Zambia Country Assistance Review
Turning an Economy Around

Gladstone G. Bonnick

A World Bank Operations Evaluation Study
Zambia Country Assistance Review
Turning an Economy Around
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Zambia Country Assistance Review
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Gladstone G. Bonnick

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Foreword

This review evaluates the Bank's activities in Zambia during 1983-95. It assesses the relevance, efficacy, and efficiency of the country assistance program, so as to establish accountability, derive lessons, and provide recommendations for future actions.

Throughout the review period, Zambia's foremost challenge was to reduce its dependence on copper exports and develop a viable, market-oriented, and diversified economy while coping with massive debts. Accordingly, the Bank's long-term goal was to help Zambia diversify its economy by liberalizing trade and markets and reducing the role of the public sector in industry and commerce. Its near-term goal was to stabilize the economy and reverse the decline in output.

Despite the economic crises and shifting attitudes to reform during the first half of the period, Bank lending focused on quick-disbursing credits for structural adjustment. It invested little in infrastructure to promote the growth of new productive activities or strengthen social services. Although this assistance helped Zambia, the government did not follow through on the reforms and the country did not diversify its exports or reverse the decline in growth. Poverty worsened and social conditions deteriorated.

After a new, pro-reform government came to power in 1991, the Bank shifted to a more balanced strategy, combining assistance for short-term adjustment with support for long-term structural reform and sector investments. The Bank is building this strategy around a participatory approach that fosters Zambian ownership of reform through beneficiary consultation and feedback, and donor coordination. In a highly aid-dependent country like Zambia— with years of neglected infrastructure, shortages of skills, inadequate institutional capacity, and an economic environment still biased against entrepreneurship—economic recovery will take time and perseverance.

The study recommends continued attention to coordination with other donors, and an increased role for the Bank's resident mission, particularly in sectoral investment programs. It stresses the need for the Bank to proceed with economic and sector work and portfolio management during periods of suspended disbursements to avoid gaps in knowledge and needless damage to ongoing projects.

Robert Picciotto
Director General
Operations Evaluation
Prefacio

En el presente estudio se evalúan las actividades desarrolladas por el Banco en Zambia en el período de 1983-95. En él se analiza la pertinencia, eficacia y eficiencia del programa de asistencia a ese país con el fin de establecer responsabilidades, extraer enseñanzas y formular recomendaciones sobre el curso a seguir en el futuro.

Durante el período que abarca el estudio, el principal desafío para Zambia era disminuir su dependencia de las exportaciones de cobre y desarrollar una economía de mercado que fuera viable y diversificada, y al mismo tiempo, hacer frente al gran volumen de endeudamiento. Ante esta situación, el objetivo a largo plazo del Banco era ayudar al país a diversificar su economía mediante la liberalización del comercio y de los mercados, y reducir el papel del sector público en la industria y el comercio. En lo inmediato, la meta era estabilizar la economía y lograr un repunte de la producción.

A pesar de las crisis económicas y las diferentes posiciones frente a la reforma durante la primera mitad del período, el financiamiento del Banco consistió fundamentalmente en créditos de rápido desembolso para fines de ajuste estructural. Las inversiones de la institución en proyectos de infraestructura para promover el desarrollo de nuevas actividades productivas y robustecer los servicios sociales fueron escasas. Si bien la asistencia proporcionada ayudó a Zambia, el gobierno no perseveró en la aplicación de las reformas y el país no logró diversificar sus exportaciones ni invertir la disminución del crecimiento. El problema de la pobreza se intensificó y las condiciones sociales se deterioraron.

En 1991, con la llegada de un nuevo gobierno que propiciaba la reforma, el Banco cambió su estrategia por una más equilibrada, en la que se combinaba la asistencia para fines de ajuste a corto plazo con el apoyo a la reforma estructural e inversiones sectoriales a más largo plazo. Con esta estrategia, el Banco está aplicando un enfoque participativo que fomenta la identificación de la población con la reforma, mediante consultas e intercambio de información con los beneficiarios y la coordinación con los donantes. La recuperación económica llevará tiempo y exigirá perseverancia en un país como Zambia, que depende en gran medida de la ayuda externa —y en el cual la infraestructura se ha dejado de lado por años, los conocimientos especializados son insuficientes, la capacidad institucional es precaria y el sesgo contra el espíritu de empresa aún está presente en el ámbito económico.

En el estudio se recomienda seguir prestando atención a la coordinación con otros donantes y...
aumentar la participación de la misión residente del Banco, sobre todo en los programas de inversiones sectoriales. Se insiste en la necesidad de que el Banco continúe realizando estudios económicos y sectoriales y ocupándose de la gestión de la cartera durante los periodos de suspensión de los desembolsos para que no se interrumpa el flujo de información ni se perjudiquen los proyectos en marcha.

Robert Picciotto
Director General
Evaluación de Operaciones
Préface

La présente étude passe en revue les activités menées par la Banque en Zambie entre 1983 et 1995. Elle évalue l'adaptation aux besoins et l'efficacité du programme d'assistance entrepris dans ce pays, afin d'en déterminer les responsabilités, d'en tirer les enseignements et de formuler des recommandations pour l'avenir.

Durant la période considérée, le défi majeur pour la Zambie a été de réduire sa dépendance à l'égard des exportations de cuivre et d'établir une économie viable, diversifiée et axée sur le marché, tout en faisant face à un endettement massif. Dans ce contexte, l'objectif à long terme de la Banque a consisté à aider le pays à diversifier son économie en libéralisant les échanges et les marchés et en réduisant le rôle du secteur public dans l'industrie et le commerce, son objectif à court terme étant de stabiliser l'économie et d'inverser le déclin de la production.

Bien que la première moitié de la période ait été marquée par des crises économiques et des retournements au sujet des réformes, la Banque a axé ses efforts sur l'octroi de crédits à décaissement rapide pour l'ajustement structurel. Elle n'a guère investi dans l'infrastructure propre à promouvoir l'essor de nouvelles activités productives ou à renforcer les services sociaux.

Cette assistance a certes été utile à la Zambie, mais les autorités n'ont pas donné suite aux réformes et le pays n'a pas diversifié ses exportations ou enrayé le recul de la croissance. Le problème de la pauvreté s'est aggravé, et la situation sociale s'est détériorée.

Après la mise en place d'un nouveau gouvernement favorable aux réformes, en 1991, la Banque a adopté une stratégie plus équilibrée, consistant à appuyer l'effort d'ajustement à court terme tout en soutenant la réforme structurelle à long terme et les investissements d'ordre sectoriel. Cette stratégie s'articule autour d'une approche participative qui encourage le pays à assumer lui-même les réformes en permettant aux bénéficiaires d'être consultés et de donner leur avis, et d'un effort de coordination avec les autres bailleurs de fonds. Dans un pays aussi tributaire de l'aide que la Zambie, où l'infrastructure est depuis longtemps négligée, les compétences insuffisantes, la capacité institutionnelle inadéquate et l'environnement économique encore peu favorable à l'entrepreneuriat, le redressement économique nécessitera du temps et de la persévérance.

Cette étude recommande à la Banque de continuer à prêter attention à la coordination avec les autres bailleurs de fonds, et d'accroître le rôle de sa mission résidente, particulièrement
au niveau des programmes d’investissement sectoriel. Elle insiste également sur la nécessité pour la Banque de poursuivre son travail d’études économiques et sectorielles et de gestion du portefeuille durant les périodes de suspension des décaissements, pour faire en sorte qu’il n’y ait pas d’interruption dans l’accumulation des connaissances et éviter de porter inutilement préjudice aux projets en cours.

Robert Picciotto
Directeur général
Évaluation des opérations
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This report was prepared by Gladstone Bonnick (Task Manager). Contributors included Moina Varkie (Staff), Bernard Decaux, Eric Shearer, Chandra Hardy, Sulaiman Wasty, and Migara O. De Silva (Consultants). The study was copyedited and produced by Angie Gentile-Blackwell (Consultant). Alejandra Sarmiento and Sheila Ward provided administrative support. The report was issued by the Country Policy, Industry, and Finance Division (Manuel Pefhalver, Chief) of the Operations Evaluation Department (Francisco Aguirre-Sacasa, Director) and Robert Picciotto, Director General, Operations Evaluation.

This study is based partly on Bank reports such as country program papers, country strategy papers, country assistance strategy papers, country economic memoranda, public expenditure reviews, project completion and performance audit reports, donors' evaluations and other reports, the Bank's file record, and the academic literature on Zambian development. It is also partly based on interviews with Zambian officials and private sector spokesmen, as well as interviews with Bank, International Finance Corporation, and IMF staff. Background reports were prepared by consultants on the agriculture, manufacturing, mining, and social sectors. The report was sent to the government of Zambia for review. The government's comments were taken into account in the report.

The kind cooperation and valuable assistance of those who contributed their time and efforts to the preparation of this report are gratefully acknowledged.
### Abbreviations and acronyms

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<tr>
<td>ASIP</td>
<td>Agricultural Sector Investment Program</td>
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<td>CAS</td>
<td>Country assistance strategy</td>
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<td>CPP</td>
<td>Country program paper</td>
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<td>ESW</td>
<td>Economic and sector (research) work</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GNP</td>
<td>Gross national product</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>INDECO</td>
<td>Industrial development corporation (industrial development holding parastatal)</td>
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<td>LIBOR</td>
<td>London Interbank Offered Rate</td>
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<td>NAMBOARD</td>
<td>National Agricultural Marketing Board</td>
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<td>NERP</td>
<td>New Economic Recovery Plan</td>
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<td>NGO</td>
<td>Nongovernmental organization</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>ODA</td>
<td>Official development assistance</td>
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<td>PAR</td>
<td>Performance audit report</td>
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<td>PCR</td>
<td>Project completion report</td>
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<td>PFP</td>
<td>Policy framework paper</td>
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<td>SDR</td>
<td>Special drawing rights</td>
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<td>SPA</td>
<td>Special Program of Assistance</td>
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<td>ZAREP</td>
<td>Zambia Agricultural Rehabilitation and Expansion Project</td>
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<tr>
<td>ZCCM</td>
<td>Zambia Consolidated Copper Mines</td>
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<td>ZIMCO</td>
<td>Zambia Industry and Mining Corporation</td>
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Summary

Introduction

World Bank assistance to Zambia during the 1980s and 1990s has been characterized by the predominance of adjustment lending, which accounted for more than 60 percent of commitments and nearly 80 percent of disbursements—substantially higher than in Kenya, Malawi, Tanzania, Uganda, and Zimbabwe. Yet Zambia has not been an outstanding case among adjusting countries. The Bank’s assistance has been marked by frequent interruptions; disbursements were suspended in 1983, 1987 (for nearly three years), and 1991 because of the accumulation of arrears. Zambia has gone from being a borrower of the International Bank for Reconstruction and Development (IBRD) to being a blend country (a country that borrows from both IBRD and the International Development Association—IDA) to being an IDA-only borrower. It received its first IDA credit in 1978 and has been an IDA-only country since 1984.

This evaluation’s general conclusion is that given the nature of Zambia’s problems and the government’s wavering commitment to reform in the 1980s, there was too much emphasis on policy-based operations and too much emphasis within policy-based operations on stabilization rather than on long-term structural adjustment. A more balanced approach, with a higher share (of a smaller total) of funds going to physical and social infrastructure, would have been desirable. Since the election in 1991 of a new government more committed to reform, structural adjustment lending has helped bring inflation under control while permitting the restoration of discipline in debt management. But privatization, diversification of production, rehabilitation of economic infrastructure, and improvement in social services are taking longer to achieve. Sustainability of the reforms is also an issue, particularly in pre-election periods.

Despite improving economic policies in the 1990s, Zambia’s economic performance remains poor. A 1994 internal consultative group report noted that the deterioration in nearly every major social indicator reflects Zambia’s deepening poverty. Per capita income has fallen almost continually since 1973; poverty has increased to the point that in 1994 some 70 percent of the population lived in households where basic needs were not being met; and life expectancy decreased from 53 years in 1987 to 48 years in 1992.

The prolonged suspension of lending between 1987 and 1991, required by Zambia’s arrears to the Bank, had a negative impact on many projects ongoing at the time. Moreover, a rich program of economic and sector work (ESW) was considerably reduced, adversely affecting the ESW basis of Bank operations after the suspension was lifted. The conclusion drawn from this episode is that some of the negative consequences of pro-
ionged suspensions can be avoided with appropriate actions during the suspension, and that this can increase the efficacy of the Bank’s assistance.

**Bank assistance strategy**

The Bank’s strategy evolved through the following stages:

- **Before 1980.** The Bank shared Zambia’s optimism regarding copper and was uncritical of the Zambian industrial development strategy.

- **1980–82.** The Bank started to base its strategy on its own diagnosis of the Zambian development problem, a diagnosis that saw the need to reduce dependence on copper, liberalize controls over trade and markets, and reduce public sector dominance in manufacturing and in financial and other services.

- **1983–86.** Bank support for Zambia’s intermittent reform efforts was mainly in the form of structural adjustment and sector adjustment credits focused on stabilizing the economy.

- **1987–90.** In response to Zambia’s accumulation of arrears (and abandonment of the adjustment program) the Bank suspended disbursements to Zambia but continued its dialogue with the government to try to get the program back on track.

- **1991.** The Bank helped clear arrears through an innovative strategy and resumed lending to Zambia despite the risk that with impending elections the government would not meet conditions.

- **1991–94.** Bank strategy emphasized adjustment lending in support of Zambian stabilization efforts and debt servicing.

- **1994 and after.** Bank strategy increased its focus on growth and poverty alleviation, with growing emphasis on privatization and sectoral investment programs.

Early in 1994, Bank assistance strategy shifted focus toward helping Zambia achieve sustainable economic growth and reduce poverty. The strategy also emphasized the region’s new concern for participatory assessments of Bank projects through systematic client consultation. (The idea behind these assessments is to foster greater local design of sectoral strategies and investment programs, and maximum government and beneficiary involvement and ownership to ensure the sustainability of development impact.) While accepting the need to continue support for structural adjustment and to help close the massive financing gap, greater priority was given to improving the enabling environment for private sector growth through investments in infrastructure and human resources. The strategy also placed greater priority on targeting the poor and vulnerable groups with specific programs in agriculture and social services.

Bank strategy in the late 1990s is planned around integrated sector investment operations. The Bank is fully aware of the importance of the bilateral donor community and of the need to continue improving coordination of aid activities to more effectively serve the country. The Agricultural Sector Investment Program and Health Sector Support Project were born of this approach. With the support of the donor community and the diligence of the government, these pilot programs hold good promise but will need close monitoring and attention to aid coordination.

**Evaluation of the Bank’s assistance strategy**

**Overview**

The Bank’s assistance strategy in Zambia during 1983–95 may be summed up as follows:
The strategy was less relevant to the country's long-term development than it could have been had it followed more closely the Bank's excellent diagnosis of Zambia's development problems and prospects. Instead, the strategy overestimated the government's willingness to reform and focused too narrowly on immediate output expansion and price stability rather than on privatization, policy adjustments for private producers, and rehabilitation of economic and social infrastructure. Particularly during the 1980s, long-term relevance was compromised by the nearly exclusive pursuit of short-term stabilization objectives, which remained elusive.

The efficacy of Bank assistance was poor in the 1980s and higher after 1991, when a government more committed to the reforms came into office. Bank assistance has not helped Zambia establish a trend of positive GDP growth, much less positive per capita income growth; poverty has increased and social indicators have deteriorated. During the 1980s, the efficacy of the Bank's assistance suffered from the Kaunda government's vacillating application of reforms. Under the Chiluba government, reforms supported by IDA lending helped to drastically reduce inflation and to return interest rates to more normal levels, thereby rewarding the government's steadfast commitment to the reform program. But sustainability of the reforms remains an important issue.

Judging from the staff-year resources devoted to client services, the Bank's assistance to Zambia has been conducted with greater efficiency since 1991 than the average for the Africa region. This has been due partly to the predominance of policy-based lending, with its shorter gestation time, and partly to the commitment of the government to implement agreed reforms. The Bank strategy during the 1980s must also be judged as inefficient because of the limited permanent improvements achieved in the policy environment.

Greater relevance and efficacy of Bank assistance in the future require that the Bank be more realistic in its outlook for Zambian recovery; acknowledge that the political situation may not always be favorable to development; pay more attention to human and infrastructure constraints; consider that international aid may well decline now that Zambia is no longer a "front-line state;" and recognize that the deterioration in Zambia's infrastructure—after years of neglected maintenance and underinvestment—skill deficiencies, and the slow pace of institutional change will militate against quick recovery.

In retrospect, the focus of Bank assistance on structural adjustment lending in the mid-1980s, though relevant to Zambia's needs, was overly optimistic concerning the government's commitment to stay the course. Moreover, the need for coordination among individual operations within the adjustment support group did not receive enough attention at design stage.

The suspension of disbursements as a result of Zambia's arrears also had a negative impact on the ongoing portfolio that could have been reduced with appropriate complementary measures. Thus, a lesson of experience is that the Bank's assistance strategy should factor in suspensions of disbursement, and the country assistance strategy should include provisions to mitigate the effects on the efficacy of Bank operations when suspensions take place.

Liberalization overshadowed by stabilization concerns

During the 1980s, the stabilization concern was primarily that of recovery in the level of industrial output. In 1981, the Bank saw the risk of
continued dependence on copper. As such, it counseled structural adjustment to reduce dependence on this single export and to develop other nontraditional exports and efficient import substitution in the agricultural and industrial sectors. In essence, the required structural adjustment sought to liberalize the economy from the plethora of controls on production and internal and external trade. The Bank assumed that the measures taken by Zambia at the beginning of 1983 implied an irrevocable commitment to full liberalization; it wished to enhance the credibility of reforms by ensuring that foreign exchange was available to allow output to respond.

Since 1991, adjustment lending has been more successful in helping reduce inflation and restore fiscal balances. But more attention needs to be focused on longer-term development issues, as noted by donors at the December 1994 consultative group meeting. Thus, land laws and human resource improvement now seem to be crucial concerns for the next stage of development.

