of mealie meal (a basic staple of the nation), its budget deficit rose to a point where government spending amounted to more than twice government revenue.

The balance had to be borrowed from the commercial banks and the Central Bank of Zambia. In effect, this meant printing more kwacha (the Zambian currency) and adding fuel to inflation. The Government was also forced to increase its borrowing from abroad.

In 1978, Zambia turned to the IMF for much more substantial help than it had in the past. Help came, but on terms which, in the event, served only to deepen Zambia's economic crisis.

The IMF offered a short term 'rescue package' on condition that the Government agreed to a comprehensive set of financial policies. These were designed to limit the budget deficit and reduce payment arrears on its debt. The currency was devalued, import controls were instituted and the Government was required to freeze wages and salaries.

The IMF programme envisaged an easing of Zambia's difficulties as the world recession eased and as copper prices increased. However, copper prices continued to decline and Zambia was left with expensive IMF loans to repay on top of all her other debts.

Other Donors

The major donor countries met in the mid-1970s to consider Zambia's difficulties and agreed that a one billion dollar aid package was necessary to supplement the US\$390 million provided under the IMF programme. However, few donors made contributions on the scale required, and only US\$230 million of aid was forthcoming. Zambia's reserves of foreign exchange fell to rock bottom. By 1984 it was paying out US\$610 million to service its debt. This represented 60 per cent of its foreign exchange earnings. Zambia was in a debt trap and had to start borrowing from commercial banks to meet the interest payments on existing debt to the IMF and other lenders.

Since 1982, Zambia has been seeking help in its adjustment policies from the World Bank, whose stated objective has been

to reduce the role of the state in the economy so that market forces can play a greater role. Its approach to adjustment, however, has differed somewhat from the IMF approach.

Taking a longer-term view, the World Bank has focused on the need to stimulate agriculture and other sectors of the economy. In addition, it has always been more willing to consider the needs of the poor in the adjustment process. Nevertheless, its approach has been characterised by over-optimism. It has, for example, over-estimated the levels of aid Zambia would receive. It has not recognised sufficiently the political difficulties inherent in some of the 'reforms' it has insisted upon. Most notable in this respect has been the policy of phasing out food subsidies.

The World Bank has recognised and has told the donor community that "extraordinary debt relief needs to be seen as an essential, integral part of the adjustment effort". It is difficult to see how Zambia can solve its economic problems alone. Debt forgiveness, the introduction of softer terms and improved donor coordination are vital. Without such extraordinary measures, Zambia's shortfall in foreign exchange will continue to grow in spite of the fact that the Government has unilaterally suspended most debt service payments. Meeting this shortfall would require a doubling of aid from the donor community, which, experience shows, is unlikely.

There is increasing discussion in the official aid community of the need to bend the rules for Zambia. The possibility of a group of donors buying up some of this debt and rescheduling it was discussed in early 1988, but did not materialise largely because no agreement could be reached on the conditions underlying such a step.

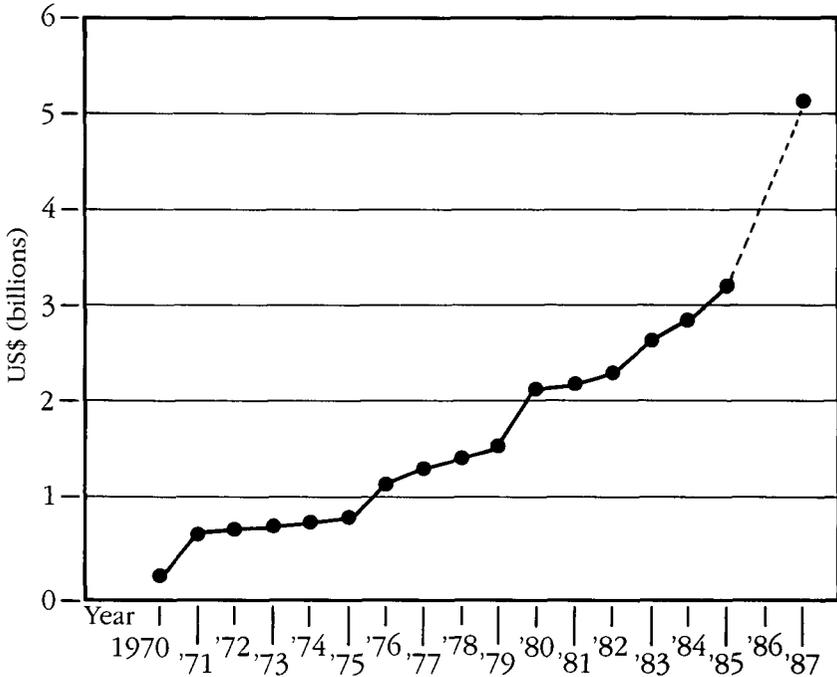
Peddalling Hard to Stay in the Same Place

A major cause of the debt crisis is the debt mountain itself, or rather the interest payments due for past debt. This was made worse by dramatic devaluation of the currency – insisted on by the IMF – which made debt service payments even more painful.

By 1986 the interest bill alone on Zambia's debt was scheduled to be K2 billion.[6] This represented 40 per cent of the Government's budget, compared with 15 per cent in 1980. By May 1987 Zambia's debt had risen to just over US\$5 billion dollars from US\$3.5 billion at the end of 1984.[7]

Graph 1.

Zambia's Debt (medium and long-term external public debt).



Zambia's debt service ratio – the proportion of export earnings needed for debt payments – also rose dramatically during the period and was scheduled to be over 100 per cent by 1986. This meant Zambia had to default on many of her payments. The burden of interest payments also means that Zambia has to pedal hard just to stay in the same place.

Zambia's debt service burden stems mainly from loans with the IMF, World Bank and other multilateral agencies. One of the major disadvantages of these loans is that, because of the rules of these institutions, they cannot be rescheduled.

Zambia was scheduled, before its break with the IMF, to make net payments to the IMF each year for at least the next six years. No one who is concerned about the economies of impoverished and indebted countries can believe that such 'negative transfers' are justified or appropriate.

This fact alone has led many people to ask if the IMF – dealing essentially with short-term loans at mostly high interest rates – was ever an appropriate body to be assisting the deeply

structural economic crises of poor African countries. In African countries undergoing adjustment programmes agreed with the IMF and World Bank, the IMF is now using its new Enlarged Structural Adjustment Facility (a new mechanism to help poorer countries in Africa through low interest, longer-term loans) to stem the present drain of resources. A critical question to be tackled, if there is to be any chance of economic recovery, is how to reduce the burdens of multilateral debt.

One answer might be for donors to come together to refinance such debt (in effect to buy it from the multilateral agencies), allowing much longer repayment periods and concessionary interest rates. Alternatively donors could agree to pay the lion's share of debt service bills on behalf of countries like Zambia. Both solutions would demand new resources. Meeting the costs out of existing aid budgets would not be a solution.

Time for Aid

Just when Zambia's economic crisis began to deepen, and when the short-term, high interest loans from the IMF were proving injurious, the donor community started to cut back on its aid and loans. This was primarily due to a growing lack of confidence in the ability of the Zambian Government to institute the economic reforms that donors thought were necessary.

Total medium- and longer-term loans and grants to Zambia averaged nearly US\$600 million dollars per year between 1980 and 1982. In 1984-5, as the economic crisis became more acute, they averaged only US\$315 million.

Most official aid workers now believe that Zambia's economic outlook is very bleak indeed, unless the level of assistance provided by the international donor community is increased, sustained and improved. At the time of the major IMF programme (1985-87) there was at least a certain degree of coordination amongst the major aid donors. However, the Government of Zambia increasingly saw this coordination as a conspiracy, as it found it more and more difficult to meet the IMF conditions.

Some bilateral aid was held up, pending certain performance criteria, and the Government, therefore, found it even more difficult to satisfy IMF conditions. A vicious circle arose, contributing to the eventual rift with the IMF. Following this, much bilateral aid which had been associated with the IMF programme, was

automatically suspended and there followed a sharp drop in total aid receipts.

Many donors, such as the Nordics, Italy and UN agencies, were mindful of the particular needs of Zambia and energetically sought ways of stepping up their aid again. Even British aid, which was sharply cut after the break with the IMF, has been substantially increased recently (£24.8 million in 1987).

There is no question that Zambia needs aid. In fact to meet its inevitable foreign exchange requirements, Zambia probably requires twice the aid it is currently receiving. The problem is that the aid isn't simply handed over to meet the external financial gap, it is given for very specific purposes.

In the defence of the IMF programmes, and with little confidence in the Government's own reform programme, there is no single undertaking which the official aid community has decided to back. The consequence has been an explosion of new projects. UNDP estimate that there are approaching 500 full scale foreign aid projects being undertaken in Zambia today in conjunction with 332 different agencies.

The Government simply doesn't have the administrative capacity to respond to the associated pressure of mission visits, report writing and bureaucratic niceties. This is compounded by the rapid turnover of top-level civil servants and ministers a sure sign of a government in disarray. Many of the projects are hopelessly off the rails or uneconomic.

The paradox, then, is that Zambia needs more aid for its economic survival, but doesn't have the capacity to absorb the levels of aid it is currently offered. What it really needs, it is not being offered – that is, simple balance of payments support without strings attached. This is unlikely while the donor community – with much good reason – remains dubious about the seriousness of Zambia's economic reform programme.

The way forward would seem to be for the World Bank and the major bilateral donors to negotiate a new type of adjustment package, one which is in keeping with the Government's own priorities but which is vigorous enough to chart a gradual path away from economic imbalances and which stresses development opportunities which benefit the poorer sections of society. International commitments to such a package could be in the form of free foreign exchange and substantial debt relief.