Lack of political consensus over adjustment impeded ownership

In the 1980s, the Bank missed or ignored the early signs that the national political and social context of the structural adjustment program was inconsistent with the program’s sustainability. There were sharp divisions within the government over development strategy and economic management. At the outset, the Ministry of Finance and the Bank of Zambia were the main influences in favor of adjustment and convinced the president of its merits. The president in turn convinced or pushed the cabinet and the party to go along. But there were advisors and powerful political groups who favored the control economy dominated by the public sector to which they had become accustomed over the previous 20 years. The Bank did not fully appreciate the delicate balance among these opposing forces, and it did not pay enough attention to the limited ownership of the reform process outside a narrow group of politicians and senior officials. The Bank was particularly oblivious to the sensitivities of the party and the unions. Thus, the government’s commitment to reform should have been doubted when, faced with industrial unrest over public sector pay in early 1985, it slackened its stabilization program. Another reason for doubt emerged when the government replaced the liberal economic team with economic planners not long after it announced a revitalized liberalization program.

Importance of other donors limited the Bank’s influence

The influence of other sources of long-term finance besides the Bank was also important. The Bank’s share in resource flow was relatively small, as seen by the fact that indebtedness to the Bank group accounted for less than one-fifth of total long-term debt. During the period 1986–93, per capita disbursements of official development assistance averaged $33 per year while Bank/IDA disbursements averaged $11. Before 1984, the Bank/IDA share was even smaller. (Bank/IDA resources have become increasingly important to Zambia only since 1991.) In the mid–1980s, bilateral donors were very influential in Zambian policymaking and, at the same time, were not particularly supportive of the merits of structural adjustment programs. At times bilateral donors formed a countervailing influence to that of the Bank in relation to Zambia’s development strategy. During this period, the need to coordinate donors’ efforts was still a new idea in the Bank.

Sustainable reform requires attention to the disadvantaged

The failure to recognize the risk of reversal of the reform process may have been associated in part with lack of attention to poverty alleviation
and equitable distribution of the burden of adjustment. Thus it was not sufficiently recognized how important the public sector was in providing employment in urban areas and the immense social cost associated with the need to curtail the fiscal deficit. While the deficit had to be reduced, there was also a need to protect vulnerable groups. A safety net to protect the very poor from the impact of maize pricing reform could have made pricing policy palatable to the poor and acceptable to the politicians. Unfortunately, the idea of a safety net came much later, and effective pricing policy reform was postponed until a new government was elected in 1991.

Adjustment lending underestimated the risks of reversal

In light of the policy reversals in the early 1980s and again in 1987, and although some reforms were continued to good effect, it may be argued that support should have been related to the prolongation of the crucial elements of reform. Adjustment lending to Zambia did not pay enough attention to the risks of policy reversals, and to the fact that the political and public acceptance risks were high.

The reform program of the 1980s may have been underfinanced

Some have argued that had external support been more responsive to the deterioration in export earnings in early 1986, the reform process would not have been reversed. The argument is that the new team may not have had to resort to management of the auction to prevent a drastic deterioration in exchange rate and flight from the kwacha, and that with more adequate supply of imported inputs the economy would have performed better, thereby relieving the government of the worry that it was losing control of the economy. While it is impossible to know what level of financing will induce the optimal rate of reform, it is clear that the reforming government must be assured sufficient support if it is undertaking politically risky policy initiatives. But while the incentive to undertake reforms and to avoid resort to controls has been much greater since 1991, when Zambia was assured more adequate resource inflows, it also appears that resources have been more adequate because the new government has been perceived as being more committed to reforms. Thus, it is impossible to conclude from this that the Bank should have provided more support in the 1980s.

Structural adjustment loans of the 1990s avoided defects of those of the 1980s

Recent structural adjustment operations have gone far to avoid the criticisms made of those of the mid-1980s. There is now more overt concern for the social costs of adjustment and the plight of vulnerable groups. Also there is a more gradual approach to the "demandingness" of conditionality in relation to reforms involving greater political difficulty. Greater attention is now being given to getting wider agreement and understanding of measures leading to greater national and beneficiary ownership of the programs.

Bank assistance strategy continues to change. Recently it has signaled a gradual shift away from lending for structural adjustment toward support for sector investment programs. The difference from the traditional sector program or project is that the operation covers all projects by all donors in the sector, is prepared by a Zambian task force drawn from the public and private sector, and provides for annual reviews and adjustments based on beneficiary consultation and feedback. This approach is expected to enhance the relevance not only of the Bank's program but that of all donors and of the country as well. It does require, however, considerable technical work and aid coordination efforts, mostly in the field.
Suspensions, inadequate coordination, absorptive capacity constraints impede efficacy

The repeated buildup of arrears to the Bank in 1983, between May 1987 and March 1991, and from September 1991 until January 1992, which led to three suspensions of disbursements, further reduced the Bank’s ability to achieve results. The long suspension beginning in 1987 increased the cost of completing many projects, including interest cost during construction, and the cost of demobilizing and remobilizing contractors, and delayed the flow of benefits. In some cases projects were abandoned and investment to that point was essentially lost. In addition, some investors postponed the implementation of their plans. While suspensions of disbursement are inevitable in cases like Zambia’s, the Bank could have developed some complementary measures to mitigate negative impacts on the ongoing portfolio. Such measures could include coordination with other donors to ensure that the implementation of high priority projects continues, and to ensure continued economic and sector work and supervision.

The efficacy of the assistance also suffered as a result of inadequate coordination between the different components of Bank assistance. Thus the importance of price adjustments for maize, to keep its production profitable even though the auction was devaluing the kwacha and raising the cost of imported inputs, was not given adequate attention. As a result, the resources under the Agricultural Rehabilitation Credit to buy replacement equipment were not used and the quick output increase in agriculture was not realized.

Constraints on absorptive capacity also impeded the efficacy of Bank operations throughout the 1980s. Among these constraints were deficiencies in human resources, especially management and the civil service, and physical infrastructure. In recent years, the Bank has sought to compensate for some of these by providing technical assistance, both directly and through coordination of aid from other donors. Also, by assisting in debt management the Bank has been able to reduce the debt-service burden on the budget, relaxing the constraint inherent in the shortage of counterpart funds.

Bank assistance not uniformly effective—nonlending services effective, investment projects not

Components of Bank assistance to Zambia were not uniformly effective. Bank assistance was helpful in relaxing the constraint on the capacity to import and to utilize productive capacity. Investment lending was less effective since a substantial portion of the loans made in the early 1980s was canceled. The efficacy of Bank nonlending assistance was most evident in (nonlending) technical assistance. This efficacy was especially visible in aid mobilization/coordination and debt management, where, by providing documentation and chairing consultative group meetings, the Bank helped to bring about the significant rise in the ratio of aid from 10 percent of GDP in the 1980s to 30 percent in the 1990s. The Bank assisted Zambia in rescheduling $1.5 billion of debt between 1990-93, resulting in a substantial reduction in debt service, and helped in obtaining substantial debt relief.

Evaluation of the instruments

Economic and sector work (ESW)

An overview of Bank ESW on Zambia in the 1980s and 1990s must highlight the following:

- Bank economic and sector work identified the three major policy requirements for Zambian development during the last 15 years as liberalization, privatization, and diversification.
- Bank ESW gave priority attention to liberalization. Liberalization was implemented successfully, partly due to the more informed policy dialogue that Bank ESW made possible. Privatization has lagged behind and diversification has remained elusive.

- The Bank should study the Zambian privatization experience. Land policy and cultural factors also remain to be studied in detail.

- The Bank did not do enough ESW on the requirements for diversifying the Zambian economy. However, its recent work on the prospects for sustainable growth in Zambia is a step in the right direction.

- Several public expenditure reviews helped in proposing ways to bring the public sector deficit under control.

- The Bank did an outstanding assessment of poverty in Zambia in 1994; it is now being used in the design of public policy to mitigate the problem.

- Sector work done in the context of project identification had significant impact in mining and agriculture.

Overall, Bank economic and sector work was relevant and adequate in the sectors it covered and the issues it analyzed. The selection of topics was appropriate to the Zambian situation, particularly the problems facing the economy. However, the absence of significant Bank ESW to underpin investment promotion and infrastructure planning will limit the feasibility of Bank support in these areas in the near future. Generally, relevance was reinforced by timeliness in that ESW responded to a need and the output was ready when the government was inclined to consider adjustments in policy.

**Lending**

IBRD/IDA commitments to Zambia during FY83–95 amounted to $1,466.4 million. Disbursements during the same period amounted to $1,266.9 million. During FY83–91, average annual commitments in constant 1990 prices were $74.8 million ($112.2 million if the periods of suspension are excluded). After FY91 the average increased to $203 million.

Adjustment accounted for 67 percent of commitments during FY83–95. Sectoral distribution of lending commitments reflected the importance of structural and other adjustment lending. The distribution among sectors was multisector, 32 percent; industry/industrial development and finance, 18 percent; agriculture, just under 16 percent; financial, 14 percent; social sectors (education and population/health), 9 percent; mining, just under 7 percent; and infrastructure (transportation and water supply), 3 percent.

Zambia went from being a Bank client to a blend country to an IDA-only borrower. The first IDA credit was approved in 1978, and Zambia has been an IDA-only client since 1984. Disbursements by IDA rose rapidly during the 1980s (except for the period of suspension) to an average of about $160 million per year since 1991. IDA’s net disbursements were positive throughout the period into the 1990s, averaging $185 million in the three-year period 1991–93.

Bank/IDA lending to Zambia was not excessive from the point of view of Bank/IDA exposure. On June 30, 1994, Zambia accounted for 1.52 percent of credits outstanding to IDA and 0.21 percent of total loans outstanding to the Bank. Bank/IDA held 22.6 percent of Zambia’s long-term debt at the end of 1993, a portion requiring between 7 and 10 percent of exports of goods and services to service it during the 1990s. Hence, though not excessive, Bank/IDA exposure was associated with some portfolio risk.
Because four-fifths of commitments were for adjustment operations to provide balance-of-payment support to assist in debt service, Bank/IDA lending was not excessive in relation to Zambia’s capacity to implement projects.

Based on project completion and audit reports, the performance ratings available for 18 of the 45 operations approved since 1980 show that only 44 percent of Zambian operations were judged satisfactory. This compares with 68 percent Bankwide and 62 percent in the Africa region. Performance varied across sectors, with all four projects in the energy sector rated satisfactory compared with only one out of six rated satisfactory in agriculture. The successful projects tended to:

- be small and not management intensive;
- have appropriate technology; and
- use foreign contractor/consultants, and involve some training of nationals.

The unsuccessful projects, mainly in agriculture:

- depended on weak administration and management;
- required counterpart funds;
- suffered from imperfect delegation of authority; and
- presented coordination problems among agencies with unclear responsibilities.

The adjustment operations of the 1980s were all rated unsuccessful, although some benefits were achieved; the production objectives were not achieved and the policy objectives were not diligently pursued and were mostly abandoned in 1987. The adjustment operations after 1991 appear to have been successful, both on the policy front, by bringing fiscal and monetary magnitudes under control, and in serving as the basis for the coordinated mobilization of balance-of-payments support from the larger donor community. Only one project has been evaluated so far—the Second Economic Recovery Credit (FY91). The audit rated project outcome as satisfactory.

The ongoing portfolio was evaluated by looking at the supervision ratings where available, by assessing the “demandingness” of each operation on the main determinants of absorptive capacity, and by evaluating the operations in terms of specified desiderata of a good program. Supervision information was available for 14 operations, and of these one was rated as highly satisfactory in its implementation, 12 as satisfactory, and one as unsatisfactory.

The Agricultural Sector Investment Program (ASIP) represents a major departure from the traditional project approach. The program seeks to improve development impact through better coordination among donors, and through greater client and beneficiary participation in identifying as well as implementing the sector program. The ASIP is to be the first in a series of four-year programs of coordinated multilateral, bilateral, and government initiatives supporting the medium- and long-term development of strategic sectors. The project includes components to improve consultation with donors and beneficiaries concerning the policy environment and institutions, to make monitoring and public investment more efficient, to promote private sector participation, and to include pilot schemes. The preliminary assessment of ASIP preparation and implementation has been mixed. The preparation process has allowed wide participation and a greater sense of beneficiary ownership of the projects. However, this has slowed the process, and some organizations complain about inadequate representation of some interested groups, while some donors are still uneasy about the Bank’s dominant role.
Bank assistance in aid coordination and debt management

Since 1989, the Bank’s leadership role in the consultative group has been widely praised by Zambia and the donor community. The Bank’s proximate task in the 1990s has been to mobilize assistance to close a financing gap, after rescheduling, of more than $1 billion each year. So far, each year the gap has been closed. The Bank’s role has been to provide the documentary and analytical bases for discussions and negotiations. It has played an advocacy role by educating donors and convincing them of the merit of the structural adjustment efforts to which the Zambian government has been committed since 1991. The Bank has also elicited donor support of this effort, asking donors to increase aid and the share of balance-of-payments support in the aid packages. Much of the aid mobilized by the Bank has gone to service the debt owed to multilateral and other creditors. This has drawn some criticism for diverting resources from social services and infrastructure. More recently the emphasis of aid coordination has been at the sectoral level on avoiding duplication, overloading of public sector management, and unrealistic demands on local counterpart funding.

The following lessons emerge from the Bank’s experience in aid coordination:

- Consultative group meetings are useful for mobilizing resources, particularly for heavily aid dependent countries undergoing adjustment, and for bringing donor coalition behind adjustment.

- A greater field presence simplifies the process of sectoral aid coordination. It can foster local ownership and allow for more timely contributions to ease project implementation problems.

- The debt crisis galvanized greater aid mobilization, but donors do not wish debt management to be the dominant criterion in aid allocation decisions.

- In-country aid coordination and management by client countries is as important as coordination among donors, and the institutional framework to serve this end needs to be studied and rationalized. Good aid coordination and management requires clear development goals and strategies, a capacity to identify and prepare projects, effective project programming and budgeting, and sound monitoring and financial management.

- Additional opportunities for Bank-donor collaboration in economic and sector work should be explored, given the favorable recent collaboration on public expenditure reviews and poverty assessments.

The Bank helped Zambia set up its debt management system and negotiate frequent rescheduling and occasional reduction of its debt. By August 1992, due to Paris Club reschedulings and debt cancellations by bilateral creditors, Zambia’s debt had fallen by $1.5 billion to $6.5 billion. The 1990s have seen a net fall in the interest burden because $597 million of interest was capitalized and $76 million forgiven by donors during 1990–93. During the same period, net interest arrears were reduced by $118 million. The interest burden on new commitments will also be lower because the interest rate on new loans has gone down, partly as a result of the shift from private toward official creditors. Meanwhile, $853 million of principal repayments due have been rescheduled, thereby reducing the immediate burden of debt service.

Over time, the share of multilateral debt has increased. The Bank is holding a larger share of Zambia’s debt and accounts for a larger share of debt-service obligations, a result of the rise in per capita commitments by IDA—an average of $25 a year during 1991–95, up from $12 during 1983–87. Larger IDA commitments have done
much to reduce the burden of Zambian debt: maturing IBRD debt with shorter terms and higher interest rates was followed by new IDA lending on highly concessionary terms. Commercial and short-term debt has been reduced as a result of debt buy-back operations that drastically lowered the exposure of the London Club creditors. In addition, Paris Club creditors have provided significant debt relief.

These improvements are not reflected in the usual debt indicators relating debt stock and debt service to GNP and to exports of goods and services. This is because in the 1990s, the denominators have fallen below the 1980 and 1989 levels. Nevertheless, Zambia’s creditworthiness has been improved and arrears have been reduced. Zambia has access to Bank and International Monetary Fund resources, and some bilateral donors who had withheld support have been induced to resume. Yet there is concern in some quarters that the Bank’s assistance in this area has been self-serving, and that it has ensured the servicing of Bank debt at the expense of Zambia’s growth. But this concern is based on the assumption that without debt service, inflows would have remained adequate to generate an improved growth record. This appears doubtful. More fundamentally, there is also concern that Bank preoccupation with debt service has diverted resources and time—including management time—away from development issues, and that the debt situation has been improved at the expense of focusing on real sector issues.

The mission is especially active in coordinating Bank assistance with local representatives of bilateral donors and of the United Nations Development Program. Although long understaffed, the Resident Mission has been able to render some support in agriculture and in monitoring the macroeconomic situation. With a greater degree of client consultation envisaged in the new sector programs (for example, ASIP), the mission will need to be strengthened so that the process will not depend as critically as it has in the past on missions from Washington to maintain momentum.

Progress toward objectives of Bank assistance

Achievement of objectives is the result of many different factors, the most important of which is country performance. Nonetheless, an assessment of the degree to which each objective was achieved (and the factors affecting the progress) is essential to guiding future Bank assistance strategy:

- Since 1992, economic management has improved considerably, especially in monetary and fiscal discipline. The primary fiscal deficit was reduced from 7 percent of GDP at the beginning of the 1990s to 1 percent of GDP in 1995. But growth was not restored, and the sustainability of the reforms still faces serious challenges, particularly with the impending 1996 elections.

- Achievements in liberalizing the economic environment for the private sector, beginning with the foreign exchange market, were significant.

- Privatization was slow initially, but gained considerable momentum in 1995.

- Diversification of production, and especially exports, was not significant.
During the period 1984-94, poverty increased in relative and absolute terms. There has been substantial deterioration in the major social indicators during the last 15 years.

Progress in agriculture was minimal. Food grain output declined, but some new crops and flowers for export are now being produced in small quantities. Bank projects were undermined by prolonged suspension of disbursements.

Manufacturing, developed under tariff protection and dependent on imported inputs, remains plagued by low productivity and low-quality output. Moreover, it has been dominated by public enterprises.

Bank support for the rehabilitation of copper mining had positive results on output and costs.

Bank assistance in education and health has been too recent for evaluation.

Conclusions and recommendations

On key strategic issues

Privatization and diversification need more attention. Liberalization, privatization, and diversification are the three prongs of the strategy for renewed growth. But only in the first has substantial progress been made. Recent progress (in 1995) in privatization is a good step forward but much more is needed. And diversification requires a substantial increase in private investment, which has not yet taken place. A careful review of the remaining obstacles to this private sector development should be a major element of the Bank’s strategy.

Growth requires investment in physical and social infrastructure. Achieving positive GDP growth in Zambia and checking the worsening poverty requires continued investment in physical and social infrastructure. These investments will rely on Bank, and other donors’ support. The issue is that the mix of instruments and also the total of Bank/IDA financing, given the level of support from other donors, be consistent with the debt-service requirement and the investment implications of the growth target.

Coordination and consistency of loan conditions at macro and micro levels are essential. The coordination between the macroeconomic conditions of structural adjustment operations and sectoral adjustment/investment projects should concern not only the content but also the pace and sequence of measures. This applies especially to measures affecting pricing policies of outputs and inputs and the removal of subsidies. All three affect the profitability of activities and hence the response of entrepreneurs to opportunities for diversification.

Need to develop entrepreneurs for a vibrant private sector. Another serious constraint to private sector development in Zambia is, increasingly, the entrepreneurship, managerial abilities, and skills of the Zambian people. Where are the entrepreneurs? Among the many factors that impede the development of entrepreneurship and skills in people are the following: declining life expectancy; the share of work women are already bearing; the traditional barriers to women’s access to credit and land ownership; the low level of personal savings due to poverty; the inability of the poor to risk their income sources (the low-risk route out of the ghetto, notably the public service, does not lead to entrepreneurship); the high percentage of youths heading households due to early deaths of parents; and a lack of knowledge of alternative lines of production. The Bank’s country assistance strategy should address this set of issues and propose specific measures.

Institutions to serve the private sector must be developed. Institutional development in the public
sector is a necessary complement to private sector development. There is a need to specify the role of the public sector, to identify the required complement of private sector service and support institutions, and to provide for meeting this requirement. Institutional development has had limited attention during the last 15 years, with the result that the usual assessment in Zambia is that most ministries and agencies of government are simply not adequately staffed and supplied with the inputs to discharge their responsibilities effectively. Institutional development is a slow process and should now be given higher priority than hitherto. While privatization is proceeding, the government can retain suitable officials in the public service and retrain them for work in areas where institutional capacity is weak.

Bilateral donors must be kept engaged in Zambia’s development. Bilateral donors have been an important source of support to Zambia’s development, and they will be indispensable to Zambia’s future, especially as commercial lending sources have dried up. The issue is how to keep donors engaged now that the geopolitical reasons that justified their help in the past are no longer valid and may not be valid in the future. The answer seems to lie in fully involving donors in decisions on objectives and in the design of arrangements for the most effective use of the assistance they will provide. It may also lie partly in being mindful that the political and public relations benefits may be important to politicians in donor countries, hence the need to allow bilateral donors to play the lead donor role in as many sectors as possible.

The political implications of reform must be anticipated. The political reaction to reform should be carefully studied and anticipated when planning the Bank’s assistance strategy. The Bank’s approach has often been to focus on the removal of distortions without much thought to the fact that behind each distortion lies a group of beneficiaries who may be expected to oppose the reform. In Zambia, a wide range of subsidies (for example, on maize-meal, fertilizer) benefit the poor who comprise the majority of the population. The effect of a reform that affects such a large group of people has made the adjustment program politically difficult. In order to avoid a backlash some compensatory benefit with less distortional impact should be considered. This approach will also favor the sustainability of reforms and investment programs. The reforms should also be accompanied by a suitable dialogue to foster understanding of the rationale behind them. In the absence of these and/or other means of assuaging those affected, there is increasing risk of reversal, particularly in an election year.

Careful assessment of options and risks is crucial in formulating strategy. In laying out a country and Bank strategy, a “one option” approach is inadvisable. The Bank must be prepared to contemplate worst-case and best-case scenarios. The assumption that donors will always close the financing gap is not only dangerous; it also shuts off the search for alternatives.

More effective instruments

Economic and sector work. The recommendations for ESW are the following:

- Economic and sector work should be cognizant of, and sensitive to, the political implications of its economic and social policy recommendations.
- ESW should avoid excessive optimism in its assumptions and projections. Optimistic assumptions regarding copper prices led to a delay in adjustment efforts in the 1980s. There is probably too much optimism in the 1990s regarding growth and aid flows.
- More attention needs to be paid to the design of strategies for reducing the public sector deficit within the context of adjustment.
operations, both as regards timing of actions and the monitoring of implementation.

- The Bank should continue ESW even when arrears require the suspension of lending. Many economic and sector work tasks were dropped after the suspension in May 1987, and the ESW agenda remained sparse for the next three years. This caused long lapses between updating memoranda on strategic sectors (for example, agriculture and delayed restart of operations).

- Economic and sector work for privatization needs to be strengthened. The lack of prior studies very likely has contributed to the slow pace of progress. Concerns about divestiture were not anticipated.

- Greater attention to sequencing of actions will also help to ensure the efficacy of advice and assistance (for example, liberalization and infrastructure development should go hand in hand; cost recovery solutions to the fiscal problems should be consistent with social concerns; and the public investment plan should be fitted within an agreed medium-term development plan).

**Lending:** The recommendations for lending are as follow:

- Adjustment lending should not be relied on to persuade an indecisive client to undertake a drawn-out reform agenda.

- In the Zambian context, project success is likely to be favored by small scale, appropriate, and relatively unsophisticated technology; the inclusion of training assistance; the linking of implementation authority and responsibility; and attention to improvement of complementary services (for example, extension).

- In agriculture and the social sectors, pilot projects should be tried whenever there is uncertainty regarding the information/experience basis for project design.

- The cost of disbursement suspensions is very high; few projects survive long interruptions in implementation. The Bank should examine the feasibility of measures (such as mothballing, increased financing from the government or other donors) that may minimize the extent to which a project is impaired by the suspension of disbursement.

- In aid coordination and debt management, the Bank should continue to provide assistance even when a suspension in lending is unavoidable.

- The new lending instrument of sectoral investment project holds good promise but should be monitored carefully. Further attention should be given to full participation by donors and to avoid the impression of the Bank as a dominant player.

**Resident Mission**

The role of the Resident Mission should be further expanded, not only to reflect the general trend in the Bank's greater attention to results in the field, but also in the particular context of a program that relies on expanded aid coordination and sectoral investment programs. In the past, the Resident Mission has been understaffed and decisions have had to rely too heavily on missions from headquarters.
Resumen

Introducción

La asistencia del Banco Mundial a Zambia en los años ochenta y noventa se ha caracterizado por el predominio de los préstamos para fines de ajuste estructural, que representaron más del 60 por ciento de los compromisos y casi el 80 por ciento de los desembolsos —cifras notablemente más elevadas que en el caso de Kenya, Malawi, Tanzania, Uganda y Zimbabwe. Sin embargo, Zambia no ha sido un ejemplo destacado entre los países que están aplicando programas de ajuste. La asistencia del Banco ha sufrido frecuentes interrupciones; los desembolsos se suspendieron en 1983, 1987 (durante casi tres años) y 1991, debido a una acumulación de atrasos. Zambia pasó de ser un país prestatario del Banco Internacional de Reconstrucción y Fomento (BIRP) a uno que podía obtener financiamiento combinado del BIRF y de la Asociación Internacional de Fomento (AIF), y actualmente sólo está habilitado para recibir créditos de esta última. El primer crédito de la AIF lo recibió en 1978 y ha permanecido en esta situación desde 1984.

La conclusión general que se desprende de esta evaluación es que, dada la naturaleza de los problemas que padece el país, y la falta de decisión con que las autoridades emprendieron el proceso de reforma en los años ochenta, se hizo demasiado hincapié en las operaciones basadas en las políticas y, dentro de estas operaciones, se puso excesivamente el acento en la estabilización más que en el ajuste estructural a largo plazo. Habría sido aconsejable adoptar un enfoque más equilibrado asignando una mayor proporción del volumen total de recursos (que ahora es menor) a infraestructura física y social. Desde las elecciones de 1991, el nuevo gobierno ha demostrado un mayor grado de compromiso con el proceso de reforma y los préstamos para ajuste estructural han contribuido a controlar la inflación permitiendo al mismo tiempo restablecer la disciplina con respecto a la gestión de la deuda. Con todo, la privatización, la diversificación de la producción, el saneamiento de la infraestructura económica y la mejora de los servicios sociales están tardando más en materializarse. La viabilidad a largo plazo de las reformas también es otro tema importante, sobre todo en períodos previos a las elecciones.

Pese a que las políticas económicas mejoraron en los años noventa, el desempeño económico del país sigue siendo deficiente. En 1994, un grupo consultivo interno observó que el deterioro de prácticamente todos los indicadores sociales importantes refleja el aumento de la pobreza. La renta per cápita ha disminuido casi constantemente desde 1973; la pobreza ha aumentado al punto en que, en 1994, alrededor del 70 por ciento de la población vivía en hogares en los que no estaban cubiertas las necesidades básicas, y la esperanza de vida bajó de 53 años en 1987 a 48 años en 1992.
La prolongada suspensión de los créditos entre 1987 y 1991, debido a la acumulación de atrasos frente al Banco, perjudicó a muchos proyectos que estaban en marcha en aquel momento. Además, se redujo considerablemente un excelente programa de estudios económicos y sectoriales, lo que afectó negativamente a la base de las operaciones del Banco en esta materia una vez que se levantó la suspensión. La conclusión que se puede extraer de este episodio es que algunas de las consecuencias negativas que acarrean las suspensiones prolongadas pueden evitarlo adoptando medidas apropiadas mientras dure la suspensión, y que con ello la asistencia del Banco puede ser más eficaz.

**Estrategia del Banco en materia de asistencia**

La estrategia adoptada por el Banco evolucionó a través de las siguientes etapas:

- *Hasta 1980*, el Banco compartía el optimismo de Zambia con respecto al sector del cobre y no puso en tela de juicio la estrategia de desarrollo industrial que estaba siguiendo el país.

- *Entre 1980 y 1982*, el Banco comenzó a basar su estrategia en su propio diagnóstico del problema de desarrollo de Zambia, diagnóstico en el que se puso de manifiesto la necesidad de reducir la dependencia del sector del cobre, liberalizar los controles del comercio exterior y los mercados, y reducir el dominio del sector público en el sector manufacturero y en los servicios financieros y de otro tipo.

- *Entre 1983 y 1986*, el respaldo del Banco a las intermitentes medidas de reforma se materializó principalmente en créditos para ajuste estructural y sectorial orientados a estabilizar la economía.

- *Entre 1987 y 1990*, como reacción a la acumulación de atrasos por parte del país (y a la inestabilidad del programa de ajuste), el Banco suspendió los desembolsos a Zambia, pero siguió manteniendo el diálogo con las autoridades para tratar de reencauzar el programa.

- *En 1991*, el Banco ayudó a liquidar los atrasos mediante una estrategia innovadora y reanudó los créditos a Zambia, pese al riesgo de que ante las inminentes elecciones el gobierno no cumpliera las condiciones.

- *Entre 1991 y 1994*, la estrategia del Banco puso el acento en los préstamos con fines de ajuste para respaldar los planes de estabilización emprendidos por las autoridades y facilitar el pago del servicio de la deuda.

- *A partir de 1994*, el Banco, en su estrategia, centró más la atención en el crecimiento económico y en la reducción de la pobreza, poniendo cada vez más énfasis en la privatización y en los programas sectoriales de inversión.

A principios de 1994, el Banco modificó la orientación de su asistencia para ayudar a Zambia a lograr un crecimiento económico sostenible y reducir la pobreza. Con este nuevo enfoque se hizo también hincapié en el renovado interés demostrado por los países de la región en participar en las evaluaciones de los proyectos del Banco mediante un proceso de consulta sistemática con los clientes. (El objetivo de estas evaluaciones es fomentar una mayor participación local en el diseño de las estrategias y los programas de inversión de carácter sectorial, y lograr que las autoridades y los beneficiarios se involucren y consideren los programas como propios, para que su impacto sobre el desarrollo sea duradero.) Pese a reconocer la necesidad de seguir respaldando el ajuste estructural y de ayudar a cerrar la enorme brecha en materia de financiamiento, se estimó que era prioritario crear un entorno más propicio para el crecimiento del sector privado invirtiendo en infraestructura y recursos humanos. En la estrategia se asignó también mayor priori-
La estrategia del Banco planificada para finales de los años noventa se centra en torno a la inversión sectorial integrada. El Banco está plenamente consciente de la importancia de la comunidad de donantes bilaterales y de la necesidad de seguir mejorando la coordinación de las actividades de asistencia para servir más eficazmente al país. El Programa de inversiones para el sector agrícola y el Proyecto de apoyo al sector de la salud tuvieron su origen en este enfoque. Con el respaldo de la comunidad de donantes y la diligencia del gobierno, estos programas piloto resultan prometedores, pero será necesario hacer un seguimiento de cerca y prestar atención a la coordinación de la asistencia.

Evaluación de la estrategia de asistencia del Banco

Panorama general

La asistencia prestada por el Banco a Zambia entre 1983 y 1995 puede resumirse como sigue:

- La estrategia resultó menos relevante para el desarrollo a largo plazo del país de lo que podría haber sido si se hubiese seguido más escrupulosamente el excelente diagnóstico que realizó el Banco de los problemas y las perspectivas de desarrollo de Zambia. Por el contrario, en la estrategia se sobrestimó la determinación de las autoridades para emprender la reforma y se concentró excesivamente la atención en la inmediata expansión del producto y en la estabilidad de los precios, en vez de hacerlo en la privatización, los ajustes de las políticas para los productores privados y el saneamiento de la infraestructura económica y social. Sobre todo en los años ochenta, los objetivos a largo plazo se vieron comprometidos por la pretensión casi exclusiva de alcanzar objetivos de estabilización a corto plazo, que siguieron resultando esquivos.

- La asistencia del Banco no resultó eficaz en los años ochenta, si bien la situación mejoró a partir de 1991, con la elección de un gobierno más comprometido con el proceso de reforma. La asistencia del Banco no ha ayudado a Zambia a establecer una tendencia de crecimiento económico positivo, y mucho menos de ingreso per cápita positivo; ha aumentado la pobreza y se han deteriorado los indicadores sociales. En la década de los ochenta, la eficacia de la asistencia del Banco fue menor debido a las vacilaciones con que el gobierno de Kaunda aplicó las medidas de reforma. Con el gobierno de Chiluba, las reformas respaldadas por los créditos de la AIF contribuyeron a reducir drásticamente la inflación y a que las tasas de interés se situaran en niveles más normales, lo que recompensó la perseverancia de las autoridades y su compromiso con el programa de reforma. No obstante, la viabilidad a largo plazo de las reformas sigue siendo un tema importante.

A juzgar por los recursos que en años-personal se han dedicado a prestar servicios a los clientes, la asistencia que el Banco ha suministrado a Zambia desde 1991 ha sido más eficaz que el promedio registrado para la región de África. Ello se ha debido, en parte, al predominio del financiamiento en apoyo de reformas de políticas con un período de gestación más corto, y en parte a la determinación del Gobierno de Zambia para aplicar las reformas acordadas. Otro motivo para considerar que la estrategia del Banco en los años ochenta fue ineficiente es el limitado número de mejoras permanentes logradas en el marco de las políticas.

Para que la asistencia del Banco en el futuro sea más relevante y eficaz es preciso que la institu-
ción sea más realista en sus perspectivas con respecto a la recuperación económica del país; que preste más atención a las limitaciones humanas y de infraestructura; que tenga en cuenta que la asistencia internacional puede muy bien reducirse ahora que Zambia ya no es un “país de primera línea”, y que reconozca que el deterioro de la infraestructura tras años de falta de inversión y de descuido de las actividades de mantenimiento, las deficiencias en los conocimientos y la lentitud con que se está llevando a cabo el cambio institucional son factores que no favorecen una rápida recuperación.

Desde la perspectiva actual, el hecho de que el Banco haya centrado la asistencia en los préstamos con fines de ajuste estructural a mediados de los años ochenta, aunque fuera relevante desde el punto de vista de las necesidades del país, representó también un exceso de optimismo con respecto a la firmeza de las autoridades para mantener el rumbo. Además, en la etapa de diseño, en el grupo de apoyo al ajuste no se prestó suficiente atención a la necesidad de coordinar cada una de las operaciones.

La suspensión de los desembolsos como consecuencia de la acumulación de atrasos también tuvo consecuencias negativas sobre la cartera de proyectos de aquel entonces, las que podrían haberse reducido si se hubiesen adoptado medidas complementarias adecuadas. Así pues, una enseñanza que se recogió es que en la estrategia de asistencia del Banco deben tenerse en cuenta las suspensiones de los desembolsos y que en la estrategia de asistencia a los países deben incluirse disposiciones para mitigar los efectos sobre la eficacia de las operaciones del Banco cuando se producen suspensiones.

**La preocupación por la estabilización opacó la liberalización**

Durante la década de los ochenta, la preocupación por la estabilización se centró sobre todo en la recuperación del nivel de la producción industrial. En 1981, el Banco se dio cuenta del riesgo que entrañaba la continua dependencia del sector del cobre. Por consiguiente, recomendó llevar a cabo un ajuste estructural para reducir la dependencia de este único producto de exportación y fomentar las exportaciones no tradicionales y una eficiente sustitución de las importaciones en los sectores agrícola e industrial. En esencia, el ajuste estructural tenía por objeto liberalizar la economía del exceso de controles sobre la producción y el comercio interior y exterior. El Banco supuso que las medidas adoptadas por Zambia a principios de 1983 entrañaban la determinación irrevocable de llevar a cabo una liberalización total, y deseó dar más credibilidad a las reformas velando por que el país pudiera contar con suficientes divisas para que el producto reaccionara positivamente.

Desde 1991, los créditos para fines de ajuste estructural han contribuido en mayor medida a reducir la inflación y restablecer los equilibrios fiscales, pero es preciso prestar más atención a las cuestiones de desarrollo a más largo plazo, como señalaron los donantes en la reunión del grupo consultivo celebrada en diciembre en 1994. Así pues, ahora parece que la legislación agraria y el perfeccionamiento de los recursos humanos son los problemas más acuciantes para la siguiente etapa del desarrollo.