Because it could not secure finance from elsewhere, the Zambian Government was forced, in 1986, to borrow from

commercial banks. However, the terms demanded by the banks were highly onerous and damaged Zambia's development prospects yet further. Continuous rescheduling of bigger and bigger debts was inevitable; but this merely passed the debt service burden on to future years and consumed an inordinate amount of the country's scarce administrative skills in rescheduling exercises. Since Zambia effectively suspended debt service payments, there is no longer the pretence of orderly rescheduling exercises, but the unpaid debt service is added inexorably to the growing mountain of debt.

To date there has been remarkably little willingness on behalf of the North to accept any sharing of the burden. Even the important, but modest initiative of Chancellor Nigel Lawson to reduce the interest bill and lengthen the loan periods to the poorest and most indebted countries in Africa was resisted by the US and in its final, watered-down form, is still just a fraction of what would be needed to reverse the build up of debt.

Chapter Two: The Break with the IMF

The colonial legacy of skewed development, high interest rates stemming from Western economic policies, the international economic crisis, rising oil prices, and the Zambian Government's failure to correct colonial imbalances, have all contributed to Zambia's growing debt.

It was, however, the IMF-inspired foreign exchange auction and its failure, coupled with public reaction to the removal of food subsidies, which brought Zambia's debt crisis to a head and precipitated Zambia's break with the IMF and World Bank in May 1987.

The Foreign Exchange Auction

As export earnings fell and debt service bills rose throughout the 1980s, Zambia became gripped by an acute shortage of foreign exchange. The Central Bank was responsible for deciding which applications for foreign exchange (forex) should be granted and which rejected. This procedure was slow, highly bureaucratic and prone to corruption. It was also inefficient.

Many applicants were granted a small proportion of the forex they had asked for, not enough to make importation worthwhile or efficient. A flourishing black market in forex emerged and this began to eclipse the official exchange. The price paid for forex rose steeply and it was apparent that the official rate had to be devalued.

In 1985, Zambia accepted the IMF proposal to introduce a regular foreign exchange auction to determine a market price for the kwacha. The forex auction worked much like a conventional auction, with the Central Bank of Zambia acting as auctioneer.

The first auction took place on 11 October 1985. The kwacha fell immediately. The next week it fell again and the slide continued. After some months, fear grew that priority sectors, such as agriculture, were in effect being squeezed out, as were smaller companies. Inflationary pressures grew as the prices of

imports rose and social and political tension became evident as wages failed to keep pace with the cost of living. (There is now evidence, however, that the rapid inflation derived more from the Government's failure to stem its growing budget deficit than from the rapid devaluation.)

New controls were introduced in the auction system in July 1986, to try to direct more foreign exchange towards priority sectors and weaker companies, but these were greeted angrily by the IMF who saw them as unwarranted interference in the market system. This contributed to the IMF delaying the disbursement of funds – foreign exchange – which were to be put through the auction. Bilateral aid pledged to support the auction was also held up as Northern governments followed the IMF's lead. These delays helped reduce the supply of foreign exchange available to the auction and so the kwacha devalued even more steeply. By the end of 1986 the kwacha was worth less than 15 per cent of its value 14 months previously. Something had to give.

From 24 January to 17 March 1987, the auction was suspended, to allow an urgent review. When it was reintroduced, it was a two-tier system with an auction-determined rate and a lower rate for government transactions for debt servicing, medical and educational supplies and other requirements of priority sectors.

Some additional support was given to small-scale industries and the agricultural sector, but still the kwacha slide continued and still very little foreign exchange went to the priority sectors. By the end of April the kwacha was down to less than 11 per cent of its pre-auction value.

On 1 May, President Kaunda declared that the IMF programme had failed and announced that it was being abandoned. The Government also suspended its debt payments to both the IMF and the World Bank. Had sufficient forex been made available – and if all aid and loan pledges had been met this might have been the case – the Central Bank might have been able to make the necessary priority allocations and run the auction without the kwacha becoming virtually worthless.

However, promises made by bilateral donors just did not materialise, often because they were given on condition that certain other policy reforms were introduced. Each bilateral donor introduced their own requirements and their own procedures which stretched the administrative capacity of the Zambian authorities beyond the limit.

If any future auction is to work, say some specialists, donors should make firm and unconditional commitments to the auction so that it has a chance of running smoothly.[8]

Removal of Food Subsidies

If the auction was one of the factors which precipitated the break with the IMF/World Bank adjustment programme, then phasing out subsidies, in particular the subsidy on maize was the other. Maize subsidies have been in place since before independence and have provided one means of attempting to ensure that the poor can afford to buy basic food stuffs. They are regarded by some as an inefficient and expensive way of helping the poor and a drain on the government budget. Removing such subsidies, however, involves serious political, economic and social difficulties.

In 1986 the Government agreed to remove maize subsidies over a two-year period. First, the subsidy on breakfast meal (which is more refined and costs more) would go, and then the subsidy on the poorer quality roller meal would be removed and replaced with special measures designed to cushion the impact on the poorest Zambians. At this time, however, consumer prices were already soaring (see Table 2). By 1987 three times as many kwacha were required to buy the same basket of goods as in 1983.

Table 2.

Urban Consumer Price Index 1980–1986. Base: 1975 = 100%

	1980	1981	1982	1983	1984	1985	1986
Low Income	203	231	260	311	373	513	733
High Income	189	209	236	279	336	446	644

Low Income (about two-thirds of the urban population) = those whose income in 1974/5 was less than K100/month. High Income (about 10% of the urban population) = those whose income in 1974/5 was above K300/month.

Source: Central Statistical Office, Lusaka.



John Clark : Oxfam

This young couple have cleared a patch of wasteland near their home and turned it into a vegetable garden. The produce improves the family's nutrition and they are able to sell the surplus to gain a little extra income. Although the man works as a driver, his wages have fallen in real terms, and they now find it impossible to manage on what he earns.

A caterer with Zambian railways described how, since 1985, his salary had risen by only 20 per cent, while prices had risen by over 80 per cent. Just prior to the riots, fully half his monthly salary was spent on breakfast meal.

Another man, a father of two, told how he used to be a miner, but had given up his job in the mines after an accident in 1983 left him lame. He was given a pension of K120 a month which, he said, was fine in 1983, but it has not increased since then and is now impossible to live on: "Now I am a tailor," he said, "but material has become so expensive that most people cannot afford to buy clothes any more, so I am quite destitute."

A mother of four had similar anxieties:

"Prices have rocketed since 1982. The auction certainly meant there were more goods in the shops, but they were the expensive things that we do not buy. My husband's salary (he works in a factory) has not increased since 1985, and so I cannot afford to buy even the basics now. We only have meat once a month – on pay day. When we heard that the subsidy was to be lifted, I felt sure that malnutrition would come to my children."

The announcement that the breakfast meal subsidy was to be withdrawn shocked the public. Worse still, the Government withdrew the subsidy in one go, rather than by a series of steps.

As a consequence the price of breakfast meal doubled, while the cheaper roller meal simply disappeared from the market. This was because millers were supposed to claim a subsidy from the Government on the sale of roller meal, but feared that they would not be paid, so they switched production to breakfast meal only. The poor had the choice between paying two and a half times what they were accustomed to paying or going without. They did neither: they rioted. After a weekend of fierce rioting, in which 15 people were killed and many more injured, the President announced that the full maize subsidy would be restored.

The maize subsidies are perhaps a costly and inefficient way of providing help for the poor. But they ate up only seven per cent of the government budget in 1985 compared to debt service which consumed nearly 29 per cent. In addition, they are very important to many poor people. Clearly an attempt to dismantle them is politically very sensitive.

At the end of 1987, a World Bank mission to Zambia made a special study of how, if renewed effort was made to remove food subsidies over a five-year period, the poor could be

protected through a targeted food ration scheme. It attempted to establish how vulnerable families would be identified and what role local structures and/or non-governmental organisations (NGOs) might play in ensuring that food reached these families. Elements of such a scheme are now being introduced by the Zambian Government through a food coupon scheme.

Foreign Take Over

Prior to the break with the IMF, there were real fears within government circles, amongst economists and the public, that offers of IMF assistance and Western aid had led Zambia into a trap. There was growing fear that having gained independence in 1964, Zambia was now, in effect, an economic colony.

The IMF had, in the eyes of many people, become the 'International Ministry of Finance' which dictated economic policy, but which was absolved from responsibility for failures.

During the auction period a lot of foreign exchange went to foreign companies. Many Zambian businessmen and women felt that this stemmed from a concerted policy by these companies to squeeze out competition.

As Zambia's desperate need for foreign exchange grew, a serious bid of US\$2 billion was made by a giant multinational company (Anglo American) to buy up Zambia's copper mines, the main source of Zambia's foreign exchange earnings. The bid was rejected, but it led to fears that the country's heritage was in jeopardy.

Agricultural development began to focus more on export crops such as coffee while malnutrition and poverty grew at home.

It appeared that Zambia had lost its sovereignty, foreign companies had taken over from national ones, its mines could be lost, its land was being used to supply crops to Europe, and it was in perpetual hock to the IMF. The situation was seen to be worse than in colonial days and was clearly unacceptable.

The New Economic Recovery Programme

In March, 1988, Zambia applied to the UN General Assembly to be granted the status of a 'Least Developed Country'. Despite the

promise of greater international assistance this status would bring, Zambia's request marked a new low in the country's inexorable economic decline. The UN rejected the application, largely because, it was felt, the Government had done much to bring about the sharp deterioration.

Zambia's dependence on copper shows little sign of being reversed. Other sectors of the economy, notably manufacturing and agriculture, continue to stagnate, though this picture has been complicated by changes in economic policy. Zambia's economic future is not as bad as it was painted in a recent World Bank report, which predicts that, if present trends continue, it will be the poorest country in the world in 20 years' time. However, severe structural flaws remain.

While the IMF adjustment programme appears to have had a positive impact on output, the speed at which poverty and destitution increased sometimes as a result of these measures made its eventual cancellation inevitable. Even the IMF itself now realises that many aspects of the programme were ill-advised.