**La falta de consenso político con respecto al ajuste impidió que el país lo considerase como algo propio**

En los años ochenta, el Banco no advirtió o no prestó atención a los primeros indicios de que el contexto nacional político y social en que se enmarcaba el programa de ajuste estructural era incompatible con su viabilidad a largo plazo. Se observaban acusadas divisiones dentro del gobierno con respecto a la estrategia de desarrollo y a la gestión económica. Al principio, el Ministerio de Hacienda y el Banco de Zambia fueron los que más influyeron en favor
del ajuste y convencieron al presidente de sus aspectos positivos. A su vez, el presidente convenció o presionó al gobierno y al partido para que siguieran adelante, pero había también algunos asesores y grupos políticos poderosos que estaban a favor del control de la economía dominada por el sector público, sistema al que estaban acostumbrados desde hacía 20 años. El Banco no apreció en toda su extensión el delicado equilibrio entre estas fuerzas con intereses opuestos, ni prestó suficiente atención al hecho de que sólo un reducido grupo de políticos y altos funcionarios consideraban el proceso de reforma como algo propio. El Banco pasó especialmente por alto la sensibilidad del partido y de los sindicatos. Así pues, se debería haber puesto en duda el compromiso de las autoridades con la reforma cuando, ante la agitación laboral que se produjo con respecto a los salarios del sector público a principios de 1985, éstas flexibilizaron el programa de estabilización. Otro motivo para dudar fue el hecho de que el gobierno sustituyera al equipo económico liberal por expertos en planificación del sector público en la creación de empleo en las zonas urbanas ni el inmenso costo social que entrañó la necesidad de recortar el déficit fiscal. Si bien había que reducir el déficit, también había que proteger a los grupos vulnerables. Si se hubiera creado una red de protección para amortiguar el impacto de la reforma de los precios del maíz sobre los más pobres, la política de precios podría haber sido admisible para los pobres y aceptable para los políticos. Desafortunadamente, la idea de una red de protección surgió mucho más tarde, y la reforma efectiva de la política de precios se aplazó hasta la elección de un nuevo gobierno en 1991.

Para que la reforma sea sostenible es necesario prestar atención a los grupos desfavorecidos

El que no se haya reconocido el riesgo de que el proceso de reforma puede revertirse tal vez sea consecuencia en parte de la falta de atención a la reducción de la pobreza y a la distribución equitativa de la carga del ajuste. Así pues, no se tuvo suficientemente en cuenta la importancia del sector público en la creación de empleo en las zonas urbanas ni el inmenso costo social que entrañó la necesidad de recortar el déficit fiscal. Si bien había que reducir el déficit, también había que proteger a los grupos vulnerables. Si se hubiera creado una red de protección para amortiguar el impacto de la reforma de los precios del maíz sobre los más pobres, la política de precios podría haber sido admisible para los pobres y aceptable para los políticos. Desafortunadamente, la idea de una red de protección surgió mucho más tarde, y la reforma efectiva de la política de precios se aplazó hasta la elección de un nuevo gobierno en 1991.

La importancia de otros donantes limitó la influencia del Banco

La influencia de otras fuentes de financiamiento a largo plazo además del Banco también fue un factor importante. La participación de la institución en las corrientes de recursos fue relativamente pequeña, como lo demuestra el hecho de que el endeudamiento frente al Grupo del Banco representara menos de una quinta parte de la deuda total a largo plazo. Durante el período de 1986–93, los desembolsos por cápita de asistencia oficial para el desarrollo ascendieron en promedio a US$33 al año, mientras que los del Banco y la AIF se situaron en promedio en US$11. Antes de 1984, la proporción de desembolsos del Banco y la AIF era aún menor (en el caso de Zambia, los recursos provenientes de estas fuentes empezaron a cobrar cada vez más importancia a partir de 1991). A mediados de la década de los ochenta, los donantes bilaterales tenían una gran influencia en la formulación de la política económica de Zambia y, al mismo tiempo, no respaldaban con mucho entusiasmo los meritos de los programas de ajuste estructural. A veces, su influencia llegó incluso a contrarrestar la que tenía el Banco en relación con la estrategia de desarrollo para el país. Durante este periodo, la necesidad de coordinar los esfuerzos de los donantes era todavía algo novedoso en el Banco.

En el financiamiento para fines de ajuste no se tuvieron suficientemente en cuenta los riesgos de que el proceso pudiera revertirse

En vista de los retrocesos observados en las políticas a principios de los años ochenta y una vez más en 1987, y aunque algunas reformas
siguieron llevándose a feliz término, podría argumentarse que el respaldo debería haberse condicionado al mantenimiento de los elementos cruciales de la reforma. En el financiamiento para fines de ajuste concedido a Zambia no se prestó suficiente atención a los riesgos de que el proceso pudiera revertirse, ni al hecho de que el riesgo de aceptación por parte de los políticos y del público también era alto.

**Es posible que el programa de los años ochenta no contase con suficiente financiamiento**

Hay quienes han argumentado que si se hubiese facilitado más financiamiento externo cuando se produjo el deterioro de los ingresos de exportación a principios de 1986, no se habría dado marcha atrás en el proceso de reforma. El argumento se basa en que el nuevo equipo gubernamental podría no haber tenido que recurrir a la gestión de las subastas para evitar un drástico deterioro del tipo de cambio y la conversión en gran escala de kwachas, y que con una mayor oferta de insumos importados la economía habría reaccionado mejor y, por ende, las autoridades no habrían tenido la inquietud de que estaban perdiendo el control de la economía. Pese a que es imposible saber qué nivel de financiamiento inducirá el nivel óptimo de reforma, está claro que el gobierno que emprenda dicha reforma debe contar con el suficiente respaldo si está asumiendo iniciativas en materia de política que resulten arriesgadas desde el punto de vista político. Pero, si bien el incentivo para emprender reformas y evitar el tener que recurrir a la imposición de controles ha sido mucho más fuerte desde 1991, cuando Zambia supo que podía contar con una afluencia de recursos mucho mayor, parece también que el volumen de recursos ha sido mayor porque el nuevo gobierno ha dado la impresión de estar más resuelto a perseverar en la reforma. Así pues, a partir de esta información es imposible llegar a la conclusión de que el Banco debería haber proporcionado más recursos en los años ochenta.

**En los préstamos para fines de ajuste estructural otorgados en los años noventa se evitaron los errores cometidos en los años ochenta**

En las operaciones de ajuste estructural más recientes se ha hecho todo lo posible para evitar las críticas de que fueron objeto las realizadas a mediados de los años ochenta. Hoy día hay una preocupación más evidente por el costo social del ajuste y la situación de los grupos vulnerables. También hay un enfoque más gradual de las “exigencias” de la condicionalidad en relación con las reformas que entrañan una mayor dificultad política. Ahora se está prestando más atención al objetivo de alcanzar un consenso más amplio y una mayor comprensión de las medidas encaminadas a lograr que los países y los beneficiarios consideren los programas como propios.

La estrategia del Banco con respecto a la asistencia sigue evolucionando. Recientemente se ha observado un progresivo abandono del financiamiento para fines de ajuste estructural en favor del apoyo a los programas de inversión sectorial. La diferencia con un programa o proyecto sectorial tradicional es que la operación abarca a todos los proyectos de todos los donantes del sector, lo prepara un grupo de trabajo de Zambia integrado por representantes del sector público y del sector privado, e incluye exámenes y ajustes anuales basados en consultas e intercambio de información. Se prevé que con este enfoque se dé más relevancia no sólo al programa del Banco, sino también a los de todos los donantes y al del propio país. No obstante, se necesita un gran volumen de trabajo técnico y de coordinación de la ayuda, en su mayor parte sobre el terreno.

**Las suspensiones, la falta de coordinación y las limitaciones de la capacidad de absorción reducen la eficacia**

La repetida acumulación de atrasos en los pagos al Banco en 1983, entre mayo de 1987 y marzo de 1991, y desde septiembre de 1991 hasta enero de
1992, que dieron lugar a tres suspensiones de los desembolsos, redujo aún más la capacidad del Banco para obtener resultados. La prolongada suspensión que se inició en 1987 aumentó el costo en que hubo que incurrir para terminar muchos proyectos, incluido el pago de intereses durante la construcción y el costo del despido y la recontratación de los contratistas, y retrasó la acumulación de beneficios. En algunos casos, se abandonaron los proyectos y la inversión hasta el punto en que éstos básicamente se perdieron. Además, algunos inversionistas retrasaron la realización de sus planes. Pese a que las suspensiones son inevitables en casos como el de Zambia, el Banco podría haber formulado medidas complementarias para mitigar los efectos negativos sobre la cartera de proyectos. Entre esas medidas cabe señalar la coordinación con otros donantes para asegurar que no se interrumpa la ejecución de proyectos sumamente prioritarios, y la continuidad de la supervisión y los estudios económicos y sectoriales.

La eficacia de la asistencia también se resintió como consecuencia de la falta de coordinación entre los distintos componentes de la ayuda que brinda el Banco. Así pues, no se prestó suficiente atención a la importancia de los ajustes del precio del maíz para que la producción siguiera siendo rentable aun cuando con la subasta se devaluara el kwacha y se elevara el costo de los insumos importados. Como consecuencia, los recursos disponibles en el marco del Crédito para la rehabilitación del sector agrícola no se utilizaron para reemplazar los equipos, y el rápido aumento de la producción agrícola no llegó a materializarse.

Las limitaciones de la capacidad de absorción también fueron un obstáculo para la eficacia de las operaciones del Banco durante los años ochenta. Entre estas limitaciones, cabe destacar las deficiencias en materia de recursos humanos —especialmente en la esfera de la gestión y en la administración pública— así como de infraestructura física. En los últimos años, el Banco ha tratado de compensar algunas de estas deficiencias prestando asistencia técnica, tanto directamente como mediante la coordinación de la ayuda proveniente de otros donantes. Asimismo, al ayudar en la gestión de la deuda el Banco ha podido reducir la carga del servicio de ésta sobre el presupuesto, aliviando la limitación que supone la escasez de fondos de contrapartida.

La eficacia de la asistencia prestada por el Banco no ha sido uniforme: los servicios no crediticios han sido eficaces, pero no los proyectos de inversión

La eficacia de los componentes de la asistencia del Banco a Zambia no fue uniforme. La asistencia fue eficaz en el sentido de que permitió aliviar la limitación sobre la capacidad para importar y utilizar la capacidad productiva. Los préstamos para proyectos de inversión fueron menos eficaces, dado que una parte sustancial de los otorgados en los primeros años de la década de los ochenta fue cancelado. La eficacia de la asistencia no crediticia del Banco se hizo más patente en la asistencia técnica (no relacionada con préstamos). Esta eficacia fue especialmente visible en la movilización y la coordinación de la ayuda y en la gestión de la deuda, actividades en las que el Banco, al proporcionar la documentación y presidir las reuniones del grupo consultivo, ayudó a que se materializara el significativo aumento del coeficiente de asistencia, del 10 por ciento del PIB en los años ochenta al 30 por ciento en los noventa. El Banco ayudó a Zambia a reprogramar US$1.500 millones de deuda entre 1990 y 1993, lo que se tradujo en una notable reducción del servicio de la deuda y contribuyó a obtener un sustancial alivio de la carga que ésta representa.

Evaluación de los instrumentos

Estudios económicos y sectoriales (ESW)

Al examinar los estudios económicos y sectoriales sobre Zambia realizados por el Banco en
los años ochenta y noventa, cabe destacar lo siguiente:

- **En dichos estudios se identificaron los tres requisitos fundamentales en materia de políticas para el desarrollo del país en los 15 últimos años, a saber, liberalización, privatización y diversificación de la economía.**

- **El Banco, en sus estudios económicos y sectoriales, hizo hincapié sobre todo en la liberalización, que se llevó a cabo con éxito debido en parte al diálogo más informado en materia de política económica, diálogo que, a su vez, fue consecuencia de dichos estudios. La privatización ha quedado a la zaga y la diversificación ha resultado un objetivo difícil de alcanzar.**

- **El Banco debería estudiar la experiencia de Zambia en materia de privatización. Tam poco se han estudiado todavía en detalle la política agraria ni los factores culturales.**

- **El Banco no realizó suficientes estudios económicos y sectoriales con respecto a los requisitos que exigía la diversificación de la economía. Sin embargo, los análisis realizados recientemente sobre las perspectivas de crecimiento sostenible en Zambia constitu yen un paso en la dirección acertada.**

- **La realización de varios análisis del gasto público permitió buscar fórmulas para controlar el déficit del sector público.**

- **En 1994, el Banco realizó una excelente evaluación de la pobreza en Zambia, que se está utilizando ahora en el diseño de las medidas de política pertinentes para mitigar el problema.**

- **Los estudios sectoriales realizados en el contexto de la identificación de los proyectos tuvieron un significativo impacto en la minería y la agricultura.**

En general, los estudios que llevó a cabo el Banco fueron pertinentes y adecuados en cuanto a los sectores en los que se realizaron y a los temas analizados. La selección de los temas también fue apropiada para la situación de Zambia, sobre todo, los problemas que enfrenta la economía. Sin embargo, el hecho de que el Banco no realizara ningún estudio económico y sectorial para apoyar la promoción de la inversión y la planificación de la infraestructura limitará la capacidad de respaldo de la institución en estas esferas en el corto plazo. En general, la relevancia de los estudios se realizó por la oportunidad con que los mismos respondieron a una necesidad existente y por el hecho de que el producto estuvo terminado siempre que las autoridades estaban inclinadas a considerar la posibilidad de efectuar reajustes de su política económica.

**Financiamiento**


El ajuste representó el 67 por ciento de los compromisos durante los ejercicios de 1983 a 1995. La distribución de los compromisos de préstamo por sectores refleja la importancia del financiamiento para fines de ajuste estructural y de otro tipo. La distribución por sectores fue la siguiente: préstamos multisectoriales, 32 por ciento; industria/desarrollo y financiamiento industriales, 18 por ciento; agricultura, algo menos del 16 por ciento; sector financiero, 14 por ciento; sectores sociales (educación y población/salud), 9 por ciento; minería, algo
menos el 7 por ciento; infraestructura (transporte y abastecimiento de agua), 3 por ciento.


Los préstamos del BIRF y los créditos de la AIF a Zambia no fueron excesivos desde el punto de vista de la concentración del riesgo de ambas instituciones. Al 30 de junio de 1994, Zambia concentraba el 1,52 por ciento de los créditos pendientes de reembolso a la AIF y el 0,21 por ciento del total de préstamos pendientes de reembolso al Banco. Al 31 de diciembre de 1993, el BIRF y la AIF concentraban el 22,6 por ciento de la deuda a largo plazo de Zambia, cuyo servicio requería entre un 7 por ciento y un 10 por ciento de las exportaciones de bienes y servicios durante los años noventa. Por este motivo, aunque la concentración del riesgo para las dos instituciones no era excesiva, sí se percibió la existencia de cierto riesgo para la cartera. Dado que las cuatro quintas partes de los compromisos se dedicaron a operaciones de ajuste para prestar apoyo con fines de balanza de pagos y, a su vez, facilitar el servicio de la deuda, el financiamiento otorgado por el Banco y la AIF a Zambia no fue excesivo en relación con la capacidad del país para ejecutar los proyectos.

Sobre la base de los proyectos terminados y de los informes de evaluación de los resultados, las calificaciones del desempeño disponibles para 18 de las 45 operaciones aprobadas desde 1980 indican que sólo el 44 por ciento de las operaciones ejecutadas en Zambia fueron satisfactorias, frente al 68 por ciento si se considera el total de operaciones ejecutadas por el Banco, y al 62 por ciento si se compara con la región de África. Los resultados fueron desiguales según los sectores; por ejemplo, los cuatro proyectos de energía fueron satisfactorios, mientras que en el sector agrícola sólo lo fue uno de los seis proyectos calificados. Los proyectos satisfactorios se caracterizaron por:

- sus pequeñas dimensiones y el hecho de no requerir una gran actividad de gestión;
- el hecho de contar con la tecnología adecuada, y
- el uso de contratistas y consultores extranjeros y el desarrollo de algunas actividades de capacitación del personal nacional.

Las características de los proyectos insatisfactorios, sobre todo en el sector agrícola, fueron:

- la dependencia de una administración y una gestión deficientes;
- la necesidad de contar con fondos de contrapartida;
- la falta de una perfecta delegación de autoridad, y
- los problemas de coordinación que se produjeron entre los distintos organismos y la falta de una clara delimitación de responsabilidades.

Todas las operaciones de ajuste de los años ochenta fueron calificadas de insatisfactorias, aunque se alcanzaron algunos de los objetivos; no ocurrió así en lo que respecta a la producción ni tampoco se actuó con diligencia para alcan-
zar los objetivos en materia de políticas, que se abandonaron en su mayoría en 1987. A partir de 1991, las operaciones de ajuste parecen haberse saldado con éxito, tanto en el frente de las políticas como en lo que respecta al control de las magnitudes fiscales y monetarias, y parecen haber sentado las bases para la movilización coordinada de un respaldo más amplio de la comunidad de donantes a fin de financiar las necesidades de balanza de pagos. Hasta la fecha, sólo se ha evaluado un proyecto: el Segundo crédito para la recuperación económica (ejercicio de 1991). En la evaluación de los resultados el proyecto tuvo una calificación satisfactoria.

La cartera corriente se evaluó examinando las calificaciones resultantes de la supervisión cuando había datos disponibles al respecto, determinando “el nivel de exigencia” de cada operación en función de los principales determinantes de la capacidad de absorción, y evaluando las operaciones con arreglo a determinados objetivos deseados para configurar un buen programa. Se contó con datos provenientes de la supervisión en 14 operaciones, de las cuales una fue calificada de muy satisfactoria en su ejecución, 12 de satisfactorias y una de insatisfactoria.

El Programa de inversiones para el sector agrícola (ASIP) representa un cambio radical con respecto al enfoque tradicional de los proyectos, en la medida en que trata de potenciar el impacto en términos de desarrollo a través de una coordinación más eficiente entre los donantes y una mayor participación de los clientes y los beneficiarios en la identificación y en la ejecución del programa sectorial. Este es el primero de una serie de programas cuatrieniales de iniciativas multilaterales, bilaterales y estatales coordinadas, cuyo objetivo es promover el desarrollo a mediano y largo plazo de sectores estratégicos. El proyecto incluye componentes para mejorar los procedimientos de consulta con los donantes y los beneficiarios en relación con el entorno y las instituciones que afectan a las políticas, hacer más eficientes las prácticas de seguimiento y la inversión pública, fomentar la participación del sector privado e incluir planes piloto. La evaluación preliminar de la preparación y la aplicación del Programa de inversiones para el sector agrícola ha dado resultados desiguales. El proceso de preparación ha permitido una amplia participación y una mayor sensación de autoría del proyecto entre los beneficiarios. Sin embargo, con ello se ha retrasado el proceso y algunas organizaciones se quejan de que ciertos grupos interesados no hayan estado suficientemente representados, mientras que algunos donantes todavía se muestran reticentes por el papel dominante que representa el Banco.

**Asistencia del Banco en la coordinación de la ayuda y la gestión de la deuda**

Desde 1989, tanto Zambia como la comunidad de donantes han considerado muy positivo el papel de liderazgo del Banco en el grupo consultivo. La siguiente tarea que la institución estuvo llamada a desempeñar en los años noventa consistió en movilizar la asistencia necesaria para cerrar una brecha de financiamiento —después de la reprogramación— de más de US$1.000 millones al año. Hasta la fecha, se ha logrado cerrar dicha brecha todos los años. La función del Banco ha consistido en facilitar las bases documentales y analíticas para las deliberaciones y las negociaciones; además, ha desempeñado una función de apoyo educando a los donantes y convenciéndolos de las ventajas de las medidas de ajuste que el Gobierno de Zambia se ha comprometido a aplicar desde 1991. Asimismo, el Banco ha procurado el respaldo de los donantes para dicha empresa solicitándoles que aumenten la asistencia y la participación en el financiamiento de las necesidades de balanza de pagos en los programas de ayuda. Gran parte de la asistencia movilizada por el Banco se ha destinado al
servicio de la deuda contraída frente a acreedores multilaterales y de otro tipo, lo que ha provocado algunas críticas por desviar recursos de las partidas de servicios sociales e infraestructura. Más recientemente, en la coordinación de la asistencia se ha hecho hincapié en el plano sectorial, a fin de evitar duplicaciones, sobrecarga en la gestión del sector público y demandas poco realistas en materia de financiamiento de contrapartida.

La experiencia acumulada por el Banco en la coordinación de la asistencia permite extraer algunas conclusiones:

- Las reuniones del grupo consultivo son útiles con miras a la movilización de recursos, sobre todo, en el caso de los países que dependen muchísimo de la asistencia y están pasando por el proceso de ajuste, y para mantener la coalición de los donantes más allá de los meros límites de dicho proceso.

- Una mayor presencia sobre el terreno simplifica el proceso de coordinación sectorial de la asistencia, en la medida en que puede fomentar un mayor sentido de autoría de los proyectos a escala local y facilitar una aportación más oportuna de recursos para amortiguar las dificultades que entraña la ejecución de los proyectos.

- La crisis de la deuda galvanizó una mayor movilización de asistencia, pero los donantes no desean que la gestión de la deuda sea el criterio dominante en las decisiones relativas a la asignación de la ayuda.

- La coordinación y la gestión de la asistencia dentro del país por parte de los países clientes es tan importante como la propia coordinación entre los donantes, y por eso es necesario estudiar y racionalizar el marco institucional en el que debe encuadrarse este objetivo. Para lograr una coordinación y gestión eficientes de la asistencia se requieren estrategias y objetivos de desarrollo claros, capacidad para identificar y preparar los proyectos, eficacia en las actividades de programación y presupuestación para estos últimos y una supervisión y gestión financiera acertadas.

- Dada la reciente y favorable colaboración que se ha producido en los exámenes del gasto público y las evaluaciones de la pobreza, se recomienda estudiar nuevas fórmulas de colaboración entre el Banco y los donantes en la realización de los estudios económicos y sectoriales.

El Banco ayudó a Zambia a instaurar el sistema de gestión de la deuda y a negociar frecuentes reprogramaciones y la ocasional reducción de la misma. En agosto de 1992, y como consecuencia de las reprogramaciones realizadas por el Club de París y las cancelaciones de los acreedores bilaterales, la deuda de Zambia se había reducido en US$1.500 millones y ascendía a US$6.500 millones. En los años noventa se produjo una reducción neta de la carga correspondiente a intereses porque se capitalizaron US$597 millones por este concepto, y los donantes condonaron US$76 millones entre 1990 y 1993. Durante el mismo período los intereses netos en mora se redujeron en US$118 millones. La carga que representan los intereses sobre los nuevos compromisos también será menor porque la tasa de interés de los nuevos préstamos ha bajado, debido en parte al cambio de fuente de financiación, con una mayor participación de los acreedores oficiales en detrimento de los acreedores privados. Entretanto, se han reprogramado US$853 millones por concepto de reembolsos exigibles del principal, con lo que se ha reducido la carga inmediata del servicio de la deuda.

Con el tiempo, ha aumentado la proporción de deuda multilateral. El Banco concentra ahora una mayor proporción de la deuda de Zambia y una mayor proporción de obligaciones por ser-
vicio de dicha deuda como consecuencia del aumento de los compromisos per cápita de la AIF: en promedio, US$25 anuales entre 1991 y 1995, frente a US$12 entre 1983 y 1987. El aumento de los compromisos de la AIF ha contribuido en gran medida a reducir la carga de la deuda de Zambia: a medida que venció la deuda del BIRF con plazos de vencimiento más cortos y tasas de interés más altas, la AIF otorgó nuevos créditos en condiciones sumamente concesionarias. La deuda comercial y a corto plazo ha disminuido como consecuencia de las operaciones de recompra que tan drásticamente redujeron la concentración de riesgo de los acreedores del Club de Londres. Además, los acreedores del Club de París han proporcionado un significativo alivio de la deuda.

Todas estas mejoras no se reflejan normalmente en los indicadores más usuales de la deuda que registran la proporción entre el volumen de la deuda y el servicio de la misma con respecto al PNB y la exportación de bienes y servicios. Ello se debe a que, en los años noventa, los denominadores se redujeron por debajo de los niveles registrados en 1980 y 1989. No obstante, ha aumentado la solvencia del país y se han reducido los atrasos. Zambia tiene acceso a los recursos del Banco Mundial y del Fondo Monetario Internacional, y algunos donantes bilaterales que le habían retirado el apoyo se han visto inducidos a reconsiderar su actitud. Con todo, en algunas instancias se percibe cierta inquietud en cuanto a la posibilidad de que la asistencia del Banco en esta materia se haya encaminado a la búsqueda de algunas ventajas y que haya permitido atender el servicio de la deuda frente al Banco a expensas del crecimiento económico del país. Ahora bien, esta inquietud se basa en el supuesto de que, de no haberse atendido el servicio de la deuda, las entradas de capital habrían seguido siendo suficientes para generar un aumento de dicho crecimiento, lo cual parece dudoso. Más importante es que existe también la inquietud de que la preocupación del Banco por el cumplimiento del servicio de la deuda haya desviado recursos y tiempo —incluido tiempo de gestión— de los temas del desarrollo, y que la situación de la deuda haya mejorado a expensas de la atención a los problemas del sector productivo.

La misión residente del Banco ha empezado recientemente a desempeñar un papel importante para facilitar la prestación de la asistencia del Banco a través del programa de préstamos, la coordinación de la ayuda y otros instrumentos. La misión está participando en el diseño del programa de préstamos en varias formas: ayuda a los ministerios y a los organismos a identificar los proyectos que se discutirán con funcionarios del Banco de la sede, y contribuye al seguimiento y la supervisión de los proyectos durante la etapa de ejecución. La misión participa sobre todo en forma muy activa en la coordinación de la asistencia del Banco con los representantes locales de los donantes bilaterales y del Programa de las Naciones Unidas para el Desarrollo. Aunque durante mucho tiempo no ha contado con suficiente personal, la misión residente ha podido prestar cierto apoyo a la agricultura y al seguimiento de la situación macroeconómica. Dado que en los nuevos programas sectoriales (por ejemplo, el ASIP) se presta más atención a la consulta con los clientes, será necesario reforzar la misión para que el proceso no dependa tan crucialmente como en el pasado de las misiones que el Banco envía desde Washington para que el proceso no pierda impulso.

**Avances en la consecución de los objetivos de la asistencia del Banco**

La consecución de los objetivos está en función de muchos factores distintos, el más importante de los cuales es el desempeño económico del país. No obstante, para orientar en el futuro la estrategia del Banco en materia de asistencia es esencial evaluar en qué medida se alcanzaron cada uno de los objetivos:
Desde 1992, la gestión económica ha mejorado considerablemente, sobre todo en lo que respecta a la disciplina monetaria y fiscal. El déficit fiscal primario se redujo del 7 por ciento del PIB a principios de los años noventa al 1 por ciento del PIB en 1995, pero no se restableció el crecimiento económico, y la viabilidad de las reformas sigue estando amenazada por varios problemas graves, sobre todo ante la inminencia de las elecciones de 1996.

Los avances logrados en la liberalización del entorno económico para el sector privado, empezando por el mercado de divisas, han sido significativos.

El proceso de privatización fue lento al principio, pero cobró mucho impulso en 1995.

La diversificación de la producción, especialmente de las exportaciones, no fue significativa.

Durante el período de 1984-94, la pobreza aumentó tanto en términos relativos como absolutos. En los 15 últimos años se ha producido un notable deterioro de los principales indicadores sociales.

Los avances en la agricultura fueron mínimos. Disminuyó la producción de cereales, pero ahora se están producendo en pequeñas cantidades algunos nuevos cultivos y flores para el mercado de exportación. La prolongada suspensión de los desembolsos socavó la eficacia de los proyectos respaldados por el Banco.

El sector manufacturero, que prosperó al amparo de la protección de los aranceles y depende de los insumos importados, sigue padeciendo dos graves problemas: la baja productividad y la escasa calidad del producto. Además, es un sector dominado por las empresas públicas.

El respaldo del Banco para la rehabilitación de las minas de cobre ha dado resultados positivos tanto en materia de producción como de costos.

La asistencia del Banco para los sectores de educación y salud es aún demasiado reciente para hacer una evaluación.

Conclusiones y recomendaciones

Sobre cuestiones estratégicas clave

Es necesario prestar más atención a la privatización y la diversificación. La liberalización, la privatización y la diversificación son los tres pilares de la estrategia de reactivación del crecimiento, pero sólo en el primero de estos tres frentes se han logrado avances sustanciales. Los progresos obtenidos recientemente (en 1995) con respecto a la privatización constituyen un positivo paso adelante, pero todavía falta mucho camino que recorrer. En cuanto a la diversificación, es necesario un notable aumento de la inversión privada, lo que aún no se ha producido. Uno de los principales elementos de la estrategia del Banco ha de ser el atento examen de los obstáculos que aún persisten para el desarrollo del sector privado.

El crecimiento económico requiere inversión en infraestructura física y social. Para lograr un crecimiento positivo del PIB en Zambia y frenar el aumento de la pobreza es necesario seguir invirtiendo en infraestructura física y social. Estas inversiones dependerán del respaldo del Banco y de otros donantes. Lo importante es que la combinación de instrumentos, así como el financiamiento total del Banco y de la AIF —habida cuenta del nivel de apoyo de otros donantes— sea congruente con las exigencias del servicio de la deuda y la inversión necesaria para alcanzar el objetivo de crecimiento económico.
La coordinación y la coherencia de las condiciones de los préstamos tanto a nivel macroeconómico como microeconómico son esenciales. La coordinación entre las condiciones macroeconómicas de las operaciones de ajuste estructural y los proyectos sectoriales de ajuste o inversión debe darse no sólo en cuanto al contenido sino también en lo tocante al ritmo y la secuencia de las medidas. Este principio se aplica sobre todo a aquellas que afectan a las políticas de precios de los productos y los insumos y a la eliminación de las subvenciones. Estos tres elementos inciden en la rentabilidad de las actividades y, por ende, en la forma en que los empresarios reaccionan ante las oportunidades de diversificación.

Para desarrollar un sector privado dinámico es necesario fomentar el espíritu de empresa. Otro obstáculo grave para el desarrollo del sector privado en Zambia radica, cada vez más, en el espíritu de empresa, la capacidad de gestión y los conocimientos de la población. ¿Dónde están los empresarios? Entre los muchos factores que obstaculizan el desarrollo del espíritu de empresa y la adquisición de conocimientos cabe señalar: el descenso de la esperanza de vida; la pesada carga de trabajo que ya soporta la mujer; las barreras tradicionales que impiden el acceso de la mujer al crédito y a la propiedad de la tierra; el bajo nivel de ahorro personal como consecuencia de la pobreza; la imposibilidad de los sectores pobres de arriesgar sus fuentes de ingreso (el camino menos arriesgado para salir del ghetto, sobre todo la administración pública, no favorece precisamente el espíritu de empresa); el elevado porcentaje de jóvenes que se convierten en cabezas de familia debido a la muerte prematura de los padres, y el desconocimiento de otras formas de producción. En la estrategia de asistencia al país que aplique el Banco deberán abordarse todas estas cuestiones y proponerse medidas específicas.

Es necesario desarrollar instituciones que presten servicio al sector privado. El desarrollo institucional del sector público es un complemento necesario para la promoción del sector privado. Es menester delimitar las funciones que debe desempeñar el sector público, identificar las instituciones complementarias que se precisan para dar servicio y apoyo al sector privado, y proporcionar todo lo necesario para satisfacer estas necesidades. En los 15 últimos años se ha prestado poca atención al desarrollo institucional y, por lo general, de las evaluaciones realizadas en Zambia se desprende que la mayoría de los ministerios y organismos del estado sencillamente no cuentan con suficiente personal ni con los insumos necesarios para el eficaz desempeño de sus obligaciones. El desarrollo institucional es un proceso lento que debe considerarse más prioritario de lo que ha sido hasta la fecha. Pese a que la privatización sigue en marcha, el sector público puede mantener a los funcionarios idóneos en la administración pública y reeducarlos para que trabajen en campos en los que la capacidad institucional es más deficiente.

Es preciso mantener la participación de los donantes bilaterales en el desarrollo de Zambia. Los donantes bilaterales han sido una importante fuente de respaldo para el desarrollo de Zambia y serán indispensables para el futuro del país, sobre todo tras habersele cerrado el acceso a los préstamos comerciales. La cuestión es cómo mantener la participación de los donantes ahora que las razones geopolíticas que justificaban su ayuda en el pasado han dejado de tener validez y quizá no vuelvan a tenerla en el futuro. La respuesta parece estar en involucrar plenamente a los donantes en las decisiones que afectan a los objetivos y al diseño de los mecanismos para que la asistencia que proporcionan pueda emplearse con la máxima eficacia. También puede radicar en parte en velar por que los beneficios políticos y de relaciones públicas sean importantes para los políticos de los países donantes; por eso es necesario dejar que los donantes bilaterales lleven la iniciativa del grupo en el mayor número posible de sectores.
Es necesario prever las repercusiones políticas de la reforma. A la hora de planificar la estrategia del Banco con respecto a la asistencia, es preciso estudiar atentamente y prever la reacción política ante la reforma. El enfoque del Banco se ha basado con frecuencia en hacer hincapié en la eliminación de las distorsiones sin prestar mucha atención al hecho de que detrás de cada distorsión existe un grupo de beneficiarios que posiblemente se opondrán a la reforma. En Zambia, hay una amplia gama de subvenciones (por ejemplo, a la harina de maíz o los fertilizantes) que benefician a los sectores pobres, es decir, a la mayoría de la población. El efecto de una reforma que afecte a un grupo tan numeroso de personas ha hecho que el programa de ajuste resulte difícil desde el punto de vista político. Para evitar un retroceso, debe considerarse la posibilidad de ofrecer algún beneficio compensatorio que produzca menos distorsiones. Este enfoque favorece además la viabilidad de las reformas y los programas de inversión. Las reformas deben acompañarse también de un diálogo apropiado para lograr una cabal comprensión de los argumentos lógicos que las sustentan. De no existir éstos u otros mecanismos para amortiguar los efectos sobre los afectados, el riesgo de que se revierta la situación es cada vez mayor, sobre todo en un año de elecciones.

En la formulación de la estrategia es crucial hacer una evaluación atenta de las opciones y los riesgos. Al formular una estrategia del Banco para un país no es aconsejable adoptar un enfoque basado en “una sola opción”. El Banco debe estar preparado para contemplar la hipótesis óptima y la menos favorable. Dar por sentado que los donantes siempre se ocuparán de cubrir el déficit de financiamiento no sólo es peligroso, sino que además cierra las puertas a la búsqueda de otras alternativas.

Recurrir a instrumentos más eficaces

Estudios económicos y sectoriales. A este respecto, las recomendaciones son las siguientes:

- En los estudios económicos y sociales deben tenerse en cuenta las repercusiones políticas de las recomendaciones económicas y sociales que contienen.
- Es preciso evitar el exceso de optimismo en los supuestos y proyecciones. El optimismo excesivo con respecto a la evolución de los precios del cobre hizo que se retrasaran las medidas de ajuste en los años ochenta. Es probable que también haya demasiado optimismo en los años noventa en lo que respecta al crecimiento económico y la asistencia financiera.
- Es menester prestar más atención al diseño de las estrategias encaminadas a reducir el déficit del sector público en el contexto de las operaciones de ajuste, tanto en lo que respecta al momento en que se adopten las medidas como a la supervisión de la ejecución.
- Es conveniente que el Banco siga adelante con los estudios económicos y sectoriales aun cuando la acumulación de atrasos exija la suspensión del financiamiento. Muchas de las tareas relacionadas con estos estudios se abandonaron tras la suspensión en mayo de 1987, y el correspondiente programa de actividades fue bastante parco en los tres años siguientes. Ello dio lugar a que se produjeran grandes desfases entre la actualización de los memorandos sobre los sectores estratégicos (por ejemplo, la agricultura) y un retraso en el reinicio de las operaciones.
- Es necesario mejorar los estudios económicos y sectoriales en materia de privatización. La falta de estudios previos sobre el tema ha contribuido probablemente a la lentitud con que ha avanzado el proceso. No se previó la inquietud suscitada en torno a la enajenación de los activos.
- Si se prestara más atención a la secuencia de las medidas también sería más fácil garan-
zar la eficacia del asesoramiento y la asistencia (por ejemplo, la liberalización y el desarrollo de la infraestructura deben ir acompasados; las soluciones a los problemas fiscales en materia de recuperación de costos deben ser compatibles con la atención de los problemas sociales, y el plan de inversión pública debe enmarcarse en un plan de desarrollo a mediano plazo consensuado).