In place of the IMF-inspired structural adjustment programme came a combined New Economic Recovery Programme (NERP) and Interim Development Plan. The primary objective of both was: "to stabilise the economy by controlling inflation, increasing profits and investment, so that Zambia can grow from [its] own resources", at a predicted rate of just over 2 per cent over the following 18 months.[9]

The principal objective of the plan was to: "release resources for development by compressing non-essential and luxury imports and limiting debt service payments." [10]

One of the most important aspects of the New Economic Recovery Programme was that it involved imposing a limit on debt service of 10 per cent of foreign exchange earnings after the foreign exchange needs of the mining sector, the airlines and for oil and fertilizer imports have been deducted. It was hoped that this would lead to an improvement in the foreign exchange situation and could help Zambia's development if well used.

Other objectives included:

- Reactivation of the economy by increasing production of basic goods and export goods;
- Stabilisation of the economy through controlling the budget deficit;
- Promotion of enterprises using local raw materials;

- Diversification of exports by promoting the export of non-traditional and manufactured goods;
- Increase of employment through the creation of village and small-scale industries based on local raw materials;
- Increase of the Government's capacity to manage the economy.[11]

Following the elections in October 1988, a number of changes have been instituted. The kwacha has been devalued by 25 per cent and most observers believe that it will soon be devalued yet further.

Moreover, 'privatisation' of basic services introduced under the IMF structural adjustment programme is here to stay. There seems to be no going back on earlier decisions to introduce fees for health care and education. In October 1988 the Government announced the introduction of comprehensive health charges, with higher scales for non-nationals living in Zambia. The Government is trying to win back international approbation and to demonstrate its seriousness in tackling its economic malaise. It is likely to be a long while before an IMF programme is approved again – though there is speculation in some quarters that this may not indeed be so far off – but some influential ministers are clearly striving for a World Bank seal of approval which would open the door again to a Bank Structural Adjustment Loan and associated bilateral funding.

On 1 January 1989, the Government introduced a food coupon scheme for mealie meal. By March the price of mealie meal had almost tripled, but households which registered with the authorities were allocated coupons and were able to buy it at a subsidised rate. It is said that if the coupon system (open to any Zambian who registers) for mealie meal is a success, it will be extended to other price control commodities.

Donor Views

Western official aid agency representatives in Lusaka have tended to be critical of the Government's New Economic Recovery Programme. They have suggested that the kwacha is overvalued, with the real value of the kwacha plummeting and the black market mushrooming. They have criticised the strategy for avoiding necessary, tough decisions and trying to buy time in a

way likely to lead to high inflation.

Some have also argued that the government was decidedly unwise to stop payments to the World Bank since that body has made efforts to ensure that its funding far exceeded Zambia's repayments to the IMF. Most of the World Bank projects would have continued despite the break with the IMF, but Zambia defaulted on its repayments. Hence all projects have been suspended.

It is estimated that the loss of World Bank funding cost Zambia a total of US\$200 million between 1987 and 1988. Government officials admit that this will have serious repercussions on agricultural development, although some new large donors have emerged.

Perceived internal inconsistencies within the NERP constitute one reason for declining donor support since 1987. Another reason was, of course, an ideological commitment to the principles enshrined in the original adjustment package. Total assistance to Zambia was estimated to have fallen from US\$565 million during 1986 to US\$485 million during 1987, with a particularly heavy decline in capital aid.

The UK cancelled £30 million of programme aid in May 1987, just after the World Bank announced the suspension of its programmes in Zambia because of non-payment on arrears. After a proposal from the Scandinavian countries to cover these arrears fell through later in the year, the World Bank suspended another US\$15 million loan to the Ministry of Health.

Renewed donor assistance will depend on how far the Zambian Government is prepared to compromise on the key areas of the budget deficit, devaluation and subsidies.

Chapter Three: Human Costs and the Urban Poor

Winners and Losers

How, then, have people in Zambia been affected by debt and associated 'adjustment' packages? It is difficult to disentangle the effects of adjustment and overall economic crisis on the poor. Some contributions to poverty have clearly related to adjustment. For example, reduced wages have hit the urban poor and reduced health budgets have eroded health services throughout the country. Other contributions to poverty are more debatable. For example, inflation started to soar during the forex auction apparently because imported goods automatically became more expensive. However, the year or so following the suspension of the auction, while the exchange rate was held at K8 to the US dollar, saw an even higher rate of inflation. Other aspects of poverty relate little to adjustment but to the overall decline of the economy.

For a small minority, there have been substantial benefits from the adjustment period. Some members of Zambia's big business community, for example, did very well out of the foreign exchange auction, including as it did the liberalisation of import controls. They could at least get as much foreign exchange as they wanted with minimal red tape to worry about, provided that they could put money (kwacha) up front.

The shops of Lusaka and the Copperbelt started to fill up with luxury goods from South Africa, Europe and elsewhere. The goods were out of the reach of all but a tiny fraction of the population but, for the rich this was a bonanza.

Industry on the whole fared well. Factory output increased from 40 per cent of full capacity to 55 per cent.[12] Devaluation, moreover, gave a boost to the minority of large estate owners growing cash-crops for export.

For the great majority of Zambians, however, the country's debt and associated adjustment packages have combined with

recession to produce results which have been little short of disastrous.

Small and middle-ranking businesses, unable to obtain sufficient foreign exchange, had to lay off staff and sell machinery and plant, while the flood of imports resulting from the liberalisation of trade forced some Zambian businesses to close.

Moreover, many workers have lost their jobs as a result of cut backs in the state controlled companies, the education and health sectors and elsewhere. The wage earning classes have been pushed into destitution and starvation, and for millions the future looks bleak indeed.

The Wealth Gap

One reason why Zambia's poor have been particularly vulnerable to policies of adjustment is the very unequal distribution of income within the country (to a large extent inherited from the urban bias of colonial times).

World Bank figures for Zambia (1976) show that the richest 10 per cent account for 46 per cent of all income, leaving the bottom 20 per cent with a share of just 3.4 per cent.[13]

Zambia's worst poverty is polarised in five of its nine provinces (Luapula, Northern, North West, Eastern and Western Provinces) which contain 42 per cent of the population. The most vulnerable groups are female-headed households, children in large (especially rural) households, unemployed youths and people working in the informal sector. In 1980 the five poorest provinces had only 1 per cent of total employment in the manufacturing sector.[14]

Many Zambians say that today people in the rural areas are in a better position than most members of growing urban populations because most rural dwellers are able to produce at least some food to feed household members and are, unlike the urban poor, not totally dependent on cash incomes.

The urban poor are mostly engaged in the 'informal sector' – the reservoir of the unemployed or under-employed (some 52 per cent of the informal sector in Lusaka have some paid employment). About 42 per cent of the labour force in Lusaka are involved in petty commodity activities ranging from trading mealie meal to selling cigarettes singly and vegetable hawking. [15] Although the number of people engaged is growing

rapidly, there is little economic growth in the informal sector. Real incomes are declining rapidly as more sellers compete for the shrinking demand and as the prices of urban goods which the poor consume increase. Their living now is barely above subsistence level, hence they are more dependent than ever on subsidies and on relatives. Rising poverty amongst the young is perhaps the most pressing urban social problem.

While many people are taking early retirement to return to rural areas, there is still some urban drift, particularly as rural school leavers search for jobs in the towns. The government has made some attempts to encourage the youth to stay in or return to rural areas but these have been largely ineffective to date.

Effects of the Auction

Devaluation in a country which imports much of what it needs inevitably means, in effect, a drop in real wages. This is one reason why the IMF advocates devaluation in countries going through a recession. In that this measure hits hardest those who consume most imported goods – and these tend to be the better off – devaluation is often said to be a progressive way of tackling economic imbalances.

In the case of Zambia, wages were on average relatively high by African standards before the auction. This did not create major problems when the economy was supported by high copper prices, but becomes difficult over a sustained period with low copper prices. Some reduction in real wages became inevitable. The problem has been the speed and severity of the drop, and the fact that the poor have been hit very hard by it, as well as those employed in the formal sector.[16]

For the urban poor the IMF-inspired auction meant increasing unemployment and soaring prices for imported goods, many of which – such as soap and kerosene – are seen as essentials. Domestic goods also started to rise in price as inflation got out of control.

Oxfam colleagues in the shanty town areas of Lusaka described how people rejoiced when the auction was introduced because it was said that the empty shop shelves would become full again. But, as the kwacha fell, the rejoicing stopped. Food doubled in price. “You could *see* the difference to the poor,” one colleague said. “Many children started suffering malnutrition.

Isaack Malambo – A Destitute Labourer

Isaack Malambo works as a labourer in a soap and cooking oil making plant. Prior to the debt crisis he was reasonably well off but successive devaluations and huge rises in the price of basic commodities mean he and his family now struggle to make ends meet.

Malambo's current take home pay is about K300 a month (about £20). Each pay day he hands his landlord K60 rent for the two rooms where he lives with his wife and four children. The rest of his wages he gives to his wife who then buys a 50 kg bag of roller meal for K30 leaving the family with just K210 to see them through the month.

More often than not the Malambo family have to borrow money from the money lenders who charge high rates of interest. Malambo says he has to repay about K75 every month to the neighbourhood money lender: "There isn't much we can do about it. The family has to eat," he says.

Apart from having to repay their debts, the family has to fend for groceries such as cooking oil which costs about K43 for a five litre container. This too represents a sizeable chunk of the Malambo family's monthly income.

To make ends meet Mr Malambo has encouraged his wife to begin reselling some of this cooking oil in small measures to households in the neighbourhood which cannot afford to buy the larger factory containers. "In this way at least my wife has a bit of money to buy relish," he says.

Relish mostly consists of vegetables such as rape and amaranthas (bondwe) which are eaten with maize meal porridge. Meat is a rare dish in the Malambo household. And when it is afforded, it is only the cheaper cuts or bones.

Of their four children, two are of school age. Education is free in Zambia but the family has to buy school uniforms at the beginning of each year. Schools insist on two uniforms for each child at a cost of about K150. This means that Mr Malambo is forced to get an advance from his employer to meet the cost of the uniforms.

From December to March, the hardships grow worse in the Malambo household as Mr Malambo struggles to repay his loans. "This is a time when we have to tighten the belts in the home," he says.

The uniforms are the only decent clothing that his children have, otherwise they have to make do with patched shorts "The truth is that I can't afford to buy new clothes for the children. Let alone shoes for them and myself," he says.

Malambo regards himself as lucky in that at least he is in employment and is assured a monthly income. Many Zambian families are having to make do with a lot less.

Dan Mwale, September 1988

Previously that was rare. On K100 a month, you could buy anything you needed, but when the prices went up you could barely buy one bag of mealie meal."

From the start of the auction until June 1986 (nine months), the purchasing power of the kwacha fell by 35 per cent. This had a sharp effect on the food consumption of poor families.

A survey of a hundred households in different districts of Lusaka showed that as prices rose, poorer families stopped buying meat, chicken, fish and bread, cut back on vegetables and even on mealie meal. Many families reduced from two meals per day to one, to save money, while other families borrowed heavily from friends and relatives and organised salary advances in order to survive. Female-headed households suffered particularly badly.[17] The majority of families questioned reported that the health of their children had deteriorated since the auction began.

It is not only the prices of basic foodstuffs and essential commodities which have shot up, the price of building materials has also escalated well out of reach of most poor people. In Lusaka, it is relatively easy to acquire a plot of land and most poor people build their own houses with concrete blocks and corrugated asbestos sheets (largely imported). They can no longer afford to do so. Many unfinished houses in the poorer compounds of Lusaka testify to this.

Declining real wages for workers employed by the state and in industry and services has encouraged both 'moonlighting' and corruption as growing numbers of workers have sought alternative and supplementary sources of income on top of their wages. This means that many are unable to do the jobs they are employed to do as well as they might.

In addition, it is often women who have to take on extra work to meet the household's need for additional cash. This

often has negative implications for women's other economic activities, their health and that of their children and children's schooling.

Consumer Subsidies

It is against this background of declining real wages and waged/salaried employment that the whole question of maintaining, reducing or removing consumer subsidies has become so important. As we have seen, it was the attempt by the Government to remove the subsidy on maize, the basic staple, which prompted workers to riot and precipitated the break with the IMF.

There are good reasons for reducing subsidies. They:

- Represent a tremendous drain on the Government's budget, fuelling the large deficit;
- Are an inefficient means of assisting the poorest because the bulk of the subsidised food goes to the richer section of the population. Few of the poorest can buy in the bulk supplied on the official market;
- Encourage inappropriate agriculture – the production of hybrid maize, rather than millet, sorghum, cassava and traditional maize;
- Facilitate corruption, cross border smuggling and black marketeering. (An enormous quantity of subsidised maize meal is smuggled across to Zaire which represents a major drain from the Zambian Government's coffers.)

Against this it should be remembered that food subsidies provide a mainstay for the urban poor in the absence of other forms of social security. This becomes more important as the ability of the Government to provide other forms of welfare is being eroded. The cost of the subsidies may be large but the cost to the poor of eliminating them could be devastating. The Government must reduce its budget deficit and reducing subsidies can make an important contribution to this, but it must be done in a way that safeguards those who are so vulnerable that their wellbeing and even survival could be jeopardised by such action. As blanket food subsidies are removed they should be replaced by separate measures to ensure that the poorest section of the

Esnat Mbulo – Street Vending in Garden Compound

Esnat Mbulo is in her late sixties; a widow with 17 grandchildren. Her husband was a former police officer who worked for the British South Africa police in what was then Southern Rhodesia, but is now independent Zimbabwe. She now lives in Lusaka's Garden Compound where she makes a modest living as a street vendor.

She sells commodities such as salt, vegetables such as rape, tomatoes and groundnuts, and cigarettes.

The salt she sells by the spoonful, because this is all her customers can afford. Garden Compound is a run-down residential area consisting of ramshackle houses many of which are constructed from mud.

The local authority, in this case the Lusaka Urban District Council, has started razing to the ground many of these structures. The owners are being moved to an adjacent site which has been earmarked as a new housing development area, under the site and service scheme.

It is in this locality that Esnat Mbulo carries on her trade as a street vendor.

Normally old people are supported by the traditional family system, but although she is in her sixties, Mrs Mbulo does not want to be a burden to her children.

"They are married," she said. "The women depend on their men for a livelihood, while the men also have their families to look after. It is not that they don't help me. They do. But I thought I should look after myself."

Mrs Mbulo makes the occasional trip to Chanyanya fishing camp – about 150 kilometres west of Lusaka – where she buys dried fish. It is sold at K200 a bundle and she makes a profit of the same amount again from its sale.

She does not exactly recall when she returned from Zimbabwe. But it was in the early 1950s when Zambia was still a British colony. She remembers that upon her return she worked as a nanny in an expatriate household.

Mrs Mbulo held the job for about ten years until her employers decided to return to the United Kingdom. "Those were good days," she recalls with nostalgia. "You could get almost everything you wanted."

Mrs Mbulo says that it is very difficult to make ends meet in

Zambia today. The price of almost everything has shot up to unprecedented heights. Proof of this is the fact that in the neighbourhood in which she lives, very few households can afford to buy essential commodities such as salt, detergents and sugar in whole packets.

To spend K14, for instance, on a packet of washing powder is to spend about one tenth of an average household's monthly income. Many of the male breadwinners in the area hold menial jobs such as security guards which are very poorly paid.

"What we would like to see is a reduction in the cost of living. There is need for the state to improve the conditions of living for the people," she says.

Dan Mwale, September 1988

population enjoy at least their current food intake with no additional financial strain.

There is no doubt that the issue of subsidies has assumed a symbolic as well as practical significance within divided camps and that it has become an ideological weapon as much as a tool of economic policy.

Human Settlements of Zambia

One of Oxfam's longest-standing project partners in Zambia is HUZA (Human Settlements of Zambia), a local NGO seeking to assist poor urban communities in the struggle to raise their standards of living and conditions of life. Some of HUZA's main activities are:

- Skills training – running intensive courses in carpentry/joinery and tailoring/dress making.
- Providing assistance to groups of poor people (especially those who have received the above training) who wish to set up their own productive enterprises.
- Encouraging production of local products to substitute for imported commodities – for example, making building blocks and roofing sheets out of locally available materials, soap manufacturing, production of cooking oil, fruit juices, polish, candles and even instant coffee substitute (made out of soya beans).



John Clark : Oxfam

Edward was trained by HUZA to make improved charcoal burning stoves. This stove consumes less than half the amount of charcoal used by traditional stoves. Edward sells about eight stoves a week. The saving in fuel costs can make a vital difference to families living at subsistence levels.

- Credit schemes – the provision of loans to families who are building their own homes or women’s groups who wish to set up tailoring co-ops.
- Child health – supporting clinics for the under-fives in the shanty compounds.
- Kitchen gardens – providing training and helping people get started with seeds and fruit tree saplings so that they can establish their own fruit and vegetable plots, thereby improving their diets.

HUZA employs just 16 staff and supports communities in eight shanty towns around Lusaka.

Florence’s husband’s earnings as a sales clerk have been seriously eroded by rising prices in recent years. Sickness of her two children was both distressing and expensive. In 1986 she had to spend heavily on medicines, since the government clinic had run out of drugs. When, in December 1986, the Government planned to double the price of the basic staple, Florence and her family were very worried. With HUZA’s help, however, Florence started cultivating a vegetable garden, because they could simply no longer afford vegetables and she could see that her children were becoming malnourished. Now she is able to sell a small surplus.

Edward is one of ten people who have benefited from HUZA’s training programme. He has acquired the skills necessary to make improved charcoal burning stoves. Most urban families cook on charcoal, but traditional stoves are inefficient. The HUZA stove consumes less than half the amount of charcoal and so can save a typical family 19 kwacha a month, equivalent to four or five days’ earnings, a saving that can be critical to families close to subsistence levels. Edward sells about eight stoves a week at 35 kwacha each. So far, he has sold 260 stoves and is therefore saving Chawama over 4,000 bags of charcoal per year.

HUZA staff, however, stress that the solution to urban poverty must be found in rural development. NGOs can and should help in a programme of rural resettlement but the Government should first set up credit schemes to help people buy the seeds and tools they need and survive until the first good harvest. “How can you start farming without one single kwacha?!”

Chapter Four: Agricultural Policy and the Rural Poor

Much of the World Bank's lending to Zambia has been conditional on policy changes in the area of agriculture. These changes have sought to increase the money paid to farmers for their crops, and to increase the production of both cash-crops and export-crops. In addition, they have aimed to increase the efficiency of government marketing agencies and to allow the private sector to market agricultural produce. As a result the state marketing board (NAMBOARD) no longer has a monopoly, and pays higher prices to producers.

Devaluation of the kwacha under the IMF programme gave a considerable boost to the production of coffee, sunflower, cotton, and tobacco, making it much more profitable for farmers to produce cash-crops for export. The government policy of increasing producer prices for maize and other food crops has also helped farmers but the benefits have been far from uniform. In some regions there is evidence that an increased production of marketed crops (notably hybrid maize for sale to the cities) has been at the expense of traditional subsistence food production and this is associated with increased problems of child malnutrition. The increased workload on women – who help with the marketed crop as well as subsistence food production – is also giving grounds for concern.

The shortage of foreign exchange has also severely hit agricultural supplies, especially during the auction period. Companies which provided veterinary drugs and chemicals for dip-tanks were unsuccessful in bidding for foreign exchange: the result was severe shortages and widespread animal disease, especially in the poorer Eastern and Central provinces.