**Financiamiento.** Las recomendaciones en materia crediticia son las siguientes:

- No debe recurrirse al financiamiento con fines de ajuste para persuadir a un cliente indecisio de que emprenda un prolongado programa de reforma.

- En el caso de Zambia, es probable que los proyectos tengan más éxito si se utiliza tecnología de reducidas dimensiones, apropiada y relativamente sencilla, se incluye asistencia en materia de capacitación, se vinculan la autoridad y la responsabilidad con respecto a la ejecución y se presta atención a mejorar los servicios complementarios (por ejemplo, servicios de extensión).

- En el sector agrícola y los sectores sociales es conveniente ensayar proyectos piloto cuando haya incertidumbre con respecto a la información o la experiencia en que ha de sustentarse el diseño del proyecto.

- Las suspensiones de los desembolsos tienen un costo muy alto: pocos proyectos sobreviven a interrupciones prolongadas de su ejecución. El Banco debería estudiar la factibilidad de adoptar medidas (como dejarlo en suspenso, y el aumento del financiamiento del sector público o de otros donantes) que permitan reducir al mínimo los inconvenientes que entraña para un proyecto la suspensión de los desembolsos.

- En lo que respecta a la coordinación de la ayuda y la gestión de la deuda, el Banco debería seguir prestando asistencia aun cuando la suspensión del financiamiento sea inevitable.

- El nuevo instrumento crediticio del proyecto de inversión sectorial es muy prometedor pero debe someterse a un atento seguimiento. Es necesario prestar más atención a la plena participación de los donantes y evitar dar la impresión de que el Banco domina la situación.

**La misión residente**

Es conveniente que la misión residente desempeñe una función más destacada, no sólo como consecuencia de la tendencia general que se observa en el Banco a prestar más atención a los resultados en la práctica, sino también en el contexto concreto de un programa que se apoye en una mayor coordinación de la asistencia y en programas sectoriales de inversión. En el pasado, la misión residente no ha contado con personal suficiente y las decisiones han dependido excesivamente de las misiones enviadas desde la sede.
Résumé analytique

Introduction

L’aide de la Banque mondiale à la Zambie dans les années 80 et 90 s’est caractérisée par la prédominance des prêts d’ajustement, lesquels ont représenté plus de 60 pour cent des engagements et près de 80 pour cent des décaissemements — soit sensiblement plus qu’au Kenya, au Malawi, en Tanzanie, en Ouganda et au Zimbabwe. Et pourtant, la Zambie n’a pas été un cas exceptionnel parmi les pays engagés sur la voie de l’ajustement. L’aide de la Banque a été marquée par de fréquentes interruptions : les décaissements ont été suspendus en 1983, en 1987 (pendant près de trois ans) et en 1991 en raison de l’accumulation des arriérés.

D’emprunteur à la Banque internationale pour la reconstruction et le développement (BIRD), la Zambie est passée au statut d’emprunteur mixte (empruntant à la fois à la BIRD et à l’Association internationale de développement — IDA) pour ensuite devenir emprunteur exclusif de l’IDA. Elle a reçu son premier crédit de l’IDA en 1978 et, depuis 1984, elle en est emprunteur exclusif.

La conclusion générale de la présente évaluation est qu’étant donné la nature des problèmes de la Zambie et la tiédeur des engagements du gouvernement à l’égard des réformes dans les années 80, on a trop mis l’accent sur des opérations à but directif et trop insisté, dans le cadre de ces opérations, sur la stabilisation plutôt que sur l’ajustement structurel à long terme. Une approche plus équiliblée, qui aurait vu l’infrastructure physique et sociale recevoir une part plus grande d’un total moins élevé de fonds, eût été souhaitable. Depuis l’élection, en 1991, d’un gouvernement plus acquis aux réformes, les prêts d’ajustement structurel ont contribué à contenir l’inflation et à rétablir la discipline dans la gestion de la dette. Mais les privatisations, la diversification de la production, la remise en état de l’infrastructure économique et l’amélioration des services sociaux sont affaire de plus longue haleine. Le caractère durable des réformes pose également un problème, en particulier en période préélectorale.


La suspension prolongée des prêts entre 1987 et 1991, due aux retards de paiements de
la Zambie à la Banque, a eu un impact négatif sur un grand nombre de projets qui étaient en cours à l’époque. De plus, un riche programme d’études économiques et sectorielles a été considérablement réduit, ce qui a affaibli la base d’études économiques et sectorielles des opérations de la Banque une fois la suspension levée. La conclusion à tirer de cet épisode est qu’il est possible d’éviter certaines des conséquences négatives d’une période de suspension prolongée à condition de prendre, durant la suspension, les mesures appropriées, et que ceci peut donner davantage d’efficacité à l’aide de la Banque.

### La stratégie d’aide de la Banque

La stratégie de la Banque a évolué comme suit :

1. **Avant 1980.** La Banque partageait l’optimisme de la Zambie concernant le cuivre et n’avait rien à redire à la stratégie de développement industriel du pays.

2. **1980–82.** La Banque a commencé à fonder sa stratégie sur son propre diagnostic du problème posé par le développement de la Zambie : il fallait rendre le pays moins tributaire du cuivre, libéraliser les contrôles dans les domaines du commerce et des marchés et réduire la part prépondérante du secteur public dans le secteur des industries manufacturières ainsi que dans celui des services financiers et autres.

3. **1983–86.** L’aide de la Banque aux efforts intermittents de réforme de la Zambie a pris principalement la forme de crédits d’ajustement structurel et d’ajustement sectoriel axés sur la stabilisation de l’économie.


5. **1991.** La Banque a contribué au règlement du problème des arriérés par la mise en œuvre d’une stratégie novatrice, et elle a repris ses prêts malgré le risque que l’approche des élections faisait peser sur le respect des conditions.


7. **1994 et après.** La stratégie de la Banque a accentué son orientation vers la croissance et la lutte contre la pauvreté, mettant davantage l’accent sur les privatisations et les programmes d’investissement sectoriel.

Dans les premiers mois de 1994, inflexissant son orientation, la stratégie d’aide de la Banque a visé à aider la Zambie à réaliser une croissance économique soutenue et à faire reculer la pauvreté. On y mettait également l’accent sur l’intérêt nouveau de la région pour une évaluation participative des projets de la Banque par une consultation systématique des clients. (Il s’agissait par là d’inciter à une plus grande participation locale à la conception et de donner, par une prise en main maximale des projets par le gouvernement et les bénéficiaires, un caractère durable à leur impact sur le développement.) Tout en reconnaissant qu’il fallait continuer à soutenir l’ajustement structurel et contribuer à combler l’énorme écart de financement, on accordait une plus grande priorité à l’amélioration de l’environnement de façon à rendre celui-ci plus porteur pour la croissance du secteur privé au moyen d’investissements d’infrastructure et de ressources humaines. On s’attachait aussi davantage à organiser, dans le domaine de l’agriculture et des services sociaux, de pro-
grammes spécialement conçus pour les pauvres et les catégories vulnérables.

La stratégie de la Banque pour la fin des années 90 s’articule autour de l’opération d’investissement sectoriel intégré. La Banque est pleinement consciente de l’importance de la communauté des bailleurs de fonds bilatéraux et du fait qu’il faut continuer à mieux coordonner les activités d’aide afin de mieux servir le pays. C’est de cette constatation que sont nés le Programme d’investissement dans le secteur agricole et le Projet d’appui au secteur de la santé. Avec le soutien de la communauté des bailleurs de fonds et la diligence du gouvernement, ces projets pilotes sont riches de promesses à condition d’apporter tous les soins et toute l’attention nécessaires à la coordination des aides.

**Évaluation de la stratégie d’aide de la Banque**

**Aperçu général**

La stratégie d’aide de la Banque à la Zambie durant la période 1983–95 peut se résumer comme suit :

- La stratégie a moins bien répondu aux besoins de développement à long terme du pays qu’elle aurait pu le faire si elle avait suivi l’excellent diagnostic des problèmes et des perspectives de développement de la Zambie que la Banque avait établi. C’est ainsi que l’on a surestimé les dispositions réformatrices du gouvernement et que l’on s’est trop attaché à l’expansion immédiate de la production et à la stabilité des prix plutôt qu’à la privatisation, aux ajustements d’ordre législatif et réglementaire pour les producteurs du secteur privé et à la remise en état de l’infrastructure économique et sociale. En particulier durant les années 80, on a sacrifié le long terme à la poursuite quasi-exclusive, et à peu près vaine, d’objectifs de stabilisation à court terme.

- L’efficacité de l’aide de la Banque, médiocre dans les années 80, s’est améliorée après 1991, avec l’arrivée au pouvoir d’un gouvernement animé d’une plus grande volonté de réformes. Les concours de la Banque n’ont rien fait pour aider la Zambie à se placer sur une trajectoire de croissance positive du PIB, et encore moins de croissance positive du revenu par habitant; la pauvreté s’est aggravée et les indicateurs sociaux se sont dégradés. Durant les années 80, l’efficacité de la Banque a souffert de l’irrésolution du gouvernement Kaunda dans l’application des réformes. Sous le gouvernement Chiluba, les réformes mises en place à l’aide des crédits de l’IDA ont contribué à réduire les taux d’inflation et à rendre les taux d’intérêts plus proches des cours normaux, récompensant ainsi l’adhésion sans faille du gouvernement à la réalisation du programme de réformes. Reste à savoir, et c’est là une question importante, si ces réformes seront durables.

- À en juger d’après les ressources en personnel qu’elle consacre aux services qu’elle assure à ses clients, la Banque a fait preuve, depuis 1991, d’une plus grande efficacité dans son aide à la Zambie que ce qui est la moyenne pour la région Afrique. Ceci a été dû en partie à la prédominance des prêts à vocation réformatrice, dont la période de gestation est plus courte, et en partie à l’attache du gouvernement zambien à la mise en œuvre des réformes convenues. Il faut également considérer que la stratégie de la Banque durant les années 80 a été inefficace en raison du nombre peu élevé d’améliorations permanentes qui ont été apportées à l’environnement législatif et réglementaire.

Pour que son aide soit plus appropriée et plus efficace à l’avenir, la Banque devra être plus réaliste dans son appréciation des perspectives
de reprise de l’économie zambienne, reconnaître que la situation politique peut ne pas toujours être favorable au développement, prêter une plus grande attention aux contraintes de ressources humaines et d’infrastructure du pays, et considérer que l’aide internationale peut bien se contracter maintenant que la Zambie n’est plus un état de « première ligne ». La Banque devra reconnaître aussi que l’état de dégradation dans lequel ont mis l’infrastructure zambienne, des années d’entretien négligé et de sous-investissement, la pauvreté du pays en personnel qualifié et la lenteur avec laquelle s’y font les changements institutionnels sont autant de facteurs qui militent contre une prompte reprise.

Rétrospectivement, on peut voir que, bien qu’adaptée aux besoins du pays, la focalisation des prêts de la Banque sur les prêts d’ajustement structurel au milieu des années 80, pêchait par excès d’optimisme concernant la détermination du gouvernement à maintenir le cap des réformes. De plus, le groupe d’appui à l’ajustement n’a pas prêté suffisamment d’attention, au stade de leur conception, à la coordination entre les diverses opérations.

La suspension des décaissements causée par l’accumulation des arriérés a eu également, sur le portefeuille, un impact négatif qui aurait pu être réduit en prenant les mesures complémentaires appropriées. Ainsi, une leçon de l’expérience est que la stratégie d’aide de la Banque devrait prendre en compte l’éventualité d’une suspension de ses décaissements et que sa stratégie d’aide aux pays devrait comprendre des dispositions tendant à atténuer les effets d’une suspension sur l’efficacité de ses opérations.

Une libéralisation éclipsée par des soucis de stabilisation

Durant les années 80, le souci de stabilisation était principalement celui d’un redressement du niveau de la production industrielle. En 1981, la Banque a vu le risque que courait le pays à demeurer tributaire du cuivre. Elle a donc conseillé l’ajustement structurel pour réduire la dépendance du pays par rapport à cet unique produit d’exportation et pour développer d’autres exportations non traditionnelles et substituer de manière efficace des productions locales aux importations dans les secteurs agricole et industriel. Essentiellement, l’ajustement structurel cherchait à libérer l’économie de la pléthore de contrôles auxquels étaient soumis la production ainsi que le commerce intérieur et extérieur. La Banque a jugé que les mesures prises par la Zambie au début de 1983 impliquaient une adhésion irréversible à une libéralisation pleine et entière, et elle a souhaité renforcer la crédibilité des réformes en faisant en sorte que le pays dispose des devises nécessaires pour rendre possible une réaction de la production.


L’absence de consensus politique concernant l’ajustement a freiné l’adhésion au processus réformateur

Dans les années 80, la Banque n’a pas vu, ou a feint de ne pas voir, les premiers signes d’une incompatibilité entre le contexte politique et social ou national du programme d’ajustement structurel et ses chances de durer. Le gouvernement était très divisé concernant la stratégie de développement à suivre et le type de gestion économique à adopter. Au départ, le Ministère des finances et la Banque de Zambie ont été les principaux partisans de l’ajustement et ils ont convaincu le président de l’intérêt que
cela présentait. Le président a, à son tour, usé d’arguments ou de son pouvoir pour amener le cabinet et le parti à partager ses vues. Mais il y avait des conseillers et de puissants groupes politiques qui étaient favorables à l’économie dirigée à dominante de secteur public auquel ils s’étaient habitués au cours des 20 précédentes années. La Banque n’a pas bien mesuré la fragilité de l’équilibre entre ces forces contradictoires et elle n’a pas suffisamment fait attention au fait que le processus réformateur ne suscitait que relativement peu d’engagements en dehors d’un groupe étroit de personnalités politiques et de hauts fonctionnaires. La Banque s’est montrée particulièrement oublieuse des sensibilités du parti et des syndicats. C’est ainsi qu’il aurait fallu mettre en doute la volonté de réforme du gouvernement quand il a, devant les conflits sociaux qui ont éclaté, au début de 1985, au sujet des salaires de la fonction publique, pris la décision de ralentir son programme de stabilisation. La Banque aurait eu une autre raison d’en douter quand, peu après avoir annoncé un programme de libéralisation revitalisé, le gouvernement a remplacé par une équipe de planificateurs l’équipe d’économistes libéraux dont il s’était entouré.

**L’importance des autres bailleurs de fonds a limité l’influence de la Banque**

L’influence de sources de financement à long terme autres que la Banque a également beaucoup compté. La part de la Banque dans les flux de ressources a été relativement faible, ce dont témoigne le fait que l’endettement de la Zambie par rapport au Groupe de la Banque n’a pas représenté le cinquième du total de la dette à long terme de la Zambie. Au cours de la période 1986–93, les décaissements d’aide publique au développement ont été en moyenne de 33 dollars par an par habitant, alors que, pour les décaissement de la Banque/IDA, la moyenne a été de 11 dollars. Avant 1984, la part de la Banque/IDA était encore plus faible (c’est seulement depuis 1991 que les ressources en provenance de la Banque/IDA ont pris de plus en plus d’importance pour la Zambie.) Au milieu des années 80, les bailleurs de fonds bilatéraux ont joué un très grand rôle dans la définition des orientations de la Zambie tout en se montrant plutôt réservés quant aux avantages de l’ajustement structurel. Ils ont parfois exercé une influence contraire à celle de la Banque en ce qui concerne la stratégie de développement de la Zambie. À cette époque, la nécessité de coordonner les actions des bailleurs de fonds était encore une idée nouvelle à la Banque.

**On ne peut pas réformer durablement sans penser aux catégories défavorisées**

Si on n’a pas vu le risque d’inversion du processus réformateur, c’est peut-être aussi faute d’avoir vu la nécessité de lutter contre la pauvreté et de réaliser un partage équitable du fardeau de l’ajustement. On n’a pas suffisamment mesuré l’importance du secteur public comme employeur en milieu urbain et l’immense coût social qu’impliquait la nécessité de réduire le déficit des finances publiques. S’il fallait réduire celui-ci, il n’en fallait pas moins protéger les catégories vulnérables. Avec la mise en place d’un filet de sécurité pour protéger les très pauvres de l’impact de la réforme des prix du maïs, la politique des prix aurait pu être fort bien accueilli par les pauvres et jugée acceptable par les milieux politiques. Malheureusement, l’idée de la mise en place d’un filet de sécurité n’est venue que beaucoup plus tard et il a fallu attendre l’élection d’un nouveau gouvernement, en 1991, pour voir mettre en œuvre une réforme efficace de la politique des prix.

**Les prêts d’ajustement ont sous-estimé les risques de reculade du gouvernement**

Compte tenu des renversements de politique qui ont eu lieu au début des années 80 et encore en 1987, et bien que certaines réformes aient été poursuivies avec de bons résultats, il n’est pas
interdit de penser qu'on aurait dû lier l'aide au maintien des éléments primordiaux de la réforme. Dans l'attribution de prêts d'ajustement à la Zambie, on n'a pas suffisamment prêté attention aux risques de retournement de politique et au fait que l'acceptation de l'ajustement par les milieux politiques et le public était loin d'être acquise.

**Le programme de réforme des années 80 a peut-être été sous-financé**

Certains ont prétendu que, si l'aide extérieure avait fait davantage pour pallier la dégradation des gains d'exportation au début de l'année 1986, le cap des réformes aurait été maintenu. Ils font valoir que la nouvelle équipe n'aurait peut-être pas eu à recourir à l'organisation de ventes aux enchères pour prévenir une détérioration catastrophique du taux de change et une fuite devant le kwacha, et qu'avec un meilleur approvisionnement en facteurs de production importés, l'économie aurait obtenu de meilleurs résultats, de sorte que le gouvernement n'aurait pas eu ainsi à s'inquiéter de perdre le contrôle de l'économie. S'il est impossible de savoir quel niveau de financement donnera le rythme optimal de réforme, il est clair que le gouvernement qui s'engage sur la voie des réformes doit être assuré de recevoir le soutien nécessaire s'il prend, en matière d'orientation, des initiatives politiquement risquées. Mais, si l'incitation à entreprendre des réformes et à éviter de recourir aux réglementations est beaucoup plus forte depuis 1991, c'est-à-dire depuis que la Zambie a été assurée de recevoir des ressources plus en rapport avec ses besoins, il semble aussi que les ressources fournies ont mieux adaptées aux besoins parce que le nouveau gouvernement a été crédité d'une plus grande volonté de réforme. Il est donc impossible d'en conclure que la Banque aurait dû augmenter son aide dans les années 80.