Although there have been some positive changes, a number of defects in the state agricultural system remain. The hard-up state-run marketing board is often late in supplying vital inputs and in paying farmers for their produce. Distribution systems remain poor, in part because of transport problems due to the

shortage of spare parts for vehicles. It is estimated that at least six per cent of the 1986 harvest, for example, remained uncollected and was later destroyed by rains.[18] Poor storage and handling in the distribution of maize is a perennial problem, causing the loss of about one twelfth of Zambia's total maize production.

Higher Producer Prices: Are They the Answer?

The argument in support of the World Bank's strategy of increasing producer prices is that this will reduce the present inequality between rural and urban areas. Thus, since the majority of the poor live in rural areas, Zambia's poor will benefit. Oxfam experience in rural Zambia, however, shows that although increasing producer prices is perhaps a necessary step towards helping the rural poor, it is not in itself sufficient. Without additional measures, the poor can be even worse off as a result of such increases.

Many farmers have not benefited from higher producer prices. Farmers generally have greater incentives to grow more, but poorer farmers do not have sufficient land and labour, or the access to credit, oxen and tools, to allow them to respond. As the richer farmers increase their output, those who cannot respond become relatively poorer.

Women farmers are particularly vulnerable in this situation. When the prices of inputs (i.e. fertilisers, oxen, tools etc.) increase at the same time as producer prices, only farmers who can get credit can afford to increase production. Women farmers seldom have access to credit in their own right. Attempts to devise a credit scheme have come to little. Some financial institutions have lost millions of kwacha in loans to farmers.

The Plight of the Subsistence Farmer

While government spending on agriculture has increased in recent years, relatively little assistance goes to poorer farmers. This is not only disappointing on humanitarian grounds, it is also economically inappropriate. Statistics show that small farmers are economically more efficient than commercial farmers, even though their yields per hectare are less. If their labour is

valued at K8 per day (the same rate as for a commercial farm labourer) then the productivity of different categories is as shown in the Table below.[19] Furthermore, small farmers (with less than 2 hectares) use only a quarter the amount of fertiliser used by farmers with 10-40 hectares of land.

Table 3.

	Oxen Technology Farmers	Small Commercial Farmers	Large Commercial Farmers
Yield per hectare (90 kg bags)	25.28	45.00	61.10
Cost per bag (kwacha)	73.72	79.44	82.48
% of Zambia's maize produced	61.00	17.00	22.00

Source: Central Statistical Office, Lusaka.

According to a recent report, the cash income of subsistence farmers fell by 13 per cent between 1975 and 1985.[20] This sector has borne the brunt of the recession in all its aspects.

A further drawback is that devaluation and the withdrawal of subsidies from such items as fertiliser mean that many poorer farmers cannot afford to use them. Despite the bumper maize harvest of 15 million bags in 1988, the Zambian farming community has been dogged with severe constraints. These range from poor prices to the shortage of implements, lack of supplies, and a chaotic transport system. The fact that 80 per cent of the produce is grown by peasant farmers has exacerbated the problems. In the Southern Province – once dubbed the maize belt of Zambia – yields have dwindled to less than half their previous levels, as farmers have become unable to obtain even maize seed.

A Choma farmer, Stephen Hamweenda, recalls that his maize and sunflower fields used to yield 15 bags per acre, but they are now producing much less. He cannot afford the high cost of fertiliser even when it is available, which it frequently is not. Farmers like Hamweenda complain that, at K82 per 90 kilo bag, the price they get for their maize is too low, when they take into account the costs of seeds, fertiliser and other items. The price

of fertiliser, at K78 for a 90-kilo bag, has shot up since the Government removed subsidies, and the shortage of such items as grainbags has affected crops because huge amounts of produce go to waste. The farming community has called on the Government to liberalise prices, to allow market forces to determine the cost of produce.

The State or Market?

Whatever the disadvantages of the present state agricultural marketing system, it is very unclear whether replacing this with a private marketing system, as the IMF and World Bank recommend, will help the poor.

Policies designed to 'liberalise' markets were introduced in 1982. Prices of all but essential commodities were decontrolled and marketing restrictions were lifted. In January 1986, marketing restrictions on maize and fertilisers were nominally lifted, but because the Government continued to set fixed prices (which in effect made it impossible for private traders to make any profits) a state monopoly remained in practice.

Farming families that Oxfam works with in Northern and Eastern Provinces like the idea of being able to sell their produce to whoever they choose. In Eastern Province farmers already sell much of their groundnut production to private traders who pay the same rate as the state company but make payments on the spot, not after several months' delay. However, they are deeply suspicious as to how a wide private marketing system would work in practice. Most of all they fear that under such a system traders would only bother to collect produce from farmers close to paved roads.

Privatisation of trade would probably result in the state system becoming a 'B-grade' service, which would deteriorate as the wealthier farmers switched to the private sector. Close supervision of the private sector, and considerable subsidy of the state marketing system, would be required until it can be shown that the private sector provides an efficient and fair service to all farmers – big and small, close to main roads or remote. Those who wish to see free market methods introduced as swiftly as possible oppose such intervention. It should, however, be remembered that a state marketing system for distributing basic foods has been in place since well before independence. It is

not necessarily the most efficient service, but it is a building block of rural society. To attempt to dismantle the state distribution system too fast is likely to lead to increased rural inequalities, poverty and tension.

There is some agreement that the state marketing system needs reforming, but this has proved politically difficult. The difficulties were compounded by Zambia's adjustment programme. Foreign exchange shortages increased the inefficiencies of the state organisations, and there has been a drain from the state to the private sector, especially to foreign-based companies that did well in the auction.

Controlling Prices

After the break with the IMF, strict price controls were reintroduced for a wide range of goods in a bid to halt rising prices. The disadvantage of this was that it encouraged the growth of a black market, as traders withdrew their products from the official low-price markets.

Poorly planned and blanket price control also leads to considerable resource wastage. The cost of transport is effectively ignored. At present a considerable amount of government money is spent transporting maize and maize-meal up and down the country. Maize is trucked from Northern Province to Lusaka where it is milled, and then the maize-meal is trucked back. If the costs of transport were included it would be more efficient to mill the maize locally – and this would also provide employment in a poor region of the country.

Adjustment: A Help or a Hindrance?

Undoubtedly the Government is correct in giving priority to the agricultural sector. Malnutrition is rising rapidly, food imports drain the country's scanty foreign exchange, agricultural products offer new export opportunities, and the bulk of the country's poor are dependent either directly or indirectly on agriculture.

Some aspects of Zambia's adjustment programme in recent years appear to have helped farmers – or at least some groups of farmers – but others made little impact on priority groups because vital blockages had not been removed first. Perhaps a

key message to derive from these experiences is the pivotal importance of sequencing.[21]

Devaluation and financial liberalisation can provide important incentives for farmers, if, first of all, provision of inputs and the marketing of outputs are made efficient. Without the latter, only the better-off farmers will benefit and others will merely see increased interest rates and higher prices for equipment and inputs.

Furthermore, devaluation by the mechanism of the auction, without first building in safeguards to ensure that priority inputs for agriculture were imported, threatened the very sector that devaluation was intended to benefit.

Improving agricultural prices can help small farmers if they have access to credit, sufficient land and the extension services they need. For women farmers in particular these questions of access need to be addressed first, before agricultural prices are increased.

Encouraging more production of marketed, as opposed to subsistence, crops can help the rural economy. It can also damage women and children unless attention is paid first to ensuring that the farming families themselves have enough to eat. Since this relates particularly to the distribution of wealth *within the family*, it is vitally important to establish ways of involving women in such agricultural policy shifts.

Support for Small Farmers

Twenty-three years after independence, Zambia continues to import food, despite having the potential to produce more than enough to feed its population. In addition, as we have seen, agricultural policy has been heavily biased towards the production of hybrid maize. This poses major difficulties for many small farmers, especially women, because hybrid maize cannot be stored at village level, nor used for next year's seed, nor ground by hand. It can only be sold to generate income, some of which is used later in the year to buy back the same maize in the form of mealie meal. Boosting incentives to producers in isolation is unlikely to address these problems, because many of the poorest households lack the labour, credit, extension advice and other inputs that would enable them to take advantage of higher producer prices.

If small farmers are to secure their own food supplies, it is clear that more food has to be retained within the village. Grinding mills can help here by enabling hybrid maize to be milled, stored and consumed locally. Improved storage methods should also be a priority.

To ensure adequate food for household use, some of Oxfam's project partners are attempting to encourage people to build on indigenous agricultural knowledge and techniques, and the informal networks of production and exchange. This does not necessarily mean discouraging cash-crop production, given people's obvious and growing need for cash incomes. Rather, it requires the provision of accessible credit and other services so that production for household consumption and for sale can be increased simultaneously.

Cinci Wa Babili – Northern Province

The long-established agricultural project at Cinci Wa Babili is attempting to encourage local farmers to build on their existing knowledge as well as to introduce new farming methods, such as the revival of organic farming methods (*fundikila*) to reduce dependence on expensive fertilisers.

An important emphasis of Cinci is on the use of ox-traction. Without an ox plough, a family cannot successfully farm more than about five limas of land (about 2.5 acres). With a plough, up to five hectares is possible, and the oxen can be used to clear new land. Cinci breed and train oxen, which they sell at K1,600 per pair. They arrange loans where needed to help poorer farmers and provide training in the use of oxen.

Since ox-traction is a relatively new idea in the region, some farmers have been rather reluctant to take the plunge. To promote interest and confidence, Cinci organised a ploughing competition, which over 700 people came to watch. The day was highly successful and enjoyable, and since then Cinci has been inundated with requests for oxen.