**Les prêts d'ajustement structurel des années 90 ont évité les défauts de ceux des années 80**

Les opérations d'ajustement structurel récentes ont beaucoup fait pour éviter les critiques dont ont fait l'objet celles du milieu des années 80. On se montre maintenant plus ouvertement préoccupé par le coût social de l'ajustement et le sort des catégories vulnérables. On est aussi, en matière de conditionnalité, d'une exigence de rigueur plus graduelle quand il s'agit de réformes dont la mise en place soulève de plus grandes difficultés politiques. On se préoccupe davantage maintenant d'obtenir une adhésion plus large aux mesures envisagées et une meilleure compréhension de ces mesures, d'où une plus grande prise en charge des programmes par le pays et par les bénéficiaires.

La stratégie d'aide de la Banque continue à évoluer. C'est ainsi que, depuis quelque temps, les prêts d'ajustement structurel cèdent progressivement du terrain en faveur des programmes d'investissement sectoriel. La différence par rapport aux programmes sectoriels de type traditionnel tient au fait que l'opération englobe tous les projets qui font intervenir tous les bailleurs de fonds dans le secteur, que cette opération est préparée par une équipe zambienne formée de membres venus du secteur public et du secteur privé et qu'il est prévu des examens et ajustements annuels à partir des données d'expérience recueillies auprès des bénéficiaires. Cette approche est censée renforcer la valeur, non seulement du programme de la Banque, mais aussi de ceux de tous les bailleurs de fonds ainsi que du pays lui-même. Cela demandera, toutefois, un travail technique considérable et de gros efforts de coordination, dont la majeure partie devra être fournie sur le terrain.

**Suspensions, insuffisance de la coordination et contraintes de capacités d’absorption nuisent à l’efficacité**

Les accumulations répétées d’arriérés à l’égard de la Banque en 1983, entre mai 1987 et mars 1991, et de septembre 1991 à janvier 1992, qui ont conduit à trois suspensions des décaissements, ont encore affaibli la capacité de la Banque à obtenir des résultats. La longue sus-
pension qui a commencé en 1987 a augmenté le coût d’achèvement d’un grand nombre de projets, notamment du fait des intérêts à payer durant la construction du projet et de la nécessité de démobiliser et de remobiliser les équipes qui en sont chargées, et en a allongé la période de gestation. Certains projets ont été abandonnés, et les ressources qui y avaient été investies ont été pratiquement perdues. De plus, certains investisseurs ont retardé l’exécution de leurs plans. Si des suspensions de décaissement sont inévitables dans des cas comme celui de la Zambie, la Banque aurait pu mettre au point quelques mesures complémentaires destinées à en atténuer les impacts négatifs sur le portefeuille. Cela pourrait comprendre des mesures de coordination avec les autres bailleurs de fonds pour ne pas interrompre l’exécution de projets hautement prioritaires et pour assurer la poursuite des études économiques et sectorielles ainsi que des activités de supervision.

L’efficacité de l’aide a également souffert d’une insuffisance de la coordination entre les différentes composantes de l’aide de la Banque. C’est ainsi que l’importance des ajustements de prix du maïs, en vue d’en maintenir la production rentable alors même que la vente aux enchères dévalait le kwacha et augmentait le coût des importations de facteurs de production, n’a pas reçu une attention suffisante. De ce fait, les ressources disponibles au titre du crédit de remise en état de l’agriculture pour acheter du matériel de remplacement n’ont pas été utilisées et l’augmentation rapide de la production agricole ne s’est pas réalisée.

Des contraintes de capacités d’absorption ont également nui à l’efficacité des opérations de la Banque tout au long des années 80. Tel a été le cas, notamment, des insuffisances en ressources humaines, et singulièrement au niveau du personnel de direction et dans la fonction publique, ainsi qu’en infrastructure physique. Ces dernières années, la Banque s’est efforcée d’en pallier certaines par l’offre d’une assistance technique, à la fois directement et en coordonnant les aides d’autres bailleurs de fonds. De plus, par le rôle qu’elle a pu jouer dans la gestion de la dette, la Banque a pu réduire le fardeau du service de la dette sur le budget, allégeant ainsi la contrainte inhérente à la pénurie de fonds de contrepartie.

L’aide de la Banque n’est pas uniformément efficace — les services hors-prêts le sont, mais non les projets d’investissement

Les composantes de l’aide de la Banque à la Zambie n’ont pas été uniformément efficaces. L’aide de la Banque a beaucoup fait pour atténuer la contrainte de capacité à importer et à utiliser le potentiel productif. Les prêts d’investissement ont donné de moins bons résultats par suite de l’annulation d’une portion substantielle des prêts consentis au milieu des années 80. L’efficacité de l’aide hors-prêts de la Banque s’est manifestée le plus visiblement dans l’assistance technique (hors-prêt). Elle a été particulièrement visible dans la mobilisation/coordination des aides et dans la gestion de la dette, où, par un travail de documentation et l’exercice de la présidence de réunions du groupe consultatif, la Banque a contribué à porter le ratio de l’aide de 10 pour cent du PIB dans les années 80 à 30 pour cent dans les années 90. La Banque a aidé la Zambie à obtenir un réaménagement de 1,5 milliard de dollars de sa dette entre 1990 et 1993, ce qui a entraîné une réduction considérable du service de la dette, de même qu’elle l’a aidée à obtenir un substantiel allègement de sa dette.

Évaluation des instruments

Études économiques et sectorielles

Un aperçu des études économiques et sectorielles de la Banque sur la Zambie dans les années 80 et les années 90 doit souligner ce qui suit:
Elles ont identifié les trois grandes conditions de développement de la Zambie au cours des 15 dernières années comme étant libéralisation, privatisation et diversification.

Elles ont accordé une attention prioritaire à la libéralisation. Celle-ci s’est faite dans de bonnes conditions, en partie parce que les études économiques et sectorielles de la Banque ont permis d’enrichir le dialogue avec les dirigeants du pays. La privatisation a pris du retard et la diversification a continué à chercher ses marques.

La Banque devrait étudier l’expérience zambienne en matière de privatisation. Il reste aussi à étudier en détail la politique agraire et les facteurs culturels.

La Banque n’a pas réalisé suffisamment d’études économiques et sectorielles sur ce qu’il faut faire pour diversifier l’économie de la Zambie. Mais ses travaux récents sur les perspectives de croissance durable en Zambie sont un pas dans la bonne direction.

La réalisation de plusieurs examens de dépenses publiques a permis de proposer des moyens de contenir le déficit du secteur public.

La Banque a réalisé, en 1994, une remarquable évaluation de la pauvreté en Zambie; les conclusions de ce travail sont utilisées actuellement dans la conception de la politique à suivre pour atténuer ce problème.

Le travail sectoriel effectué dans le cadre de l’identification des projets a eu un impact sensible sur les activités minières et agricoles.

Dans l’ensemble, les études économiques et sectorielles ont, par leur conception et leur volume, répondu à ce qui en était attendu dans les secteurs pour lesquelles elles ont été faites et en ce qui concerne les problèmes qu’elles ont analysés. Les thèmes ont été bien choisis, compte tenu de la situation de la Zambie, et notamment des problèmes auxquels son économie est confrontée. Cependant, l’insuffisance de ce qui a été fait à cet égard pour étayer la promotion des investissements et la planification des équipements d’infrastructure limitera, dans le proche avenir, les possibilités d’intervention de la Banque dans ces domaines. D’une manière générale, l’utilité de ce travail a été renforcée par son opportunité en ce sens que les études économiques et sectorielles ont répondu à un besoin et que les résultats ont été prêts quand le gouvernement a voulu envisager d’infléchir sa politique.

Les prêts

Les engagements de la BIRD/IDA à la Zambie durant la période correspondant aux exercices 83–95 se sont élevés à 1.466,4 millions de dollars. Pour la même période, les découpages ont totalisé 1.266,9 millions. Durant la période correspondant aux exercices 83–91, la moyenne des engagements annuels en prix constants de 1990 a été de 74,8 millions (112,2 millions si l’on exclut les périodes de suspension). Après l’exercice 91, la moyenne est passée à 203 millions.

L’ajustement a représenté 67 pour cent des engagements pour la période correspondant aux exercices 83–95. La distribution des engagements de prêts par secteur a traduit l’importance des prêts d’ajustement structurel et autre. Cette distribution a été la suivante : engagements multisectoriels, 32 pour cent; développement et financement industriels, 18 pour cent; agriculture, un peu moins de 16 pour cent; secteur financier, 14 pour cent; secteurs sociaux (éducation et population/santé), 9 pour cent; activités minières, un peu moins de 7 pour cent; et infrastructure (transport et approvisionnement en eau), 3 pour cent.

De client de la Banque, la Zambie est passée ensuite au statut d’emprunteur mixte pour

Les prêts de la Banque/IDA à la Zambie n’ont pas été excessifs du point de vue des risques qu’estime pouvoir prendre la Banque/IDA. Au 30 juin 1994, la Zambie représentait 1,52 pour cent des crédits dus à l’IDA et 0,21 pour cent de l’encours total de prêts de la Banque. La Banque/IDA détenait, à la fin de 1993, 22,6 pour cent de la dette à long terme de la Zambie, portion dont le service absorbait, dans les années 90, entre 7 et 10 pour cent des exportations de biens et de services. De ce fait, sans être excessifs, les engagements de la Banque/IDA n’allaient pas sans un certain risque de portefeuille. Parce que les quatre cinquièmes des engagements étaient pour des opérations d’ajustement qui avaient pour but de soutenir la balance des paiements afin de faciliter le service de la dette, les prêts de la Banque/IDA n’étaient pas excessifs par rapport aux moyens dont disposait la Zambie pour réaliser des projets.

Sur la base des rapports d’achèvement et d’évaluation rétrospective des projets qui ont été établis, les évaluations de performance dont on dispose pour 18 des 45 opérations qui ont été approuvées depuis 1980 montrent que 44 pour cent seulement des opérations zambiennes ont été jugées satisfaisantes, contre 68 pour cent pour l’ensemble de la Banque et 62 pour cent pour la région Afrique. Les résultats ont varié selon les secteurs : chacun des quatre projets réalisés dans le secteur de l’énergie a été jugé satisfaisant, contre un sur six seulement en agriculture. Les projets réussis se caractérisaient comme suit :

- ils étaient petits et peu exigeants en capacité de gestion;
- ils ont mis en œuvre des techniques appropriées;
- ils ont fait appel à des entreprises/consultants étrangers et formé quelques nationaux.

Les projets, principalement agricoles, qui n’ont pas réussi :

- étaient desservis par la faiblesse de leur administration et de leur gestion;
- exigiaient des fonds de contrepartie;
- ont souffert d’une imparfaite délégation de pouvoirs;
- ont présenté des problèmes de coordination entre organismes dont les compétences étaient mal définies.

Les opérations d’ajustement réalisées dans les années 80 ont toutes été jugées infructueuses, encore que l’échec n’ait pas toujours été total ; les objectifs de production n’ont pas été atteints et les orientations suivies n’ont pas été poursuivies avec diligence et elles ont été pour la plupart abandonnées en 1987. Les opérations d’ajustement d’après 1991 ont, semble-t-il, réussi, à la fois sur le front des orientations, en mettant un peu d’ordre dans le domaine des finances publiques et celui de la monnaie, et en ce qu’elles ont constitué une base à la mobilisation coordonnée des aux de la communauté des bailleurs de fonds à la balance des paiements de la Zambie. Un seul projet a, jusqu’ici, fait l’objet d’une évaluation rétrospective — le Deuxième crédit à la reprise économique (exercice 91). Les résultats en ont été jugés satisfaisants.
Le portefeuille en cours a été évalué au vu des appréciations de supervision, quand il y en avait, en déterminant les exigences de chaque opération en ce qui concerne les principaux déterminants de la capacité d'absorption et en évaluant les opérations en fonction de ce que l'on considère comme les paramètres d'un bon programme. On disposait d'informations de supervision pour 14 opérations, et, sur ces 14 opérations, une a été jugée très satisfaisante, 12 satisfaisantes et une insatisfaisante.

Le Programme d'investissement dans le secteur agricole (ci-après désigné par son sigle anglais ASIP) représente une dérogation majeure à l'approche traditionnelle des projets. Le projet vise à améliorer l'impact développemental par une meilleure coordination entre bailleurs de fonds et par une plus grande participation des clients et des bénéficiaires à l'identification ainsi qu'à la mise en œuvre du programme sectoriel. Ce sera, en principe, le premier d'une série de programmes quadriennaux d'initiatives multilatérales, bilatérales et gouvernementales coordonnées en vue de favoriser le développement à moyen et à long terme de secteurs stratégiques. Le projet vise à améliorer le dialogue avec les bailleurs de fonds et les bénéficiaires concernant l'environnement législatif et réglementaire et les institutions correspondantes, à donner davantage d'efficacité au suivi et à l'investissement public, à promouvoir la participation du secteur privé et à réaliser des opérations pilotes. L'évaluation préliminaire de la préparation et de l'exécution de l'ASIP a donné des résultats nuancés. Le processus préparatoire a permis une large participation des bénéficiaires et leur a donné un sentiment accru de maîtrise sur les opérations en cours. Mais ceci a ralenti les choses et certaines organisations se plaignent qui certains groupes intéressés ne soient pas suffisamment représentés tandis que, de leur côté, certains bailleurs de fonds ne voient toujours pas d'un très bon œil le rôle dominant de la Banque.

L'aide de la Banque dans la coordination des aides et la gestion de la dette

Depuis 1989, le rôle de meneur de jeu qui a été le sien au sein du groupe consultatif n'a valu à la Banque que des louanges de la part de la Zambie et de la communauté des bailleurs de fonds. Son objectif immédiat dans les années 90 a été de mobiliser l'aide nécessaire pour combler un déficit de financement qui, après réaménagement, s'élevait à plus d'un milliard de dollars par an. Jusqu'ici, cet écart a été comblé chaque année. La Banque s'est employée à fournir la base de documentation et d'analyse nécessaires aux discussions et aux négociations. Elle s'est faite, auprès des bailleurs de fonds, l'avocat de l'ajustement structurel, auquel le gouvernement zambien est attaché depuis 1991. Elle a également cherché à obtenir leur soutien à cet effort, leur demandant d'accroître leur aide ainsi que la part de soutien à la balance des paiements contenue dans leurs programmes d'aide. Une grande partie de l'aide mobilisée par la Banque est allée au service de la dette contractée auprès de créanciers multilatéraux et autres, en quoi certains ont vu un détournement de ressources au détriment des services sociaux et de l'infrastructure. Plus récemment, la coordination des aides a eu surtout pour objectif, au niveau sectoriel, d'éviter les doubles emplois, de ménager le personnel de direction du secteur public et de prêcher le réalisme dans les financements de contrepartie exigés du pays.

De l'expérience de la Banque à cet égard, on peut tirer les leçons ci-après :

- Les réunions du groupe consultatif sont utiles en ce qu'elles permettent de mobiliser des ressources, en particulier pour les pays fortement tributaires de l'aide engagés sur la voie de l'ajustement, et de gagner les bailleurs de fond à la cause de l'ajustement.

- Une plus grande présence sur le terrain simplifie le processus de coordination des aides
au niveau des secteurs. Cela peut favoriser la prise en main locale des opérations et permettre des contributions plus opportunes pour atténuer les problèmes de mise en œuvre des projets.

- La crise de la dette a impulsé une plus grande mobilisation des aides, mais les bailleurs de fonds ne veulent pas que la gestion de la dette soit le critère majeur dans les décisions d’attribution de l’aide.

- La coordination et la gestion de l’aide dans le pays par le pays client sont aussi importantes que la coordination entre bailleurs de fonds et il faudrait étudier et rationaliser le cadre institutionnel à mettre en place à cette fin. Pour bien coordonner et bien gérer l’aide, il faut des objectifs et des stratégies de développement qui soient clairs, des capacités d’identification et de préparation des projets, une programmation et une budgétisation efficaces des projets et un suivi et une gestion financière solides.

- Il faudrait, puisque leur collaboration récente à la réalisation des examens des dépenses publiques ainsi que des bilans de pauvreté a donné de bons résultats, rechercher d’autres occasions de collaboration entre la Banque et les bailleurs de fonds dans le domaine des études économiques et sectorielles.

La Banque a aidé la Zambie à mettre sur pied son système de gestion de la dette et à négocier de fréquents réaménagements et une réduction occasionnelle de sa dette. Au 31 août 1992, grâce au réaménagement de sa dette par le Club de Paris et à des annulations de dette par des créanciers bilatéraux, la dette de la Zambie, allégée de 1,5 milliard de dollars, s’établissait à 6,5 milliards. Les années 90 ont été témoins d’une chute nette du poids des intérêts du fait que 507 millions de dollars d’intérêts ont été capitalisés et que 76 millions de dollars de dette ont été annulés par les bailleurs de fonds durant la période 1990-93. Au cours de cette même période, le solde des arriérés d’intérêts a été réduit de 118 millions de dollars. La charge des intérêts payables sur les nouveaux engagements sera également plus faible parce que le taux d’intérêt applicable aux nouveaux prêts a baissé, ce qui s’explique en partie par le fait qu’aux créanciers du secteur privé sont venus se substituer des créanciers du secteur public. Entre-temps, 853 millions de dollars de remboursement du principal venu à échéance ont fait l’objet d’un réaménagement, réduisant ainsi la charge immédiate du service de la dette.

Au fil des années, la part de la dette multilatérale a augmenté. La Banque détient une part plus grande de la dette de la Zambie et elle entre pour une plus grande part dans ses obligations de service de la dette, résultat dû à l’augmentation des engagements de l’IDA par habitant — de 25 dollars par an en moyenne entre 1991 et 1995, contre 12 dollars entre 1983 et 1987. L’augmentation des engagements de l’IDA a beaucoup contribué à la réduction du fardeau de la dette zambienne : la venue à échéance de la dette contractée auprès de la BIRD, dette assortie d’un délai de remboursement plus court et de taux d’intérêt plus élevés, a été suivie par l’attribution de nouveaux crédits de l’IDA à des conditions hautement concessionnelles. La dette commerciale et à court terme a été réduite par suite d’opérations de rachat de dette qui ont très fortement réduit le niveau d’engagement des créanciers du Club de Londres. De leur côté, les créanciers du Club de Paris, ont considérablement allégé le fardeau de la dette de la Zambie.