Mr Choma, Chairman of one of Cinci's village societies, was until a few years ago a fireman in Ndola, a Copperbelt town. He decided to move into farming because his family's living standards were being eroded by soaring prices. Initially he had just two limas of land. Now he has 15 limas on which his family grow maize, groundnuts, millet, cassava, beans and some veg-



John Clark: Oxfam

Edward Banda is only 18 and so is too young to get a loan from state schemes. But KVDO lent him enough to plant one lima of land with hybrid maize. The harvest was good and Edward can pay back the loan and have a surplus to contribute to the family income.

etables. His family eat mostly millet and sell the maize and groundnuts. He is one of the first farmers to take to ox-ploughing. Cinci has found that the growing number of farmers who have returned to the rural areas from the Copperbelt are often the most progressive and the first to take to new ideas. Mr Choma is now turning to organic farming because fertiliser prices have become so high.

Khuzana Village

It is important to recognise that different households face different sets of constraints, requiring specific answers. In situations of inequality within the community or family (for example, between women and men), blanket solutions tend to be ineffective.

In the village of Khuzana, the people have formed their own development organisation, KVDO, supported by Oxfam. In 1987 yields in Khuzana were hit by poor rains and the high cost and late delivery of fertilisers. The harvest was the worst in 30 years.

The high price of fertiliser related to the kwacha devaluation and to the reduction in subsidies demanded by the IMF. The price of a 50 kilo bag rose from about K27 for the 1985-86 season to K80 – a sharper increase than the maize price. The late delivery stemmed from inefficiencies in the agricultural marketing company, NAMBOARD, and its lack of access to foreign exchange.

In an average year in Khuzana, one lima of land (half an acre) should yield about a ton of maize which, after paying for seeds, local fertiliser and top dressing, would provide a profit of K800 at 1987 prices.

The average family in Khuzana needs to buy about 24 bags of roller meal per year, costing about K900. (Normally farmers sell the bulk of the maize they produce and then buy back mealie meal as needed.) In addition, basic essentials (such as paraffin, soap, salt, washing powder, cooking oil, fish and vegetables) cost approximately K80 per family per month. Other needs such as clothes and blankets cost a further K50 per month. In total then, a family needs approximately K2,500 per year for minimal survival. To earn this level of income from agricultural production requires a minimum of three limas of land. Two years ago, say the people of Khuzana, they could have survived comfortably on two limas.

Of the 135 families in Khuzana, a third own two limas of land or less. For them, economic crisis and adjustment (especially rising fertiliser prices) has proved damaging. There is plenty of virgin land available for cultivation, but without oxen it is difficult to clear, and without access to credit there is little chance of the poor being able to farm it.

The KVDO in Khuzana has organised various schemes. In one scheme, in 1986, 50 of the poorest people received loans to help them buy seeds and fertilisers and start farming. Of these, 28 were women – most of them divorced, widowed or single – and nine were new school leavers who had dependents to support. Even though the yields were very poor in 1987, most of the borrowers were able to repay their loans and make a profit.

Edward Banda, aged 18, looks after his grandmother and his two young brothers. After his father died, his mother became mentally ill and left the village without trace. Now Edward is trying to pick up the pieces of his life and be the family breadwinner. He is too young to get a loan from the state schemes, so he borrowed from KVDO, which enabled him to clear and plant one lima of land with hybrid maize. In addition, he and his grandmother grew traditional maize for their own use on his father's piece of land. The one lima yielded just six to eight bags of maize and, after repaying the loan, will contribute a valuable K3–5000 to the family income.

In addition to making loans to individual families, KVDO have also helped 27 women form a women's club and clear and plant a 15-lima field. The yields were very disappointing, but the women are enthusiastic about their new activity and are determined to improve their yields. News of the women's club has spread to neighbouring villages and groups of women frequently come to Khuzana now to ask the women's club for help and advice in setting up similar schemes elsewhere.

Chapter Five: Health and Education under Threat

Rising Hunger

It is difficult to rank policy decisions according to how much suffering they have created. It is clear, however, that a combination of health spending cuts, insufficient attention to domestic food production and deepening economic crisis, combined with drought, have helped to create a sharp drop in Zambia's nutritional status and health and a sharp rise in child mortality, during the 1980s.

Over half of all deaths in Zambia are of children under ten years of age, malnutrition being the single biggest cause. Recently increasing child malnutrition has been reflected in rising hospital admissions caused by Protein/Energy Malnutrition (PEM) among the under fives.

Moreover, an increasing number of infants admitted to hospital die, since the degree of malnutrition has become more severe.

As only the most severe cases of PEM are admitted to hospital in the first place, however, these figures represent just the tip of the iceberg. Maternal malnutrition, malaria and anaemia have resulted in an increasing number of low birth weight babies and so perinatal and infant mortality rates in the country are rising.

Other hospital figures show that malnutrition as a proportion of all child deaths in hospital doubled between 1976 and 1984 [22] and there is recent evidence that this alarming trend is continuing. [23] The death rates from other poverty related diseases have also risen between 1981 and 1986. The picture would have been even bleaker had not a major immunisation campaign helped to halve the death rate from measles over this period.

A recent survey conducted in Eastern Province found that one third of all children were malnourished and that children in households growing cotton were more at risk than those in households producing subsistence foods. This indicates grounds

for concern about agricultural development projects which are encouraging the production of export crops without looking carefully at the question of household food security.

The province which is most seriously affected by child malnutrition is Northern Province where one survey shows malnutrition rates among the under-fives as high as 63 to 69 per cent and growth stunting in 70 to 77 per cent of all children. [24] Again there is a disturbing correlation between commercial farming and child malnutrition. The exact reasons for this are not clear. The erosion of traditional survival strategies seems to be as important a factor as the reduction in millet production. The results of the survey must, however, call into question the current emphasis on maize and export crops.

UNICEF has estimated that the share of child deaths (under fives) attributable to malnutrition in Zambia rose from 29 per cent in 1977 to 43 per cent of all child deaths in 1983. [25] It attributes this to deteriorating economic conditions and drought.

Growing Ill Health

As hunger and disease have increased, the health services have been cut back sharply. Under pressure from the IMF and mounting budget deficits, the Government has sought to cut all spending. Even before this move, health care – particularly in rural areas – had paid a heavy price. Women, especially those who are heads of households, have been worst affected.

Under the IMF programme health represented a declining share of the government budget, and the proportion of the dwindling health budget spent on primary health care in rural areas and on essential drugs diminished markedly. One of the reasons for this was the desire to protect employment in the health system, but this meant a relatively high salary bill.

The most critical problem for rural health centres has been the supply of essential drugs and other necessary equipment. Most essential drugs are imported and their prices have soared. It is estimated that the real value of the 1986 health budget was only a quarter of its 1983 level. [26] This has led to shortages of even key drugs such as penicillin and chloroquine. Some rural health centres have been out of stock for up to 30 weeks.

One unemployed miner from the Copperbelt town of Mufulira said: "In our clinic there are no drugs any more. That's

what the IMF means to us, but I don't understand what these letters stand for."

The shortage of foreign exchange has also hit supplies of other essentials. UNICEF, for example, say that all their programmes have been affected. [27] Immunisation schemes collapse as the transport to deliver vaccines becomes difficult to obtain or as kerosene to run the refrigerators becomes unavailable.

Rural areas have been much more seriously hit by shortages than urban areas. Provinces such as Eastern and the Luapula are worse affected than the wealthier Southern and Copperbelt Provinces. Within all provinces, however, it is the health centres furthest from the provincial capital which are worst hit.

The salaries and wages of health sector workers have also declined. Doctor's salaries, for example, have failed to keep pace with inflation, encouraging a brain drain as doctors find better paid jobs abroad. It is estimated that by the end of 1987 Zambia had a shortfall of some 549 doctors.

Complaints lodged by doctors about existing conditions of service include: the lack of adequate accommodation; long hours of work with little material compensation; the existence of high inducement allowances paid for expatriate doctors compared to low levels of pay for Zambian doctors. These grievances were expressed in a doctors' strike in May 1987 and in a series of go-slows by health sector workers.[28]

Under the NERP the budget for primary health care has been significantly increased from just over 11 per cent of the health budget to nearly 29 per cent. But the shortage of drugs continues to be of major concern to the Government. A recent report by a parliamentary committee on social services, for example, expresses deep concern about the shortage of drugs, especially in rural areas. It stresses the urgent need to establish a more efficient distribution network.[29]

Meanwhile, the introduction of fees for health care has implications for users of the service. Under the new scheme foreigners living in Zambia will be required to pay fees for all health services from consultation to treatment. For members of the international community resident in Zambia, this will not be a great hardship since salaries are normally high and many expatriates already use private health services. For the majority of poorer non-Zambians, this move has much more serious consequences. They will have to pay K115 in specialist and K75 for

general practitioner fees, in addition to K100 a day plus treatment costs for a bed in the Lusaka General Hospital.

For Zambians the new ruling spares them from paying for treatment across the board in a clause which states that payment is to be restricted to services categorised as non-life saving. This means that they will have to pay from K10 to K20 for medical tests and between K2 and K20 for medical reports. More seriously perhaps for many families is that the costs of dying are to be increased yet further. If a family wants a post mortem it will have to pay K50, adding to the costs of funerals many can already ill afford.

There are deep fears that the new scheme will hit the poor very hard unless the Government sets up a separate scheme for low income families who cannot afford to pay for health services, life saving or not. A major problem with such schemes is that they tend to eat up vast quantities of scarce administrative resources. In addition, it is feared that the introduction of fees for health care means that user fees for other basic services are soon to follow, which will significantly reduce access.

Schooling For All on the Way Out?

Just as government spending on health services has decreased dramatically, so too has the education system been hit. Between 1976 and 1981 government spending on education plummeted from K55 million to K24 million as population increased.

By 1984 the pupil/teacher ratio had risen to over 50:1.[30] The decline in education services has had a particularly negative effect on girls and young women. Although girls are almost as likely as boys to be enrolled at primary schools, less than two thirds of them complete their secondary school studies and less than a fifth go on to university. In 1985, the female illiteracy rate was over one and a half times that of males.[31]

In 1986, the Government introduced school fees for secondary boarding school places which were previously free. This measure, designed to help cut the education budget without cutting actual services further, has had a particularly serious impact on poor rural families. This is because most rural children live far away from schools and therefore have to board. The 100 kwacha per term fee is not high, but it is well out of the reach of many poor families. It is estimated that four thousand children

dropped out of school as a result.[32] There are fears that girls will suffer particularly badly since many parents will chose to sponsor their sons rather than their daughters.[33]

Women Bearing the Brunt

The fact that it is often women who have borne the brunt of the economic crisis is rarely given much credence by policy-makers, donors or analysts. Yet it is clear at the community and household levels that it is often women who have lost out most and who have been forced to shoulder additional economic and other burdens.

As has been demonstrated, the reduction of government expenditure on basic services and the introduction and/or multiplication of user fees has meant that fewer people have access to an increasing number of basic services. In addition, it is often members of remoter, rural and urban shanty town communities who have been hardest hit. Within these communities it is often women, especially female heads of households, who are worst affected.



Young Trainees on the carpentry course run by HUCA.

John Clark: Oxfam

Support for Basic Services

It is difficult to know whether the role of NGOs in the provision of basic services such as health care and education should increase. Such services are usually seen as one of a government's fundamental responsibilities; on the other hand, the Zambian Government is extremely short of money. There are no ready answers to such questions, but already Oxfam's work is changing to reflect the new realities. For example, the Eastern Province Primary Health Care Programme deliberately sets out to support government extension workers through training, discussion and material resources, to help them regain the commitment, motivation and imagination without which nothing else appears possible.

Eastern Province Primary Health Care Programme

In response to the pressure on government health services in rural areas as budgets are cut and poverty-related diseases increase, Oxfam is trying to help strengthen primary health care (PHC) services by working alongside government programmes. More than a third of Oxfam's 1986 budget for Zambia was allocated to health programmes and the largest undertaking was the Eastern Province PHC Programme. In this, Oxfam is providing training support, transport and some recurrent costs for PHC workers in three districts (Chipata, Lundazi and Katete).

This support ranges from provision of bicycles, motor-scooters and vehicles to seminars and stationery. Two doctors at the small hospital in Lundazi help to supervise the development of the PHC programme, but they are finding conditions extremely frustrating. Last year they had to suspend a major immunisation campaign in the area because the supply of disposable syringes ran out. They tried to sterilise the syringes for re-use, but this proved impossible. In June 1987, tuberculosis and leprosy drugs ran out and the only antibiotic in stock was injectable penicillin. As shortages worsened, a black market in essential drugs grew up.

The Lundazi Hospital – the referral hospital for a population of 200,000 – had five midwives (half the required number) in 1987, who supervised 1,400 births per year. As the incidence of

underweight babies has risen, the Danish volunteer organisation that helps support the hospital and the Zambian staff have started producing their own wood and glass incubators, using light bulbs to provide heat.

The drug supply for the hospital and the 13 rural health centres it serves, arrives regularly, but the van is increasingly empty. The hospital has suffered shortages of soap, oral rehydration salts and other essential supplies and drugs. Next to the hospital is a three-quarters built new children's ward – construction work stopped in 1981 when the money ran out. The new ward is badly needed, but for a health care service that cannot even afford disposable syringes, building projects are a low priority.

Running costs for the project are so stretched that by June 1987, the budget for fuel was exhausted and the meagre heap of firewood left was not enough for cooking, sterilisation, laundry and all other needs for more than two days.

Over the last year, however, all three districts involved in the programme have made innovations in their work that hold some promise for the future.

Katete district has introduced 'community growth-monitoring' in a number of pilot villages. Chipata has formed multi-sectoral PHC committees at district and village levels. Lundazi has embarked on a second round of village-based workshops at which issues and problems relating to PHC can be discussed. All these innovations point to greater acceptance of the need for participatory problem solving approaches to PHC. People are no longer so afraid to change their approach if they find that things are going wrong.

However, this gradual reorientation is still only two years old. All three district initiatives face serious problems in implementation, largely because the approaches that are being adopted are so new. With increased support, the districts have a chance of moving away from the dominant model of 'selective' PHC towards 'comprehensive' PHC based on approaches to the real cause of ill health: poverty.

Chapter Six:

A New Path Forward

It is clear from the above that economic decline and economic policy have impacted on peoples lives in very significant ways. What then are the alternatives to structural adjustment as portrayed above?

Back to the IMF

One option is for IMF lending to be renewed under less stringent conditions. A new facility has now been established (the Enlarged Structural Adjustment Facility) to allow the IMF to make longer terms loans at lower rates of interest.

Whether IMF lending, or indeed aid from the donor community more generally, is to be renewed and enlarged depends greatly on the policy reforms the Zambian Government agrees to introduce and the flexibility of these donors.

If the stipulated reforms are seen to be half hearted, it is likely that the donor community will turn its back on Zambia even more than is the case to date. If the donors remain inflexible, then the Government of Zambia is unlikely to court the IMF or World Bank.

Some of the basic objectives of the Zambian Government and of the donor community are not that far apart. Both want to curb the budget deficit, make foreign exchange allocation more orderly, stimulate agriculture, strengthen welfare services, reduce subsidies and develop alternatives to copper exports. A crucial difference concerns the pace of such change and in some cases the best, perceived means of achieving the stated goals.

Adjustment with a Human Face

UNICEF, many NGOs and others argue that future adjustment programmes should start not just with the single objective of correcting economic imbalances but with additional objectives of

promoting the type of development which will particularly help the poor and protect essential health, education and other services needed by the poor. The World Bank and Western governments are increasingly coming round to accepting these principles, though there is as yet no adjustment programme in place which fully reflects them.

The broadly defined UNICEF strategy of 'adjustment with a human face' shares some features of the World Bank strategy 'protecting the poor during the period of adjustment'. Both argue, first and foremost, that some form of structural adjustment is necessary and desirable if low income countries in Africa are to conquer the current decline their economies are suffering. Secondly, it is believed that the social costs of structural adjustment are both largely transitional and susceptible to moderation, provided adjustment programmes are well designed and include specific measures to protect the poor from declining living standards and deterioration of the quality of their lives.

In essence such strategies emphasise the need to orientate adjustment programmes to the rapid revival of economic growth and the more productive use of resources. In addition, external resources are seen as essential in order to cushion short term declines in consumption and investment.

Specific elements of this alternative include a number of different components. Emphasis is given, for example, to ensuring that social expenditure on health and education are 'cost effective'. In addition, it is argued such expenditure should be targeted at the poor. In the education sphere, this targeting can be achieved through redirecting resources away from university and secondary education to basic, primary education for all. This implies the introduction of substantial fees for higher education and low or no fees for basic primary schooling. In the health sphere, emphasis is put on preventative care and low cost basic services with reduced emphasis on curative care and high cost interventions.

It is also argued that it is necessary to compensate the poor directly for drops in their living standards brought about by economic decline and/or structural adjustment. For example, if consumer subsidies are eliminated a system of food rationing, targeted food distribution, targeted supplementary food programmes, food stamps and/or food for work programmes, need to be introduced.

A major reason why structural adjustment packages have tended to hurt poor people, it is suggested, is that certain

policies have been introduced too quickly with insufficient external finance. Their impact is thus less likely to be negative if they are introduced more gradually and external financial assistance has been secured.

The introduction of specific, supplementary policies designed to restructure production in favour of the small-scale – urban and rural – service sectors upon which many poorer families depend are also recommended.

Finally, both UNICEF and the World Bank stress the need to monitor the living standards of poor and vulnerable groups constantly and effectively throughout the adjustment period in order that policy changes can be made and/or compensatory programmes can be introduced accordingly.

The differences between UNICEF and the ‘poverty school’ of the World Bank lie largely in the relative weights they would give the ‘growth’ and ‘equity’ components of adjustment programmes and in the measures they would pursue to achieve the desired growth.

Beyond Adjustment

Some commentators would go further than the above approach. They argue for a fundamentally new development model whose over-riding objective is the elimination of poverty. Economic growth and increased agricultural production are ingredients of such an approach but are means rather than ends. The priorities would be to concentrate particularly on the *internal* needs of the country (rather than on export markets) and to enable the poor to realise their full economic potential through such measures as land reform, progressive taxation and innovative credit schemes. Such an approach would necessitate careful state intervention but must not be an excuse for parastatal inefficiency or nepotism.

Many Zambians and some more optimistic international observers, believe that the New Economic Recovery Programme represented a first step towards such a strategy in its emphasis on ‘growth from our own resources’.

They believe that one of the main reasons for Zambia’s ‘domestic policy inadequacies’ is that such policies have been imposed from the outside by donors and lenders and therefore have only been half-heartedly implemented. (Others reply that this is merely an easy excuse.)

They say that the current recovery programme may well have suffered from internal inconsistencies and failed to address certain key issues, but because it was developed by Zambians themselves it stood much more chance of working.

It is too early to judge whether such views are characterised by an overdose of optimism. There are signs, however, that some policy makers are more in favour of returning to a more conventional model of adjustment than others.

Chapter Seven: A Shared Responsibility

IMF Under Fire

A number of the damaging effects of the debt crisis and adjustment policies seen in Zambia have been witnessed in other African countries. As a result, the IMF approach to structural adjustment has increasingly come under fire for being too harsh in the African context and insensitive to the needs of the poor.

In 1986, the EEC Economic and Financial Council (the Council of the Finance and Treasury Ministries of the Member States) urged that the IMF “present the necessary conditionality in a politically more suitable way in individual countries”.^[34] This was a mild rebuke aimed at ensuring that the IMF take more account of the underlying social needs in those countries.

The IMF argue that their mandate is to tackle short-term balance of payments difficulties, not to be a development agency and certainly not to be responsible for welfare schemes. That is so, but the charge levelled increasingly at the IMF is that their operations in Africa frequently *undermine* the welfare of the poor – and threaten the development process itself, in pursuit of short-term economic targets. In so doing, the IMF is accused of violating its own rules.

Maurice Williams, economic adviser with the Overseas Development Council in Washington, points out that “nothing in the Articles of Agreement of the IMF requires repayment of such magnitudes in such short terms”.^[35] Indeed, Article 1(v) of the Agreement specifies that IMF programmes must not resort “to measures destructive of national or international prosperity”. The IMF’s new guidelines on conditionality go further, and require the fund to pay due regard “to the domestic, social and political objectives, the economic priorities and circumstances of members, including the causes of their balance of payments problems”.^[36] These guidelines also allow the IMF flexibility in setting performance criteria.

In 1985, the then Governor of the Bank of Zambia said that IMF conditionality “is becoming more difficult and politically

more unacceptable... there should be a human element in whatever conditionality we have to bear from the Fund. There is no point in accepting a programme that, following mass demonstrations, has to be scrapped".[37]

A number of academics in Zambia have stressed that donors should not seek to promote economic reforms which will lead to high inflation and collapsing basic services unless adequate compensatory measures are guaranteed. They also call for much more debt relief and for a more liberal environment in international trade.

Representatives of some of the main official aid agencies in Lusaka have also been critical of the IMF. They have argued that the IMF was too inflexible and took a shortsighted view. Some have pointed out that this is the fault of IMF instruments, not necessarily their staff. Nevertheless, many argue that it was clearly impossible for Zambia to repay the IMF loans in the short time stipulated. They argue that loans for at least ten years with no more than two or three per cent interest are needed if Zambia is to diversify successfully from copper.

In June 1987, Zambian newspapers reported the Director of the IMF's African Department admitting that the IMF made serious miscalculations in drafting the Zambia programme, in particular by anticipating unjustifiably high prices for copper.[38] Many observers, including Oxfam,[39] had warned that the present approach to adjustment in Zambia was creating intolerable social strain and was politically unrealistic, but it was not until Zambia broke with the IMF that there was any public recognition from the Fund that they had got it wrong.

Task of the West

This report has argued that the responsibility for Zambia's debt does not lie with Zambia alone. It is a *shared responsibility*, with colonial patterns of economic development and policies of Northern institutions playing a huge role in creating the debt. Zambia's debt was certainly not the work of Zambia's poor. Yet it is these people, as we have seen, who are paying the heaviest price.

For Northern governments to criticize Zambia for its policy weaknesses whilst ignoring the impossible drain caused by debt and the hostile economic environment, is to create a

smoke screen which conceals the responsibility which must be assumed in the North.

Northern governments are in a good position to do something to alleviate the crisis, since it is these governments (and the multilateral organisations of which they are members), rather than the banks, which hold most of the Zambian debt.

At the end of 1985 Zambia's US\$4 billion debt comprised nearly 50 per cent bilateral loans (notably from the UK, US and West German Governments), just over 30 per cent multilateral loans (more than half of which is from the World Bank and one seventh from the EEC), just over 13 per cent loans from financial institutions (chiefly IMF) and 6.5 per cent suppliers' credits. It is clear, then, that these governments (including the UK Government) could, given the political will, act directly to ease Zambia's debt burden.

Before its break with the Government of Zambia, the World Bank called on the donor community to provide additional finance of US\$150 million a year in order to reduce Zambia's debt service ratio to between 40 and 50 per cent of exports.

Many donors pledged aid in 1986 to support the foreign exchange auction. Now that this is scrapped and Zambia has broken with the IMF, some of this aid has been cancelled. While some donors, such as the Netherlands and Italy, have redirected their aid to other purposes (such as fertiliser supply), the British Government has simply withdrawn £30 million of aid that was pledged in the 1987 calendar year (other aid, however, totalling about £11.5 million for Technical Co-operation, Integrated Rural Development Projects and other schemes, is continuing). In 1986, Zambia accounted for the UK's biggest aid programme in Africa.

The Government of Zambia clearly faces very real political difficulties in stabilising the economy and the donor community should recognise these. For example, the Government clearly needs some mechanism to ensure the availability of foreign exchange to pay for essential imports, and the withdrawal of subsidies on basic foods is socially and politically unacceptable unless a workable mechanism is already in place to distribute food to vulnerable families.

While the Government of Zambia's economic reform programme does not go far enough in the eyes of most official donors, it should be remembered that, by their own admission, the IMF-inspired adjustment programme tried to go too fast.

Donors are sceptical about the seriousness of the Government's efforts to reduce its budget deficit through setting a timetable for eliminating food and fertiliser subsidies and reducing the cost of its civil service. They also consider the kwacha to be over-valued. These issues are under consideration by the Government, however. The Government is, for example, exploring ways of replacing the present food subsidies (available to everyone) by subsidies targeted at the poor, but it might require help from the donor community to achieve this.

Similarly, there is consideration of a gradual phasing out of fertiliser subsidies, but at a rate that does not upset production targets. National food security is, understandably, an important element of the Government's strategy.

What Can We Do?

It is clear that an agenda needs to be drawn up for, say, the next five years, and that there needs to be a new form of dialogue between the Government of Zambia and the donor community, and a genuine willingness on behalf of the latter to stand by the people of Zambia in their time of greatest need. This dialogue must go beyond debates about domestic policy weaknesses and look at the political difficulties of introducing currency and market liberalisation in a country under crisis. It must look at the regional context of Zambia's difficulties and take account of the destabilising influence of South Africa.

It must also address the crucial issue of sequencing. If market-oriented reforms are to be introduced, what must be put in place first to ensure that the poor are not only protected from these reforms, but actually benefit from them. The task for the West includes an intellectual effort to understand Zambian economic conditions and capabilities. Had that intellectual effort been made earlier, the story of the last few years could have been very different.

It is easier to see where the problems are than where the solutions lie. It is only in recent years that Oxfam has begun to look at the connection between the debt crisis and poverty in Zambia and other African countries. We are convinced of the gravity of this connection and have initiated a number of research projects and studies to gain more understanding of it. No doubt this experience will help Oxfam, speaking with and

for its partners, to propose courses of action designed to address the debt problem in the future. What follows is an initial set of recommendations which we hope the British Government, other Western governments and their institutions will accept as an appropriate and immediate response to the urgent crisis faced today by Zambia and its people.

British Aid

The British Government should urge other bilateral donors to join with it in constructing a well-coordinated, sympathetic and flexible rescue effort for the Zambian economy. This should not take the form of a further array of disconnected development projects but 'programme aid' linked to a new economic reform programme. Such a programme should be in keeping with the Zambian Government's own priorities, should respond to the needs of the poorest and should enable a steady erosion of current economic imbalances.

Programme aid of this type might be used to help provide essential imports needed by the agriculture, health, education and other crucial sectors.

Economic Community Aid

The British Government should seek increased EEC aid especially for poverty relieving programmes. EEC programmes should not be dependent on IMF-endorsed adjustment programmes.

Recognise Difficulties of Government of Zambia

The international community should give more recognition to the political difficulties the Government of Zambia faces in attempting to stabilise the country's economy.

The emphasis of the current reform programme is on *production*, rather than consumption, and strategies spelt out in this regard should not be rejected by the donors. A determined

international effort should be made to meet Zambia's financing gap in support of elements of the new reform programme, even if donors don't agree with the whole package.

Debt Relief

A special debt relief package should be agreed for Zambia in keeping with the agreed programme for the Group of Seven major industrialised countries to offer some debt relief to seriously affected African countries. This would include the writing-off of some debt, longer rescheduling periods, interest rate reductions (on Zambia's export credit debts and IMF loans) and longer repayment periods for IMF and World Bank loan repayments. This could be achieved by bilateral donors refinancing multilateral debt and agreeing to meet Zambia's payment arrears to those institutions (a proposal that has been made by some Nordic donors).

Policies for the Poor

Any future IMF or World Bank lending should be at lower interest rates, with more flexible repayment terms, and carry conditions designed to enhance not diminish the well-being of the poor. The likely impact of economic policy changes on the poor should, in future, be carefully assessed before they are decided on and then carefully monitored.

Terms of Trade

In the short-term a determined international effort should be made to help improve Zambia's terms of trade. This would include substantial efforts to increase and stabilise the price Zambia is paid for copper. This could possibly be achieved through the EEC Sysmin mechanism and other international commodity support schemes. Furthermore, international markets should be opened to other Zambian exports, particularly of manufactured and processed goods, and Northern governments should support regional trade initiatives in Eastern and Southern Africa.

Such an initiative might include: abolishing tariffs on processed copper products; market research and investment in industries that could fill a regional gap; and improving Zambia's transport routes with the outside world, in particular through Tanzania and Angola.

It must be recognised that part of a longer-term solution means finding ways of diversifying away from copper.

Support SADCC Countries

Western governments should take stronger and more co-ordinated steps to end apartheid in South Africa and thereby remove a major economic drain on the SADCC countries, Zambia included. The effects of South Africa's regional policy exacerbate the other causes of economic decline.

The donor community's policies towards Zambia should take as a starting point a careful analysis of the economic effects of destabilisation, in the likelihood that these will be stepped up in the future, and should include a commitment to make a generous allowance for this issue.

If the Zambian people are not to suffer the effects of economic decline more than they have already, but are to be supported in their efforts at reconstruction, Zambia needs more aid and more 'debt forgiveness'. The aid should address the pressing needs of the poor and reflect their priorities. Debt forgiveness should not carry conditions that further reduce their living standards.

Zambia needs serious pressure from the industrialised nations to change the political situation in Southern Africa; to make development possible. It needs a viable economy which will permit growth with equity. As a starting point the Zambian people need to be 'forgiven' for sins they did not commit.

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