Ces améliorations ne sont pas prises en compte dans les indicateurs habituels d’endettement qui rapportent l’encours et le service de la dette au PNB et aux exportations de biens et de services. La raison en est que, dans les années 90, les dénominateurs sont tombés au-dessous des niveaux de 1980 et de 1989. Néanmoins, le crédit de la Zambie s’est amélioré et ses arriérés se
sont réduits. La Zambie a accès aux ressources de la Banque et à celles du Fonds monétaire international et certains bailleurs de fonds bilatéraux qui avaient retiré leur aide se sont laissés convaincre de la rétablir. Pourtant, des voix se sont fait entendre pour dire que l'aide de la Banque dans ce domaine a poursuivi un but intéressé et qu'elle a servi à assurer le service de la dette contractée à son égard aux dépens de la croissance du pays. Mais c'est supposer que, sans le service de la dette, les entrées de capitaux seraient demeurées suffisantes pour générer un bilan de croissance amélioré. Voilà qui paraît douteux. Il y a aussi, et ceci est plus fondamental, ceux qui disent que le souci excessif de service de la dette marqué par la Banque a représenté un détournement de ressources et de temps — y compris du temps de personnel de direction — aux dépens du développement et que, si la situation de la dette s’est améliorée, c’est parce qu’on a négligé les vrais problèmes sectoriels.

La mission résidente de la Banque a récemment commencé à jouer un rôle important dans la facilitation de l'attribution de l’aide de la Banque au moyen du programme de prêts ainsi que par la coordination des aides et autres instruments. La mission participe à la conception du programme de prêts de plusieurs manières : elle aide les ministères et les administrations à identifier les projets dont il sera débattu avec le personnel du siège de la Banque et elle aide au suivi et à la supervision des projets durant la phase d'exécution. La mission s'emploie en particulier, par les contacts qu'elle entretient avec leurs représentants locaux, à coordonner l'aide de la Banque avec celle des bailleurs de fonds bilatéraux ainsi que du programme des Nations Unies pour le développement. Bien qu'elle soit depuis longtemps à court de personnel, la mission résidente a pu apporter un concours apprécié dans le domaine de l'agriculture et dans le suivi de la situation macroéconomique. Avec la place plus grande que l'on envisage de faire à la consultation des clients dans les nouveaux programmes sectoriels (l'ASIP, par exemple), la mission devra être renforcée afin que le bon déroulement des opérations ne soit plus aussi tributaire que dans le passé des missions envoyées par Washington.

Progrès accomplis vers la réalisation des objectifs de l'aide de la Banque

La réalisation des objectifs est le résultat d'un grand nombre de facteurs dont le plus important est la performance du pays. Cela dit, il n'en est pas moins essentiel, pour servir de guide à la future stratégie de la Banque, de voir dans quelle mesure chaque objectif a été atteint (et de voir quels facteurs sont intervenus dans ce processus) :

- Depuis 1992, la gestion économique s’est beaucoup améliorée, surtout pour ce qui est de la discipline monétaire et budgétaire. Le déficit budgétaire primaire est revenu de 7 pour cent du PIB au début des années 90 à 1 pour cent en 1995. Mais la croissance n’a pas été rétablie et le caractère durable des réformes demeure fortement problématique, notamment à l’approche des élections prévues pour 1996.

- Beaucoup a été fait pour libéraliser l'environnement économique à l'intention du secteur privé, à commencer par le marché des devises.

- D’abord lentes, les privatisations se sont considérablement accélérées en 1995.

- Il n’y a pas eu de diversification appréciable de la production, notamment des exportations.

- Durant la période 1984–94, la pauvreté s’est aggravée en valeur relative comme en valeur absolue. Les 15 dernières années ont été marquées par une substantielle dégradation des principaux indicateurs sociaux.

- Les progrès de l’agriculture ont été minimes. La production de céréales alimentaires a
baissé, mais quelques nouvelles cultures et celle des fleurs d'exportation commencent à faire leur apparition. Les projets de la Banque ont souffert des suspensions prolongées de décaissements.

- L'activité manufacturière, qui s'est développée sous la protection des barrières tarifaires et qui est tributaire des importations de facteurs de production, continue à souffrir d'une double faiblesse : celle de la productivité et celle de la qualité de la production. S'y ajoute le fait que ce secteur a été dominé par les entreprises publiques.

- L'aide de la Banque à la remise en état des mines de cuivre a eu des résultats positifs sur la production et les coûts.

- Dans le domaine de l'éducation et de la santé, l'aide de la Banque est trop récente pour être évaluée.

**Conclusions et recommandations**

*Sur les questions stratégiques clés*

*Privatisation et diversification demandent une plus grande attention.* Libéralisation, privatisation et diversification sont les trois volets de la stratégie dont dépend la reprise de la croissance. Mais c'est seulement dans le domaine de la libéralisation que de substantiels progrès ont été accomplis. Les progrès récents réalisés (en 1995) dans le domaine de la privatisation sont un pas dans la bonne direction, mais il reste beaucoup plus à faire. Et la diversification demande un substantiel accroissement d'investissement privé qui ne s'est pas encore produit. Un examen attentif de ce qu'il reste d'obstacles à ce développement du secteur privé devrait constituer un élément majeur de la stratégie de la Banque.

*Il n'est pas de croissance sans investissement en infrastructure physique et sociale.* Pour obtenir une croissance positive du PIB en Zambie et mettre fin à l'aggravation de la pauvreté, il faut des investissements soutenus en infrastructure physique et sociale. Ces investissements feront appel à l'aide de la Banque et à celle d'autres bailleurs de fonds. Il s'agit de faire en sorte que le dosage d'instruments à mettre en œuvre et le total des financements de la Banque/IDA soient, compte tenu du niveau de soutien fourni par les autres bailleurs de fonds, conformes aux exigences du service de la dette et à ce que l'objectif de croissance implique d'investissements.

La coordination et la cohérence des conditions mises aux prêts aux niveaux macroéconomique et microéconomique sont essentielles. La coordination entre les conditions macroéconomiques des opérations d'ajustement structurel ainsi que des projets d'ajustement/investissement sectoriel devraient concerner non seulement le contenu, mais aussi le rythme et l'ordre de mise en place des mesures. Ceci s'applique en particulier aux mesures relatives à la politique des prix des productions et des intrants ainsi qu'à la suppression des subventions, trois facteurs qui influent sur la profitabilité des activités et, de ce fait, sur la réaction des entrepreneurs aux possibilités qui s'offrent à eux de diversifier.

Il faut former les entrepreneurs que demande un secteur privé dynamique. Une autre grave contrainte dont souffre le développement du secteur privé en Zambie tient, et de plus en plus, à une question d'esprit d'entreprise, de capacité de gestion et de compétences professionnelles de la population zambienne. Où sont les entrepreneurs? Parmi les nombreux facteurs qui freinent le développement de l'esprit d'entreprise et l'acquisition de compétences par la population, on peut citer les suivants : le recul de l'espérance de vie; la charge de travail que supportent déjà les femmes; les obstacles traditionnels à l'accès des femmes au crédit et à la propriété foncière; la faiblesse du niveau de l'épargne des ménages en raison de la pauvreté; l'incapacité des pauvres à risquer leur source de revenu (le
chemin à faible risque qui mène hors du ghetto, notamment le service public, ne génère pas l'esprit d'entreprise; le pourcentage élevé de jeunes que le décès prématuré des parents met à la tête des ménages; l'absence, enfin, d'information sur la possibilité d'accéder à d'autres types de production. La stratégie d'aide de la Banque aux pays devrait tenter de trouver réponse à cet ensemble de problèmes et proposer des mesures à cette fin.

Il faut mettre en place des institutions au service du secteur privé. La création d'institutions dans le secteur public est l'indispensable complément du développement du secteur privé. Il faut spécifier le rôle du secteur public, déterminer le complément d'institutions à mettre en place pour servir et soutenir le secteur privé et pourvoir à ce besoin. Le développement institutionnel n'a reçu qu'une attention limitée au cours des 15 dernières années, de sorte que l'appréciation habituelle de la situation à cet égard est que la plupart des ministères et des administrations de la Zambie sont insuffisamment dotés en personnel et ne disposent pas des moyens nécessaires pour s'acquitter comme il convient de leurs fonctions. Le développement institutionnel est un processus lent auquel il faudrait maintenant accorder un degré de priorité plus élevé que par le passé. Tout en privatisant, le gouvernement peut retenir dans le service public les fonctionnaires dont il a besoin et leur faire acquérir, par la formation, les compétences nécessaires pour travailler dans les domaines où la capacité institutionnelle est faible.

Il faut que les bailleurs de fonds bilatéraux demeurent impliqués dans le développement de la Zambie. Les bailleurs de fonds bilatéraux ont été une importante source d'aide au développement de la Zambie et leurs concours seront indispensables à l'avenir du pays, d'autant que les sources de prêts aux conditions du marché se sont taries. Reste à savoir comment préserver l'engagement des bailleurs de fonds maintenant que les raisons géopolitiques qui justifiaient leur aide dans le passé n'ont plus cours et risquent de ne plus en avoir à l'avenir. Il semble que la réponse soit de les impliquer pleinement dans les décisions relatives aux objectifs et dans l'élaboration des modalités permettant d'utiliser le plus efficacement possible l'aide qu'ils fournissent. La réponse réside peut-être aussi dans la prise de conscience du fait que les retombées de l'opération, sur le plan politique et sur celui des relations publiques, peuvent être importantes pour les hommes politiques des pays bailleurs de fonds; d'où la nécessité de laisser les bailleurs de fonds bilatéraux jouer le rôle de chef de file dans un nombre de secteurs aussi élevé que possible.

Il faut prévoir les implications politiques des réformes. Il faut, dans la planification de la stratégie d'aide de la Banque, étudier attentivement et anticiper les réactions politiques à la réforme envisagée. La démarche de la Banque a souvent été de s'attacher à l'élimination des distorsions sans prêter beaucoup d'attention au fait qu'il y a, derrière chaque distorsion, un groupe de bénéficiaires dont on peut supposer qu'ils tenteront de faire obstacle à la réforme. En Zambie, toute une gamme de subventions (de la farine de maïs et des engrais, par exemple) sont bénéfiques aux pauvres qui forment la majeure partie de la population. L'effet d'une réforme qui touche un nombre aussi grand de personnes a rendu le programme d'ajustement politiquement difficile à mettre en œuvre. Afin de prévenir un effet de boomerang, il faudra envisager, à titre de compensation, l'attribution d'un avantage quelconque dont l'effet de distorsion soit plus facile à absorber par l'économie. Ce faisant, on rapprochera aussi la durabilité des réformes et des programmes d'investissement. Les réformes devraient également s'accompagner d'un dialogue approprié pour faire comprendre les raisons qui en motivent l'application. Faute de procéder ainsi et/ou autrement encore, la tentation sera plus grande pour le gouvernement, surtout en année d'élection, de faire machine arrière.
**Il est essentiel, quand on formule une stratégie, d’évaluer attentivement les options et les risques. Quand on élabora une stratégie, pour un pays ou pour la Banque, l’approche à option unique n’est pas à conseiller. La Banque doit être prête à envisager ce qui peut arriver dans le pire des cas et dans le meilleur des cas. L’idée que les bailleurs de fonds combleront toujours l’écart de financement n’est pas seulement dangereuse : elle ferme aussi la porte à la recherche de solutions de rechange.**

**Des instruments plus efficaces**

**Les études économiques et sectorielles.** Les recommandations en la matière sont les suivantes :

- Les responsables des études économiques et sectorielles doivent être au courant et tenir compte des implications politiques des recommandations d’ordre économique et de politique sociale qu’ils font.


- Il faut prêter une plus grande attention à la conception des stratégies de réduction du déficit du secteur public dans le contexte des opérations d’ajustement, tant en ce qui concerne le moment choisi pour engager une action que le suivi et la mise en œuvre de cette action.

- La Banque devrait poursuivre son travail d’études économiques et sectorielles même lorsque l’accumulation d’arriérés oblige à suspendre les prêts. Beaucoup d’activités relatives aux études économiques et sectorielles ont été abandonnées après la suspension de mai 1987 et rares ont été les activités de ce type au cours des trois années suivantes. Il en est résulté de longs écarts entre les memora-dums de mise à jour sur les secteurs stratégiques (comme, dans l’agriculture, le retard mis au redémarrage des opérations).

- Il faut renforcer les études économiques et sectorielles pour les besoins de la privatisation. L’absence d’études préalables a très probablement contribué à la lenteur des progrès à cet égard. On n’a pas prévu les problèmes qu’allaient générer les cessions d’actifs.

Une plus grande attention à l’enchaînement des actions aidera aussi à assurer l’efficacité des conseils et de l’aide (ainsi, libéralisation et développement de l’infrastructure devraient aller de pair ; les solutions apportées au système budgétaire par le recouvrement des coûts devraient prendre en compte leurs éventuelles retombées sociales ; et le plan d’investissements publics devrait venir s’insérer à l’intérieur d’un plan de développement à moyen terme convenu).

**Les prêts.** Les recommandations relatives aux prêts sont les suivantes :

- Il ne faut pas avoir recours à des prêts d’ajustement pour convaincre un client indécis d’entreprendre un programme de réformes de longue durée.

- Dans le contexte zambien, un projet aura d’autant plus de chances de réussir qu’il sera de petite taille, qu’il fera appel à des techniques appropriées et relativement simples, qu’il comprendra une aide à la formation, que le pouvoir d’agir et les compétences pour agir seront liés et que l’on aura pensé à améliorer les services complémentaires (la vulgarisation, par exemple).

- En agriculture et dans les secteurs sociaux, il faudrait songer à la formule des projets pilotes chaque fois qu’il y a incertitude.
concernant la base d'information/ d'expérience nécessaire pour concevoir un projet.

- Le coût de la suspension des décaissements est très élevé. Peu de projets survivent à de longues interruptions. La Banque devrait examiner la possibilité de mesures (comme la mise en sommeil des équipements et l'obtention d'un financement accru du gouvernement ou d'autres bailleurs de fonds) susceptibles de réduire le plus possible les dommages que la suspension des décaissements peut causer à un projet.

- Dans la coordination des aides et la gestion de la dette, la Banque devrait continuer à aider les pays même lorsqu'une suspension des prêts est devenue inévitable.

- Le nouvel instrument de prêts qu'est le projet d'investissement sectoriel est riche de promesses, mais il faut en suivre l'exécution de près. Il faudrait s'employer davantage à faire en sorte que les bailleurs de fonds participent pleinement à la réalisation du projet et éviter de donner l'impression que la Banque y joue un rôle dominant.

**Mission résidente**

Il faudrait étoffer le rôle de la mission résidente, non seulement pour tenir compte de la tendance générale observable dans l'attention accrue que la Banque porte à l'obtention de résultats sur le terrain, mais aussi dans le contexte particulier d'un programme qui implique une plus grande coordination des aides ainsi que des projets d'investissement sectoriel. Dans le passé, la mission résidente a manqué de personnel et les décisions à prendre ont été par trop tributaires des missions du siège.
1. Zambia: its economic development strategies—errors and adjustment attempts

Approach

This study divides the period under review (1980–95) into a few discreet phases during which Bank strategy was marked by some predominant characteristics. This approach follows the pattern of the events-driven analysis used in a 1994 internal OED study on relations between the Bank and Mexico. The analysis identifies the crucial events—actions by the client, the Bank, and third parties—that affected positively or negatively the willingness of the client to use Bank services and the willingness of the Bank to provide services. In turn, client and Bank "willingness" determines the climate of relations between the Bank and the client. The approach is useful for identifying the main phases in the Bank/client relationship over a given period of time.

The events-driven analysis of Bank/Zambia relations for the period 1980 to 1995 identifies some events associated with the degree of popular support for President Kaunda as reflected in election results and the incidence of riots and civil unrest. These events decisively affected the country’s willingness to deal with the Bank. The main events include the following:

- 1983 October—Zambians re-elect Kaunda by a wider margin.
- 1987 May—Economic reforms reversed after unrest over price of maize meal.
- 1989 September—Zambia resumes relations with the Bank and International Monetary Fund (IMF) as bilateral donor assistance falls to lowest level in four years.
- 1991 October—Chiluba replaces Kaunda as president in relatively peaceful elections.

These events divide the last 15 years into five phases that can be used to structure the review of Zambia's development strategy. During each phase, Zambia was willing or unwilling to follow a path agreeable to the Bank depending on the president's perception of the opportunity costs to him and/or Zambia. Thus when other sources of credit and assistance dried up he was willing to seek Bank support, for in the absence of more attractive substitutes the opportunity cost of seeking Bank support was relatively low. When there was popular resistance to the conditions attached to Bank support, such that Kaunda perceived the political cost to himself as high, he turned away from the Bank. The following review of the evolution of Zambia's development strategies and adjustment attempts bears out this analysis.
Box 1.1: Zambia at a Glance

Zambia, which was Northern Rhodesia until independence in 1964, is a fairly large, moderately populated, highly indebted country. For the last 20 years Zambia has had a poor record of economic performance and a penchant for starting and stopping adjustment programs. Since 1973, per capita income has fallen almost continually, there has been little GDP growth, and the population has grown rapidly.

The poor economic performance largely reflects the declining price and output of copper (the main export earner), rising import prices, frequent droughts, fluctuating policies, and delays in applying adjustment policies. Zambia has also accumulated debt totaling twice its GDP. Annual interest on the debt is many times the annual GDP growth rate. Domestic savings have been low. And gross investment has been both too little to sustain positive per capita growth and too dependent on foreign savings.

Since the mid-1970s, living standards have declined in Zambia. A 1994 internal consultative group report noted that the deterioration in nearly every social indicator reflects Zambia’s deepening poverty. Nearly 70 percent of Zambians live in households where basic needs are not being met; chronic malnutrition affects 45 percent of all children; and infant mortality has increased to 107 per thousand. In addition, life expectancy at birth, estimated at 53 years in 1987, dropped to 48 years in 1992, reflecting both declining living

At the outset of independence: government development

For seven years after its independence in 1964, Zambia based its development strategy on copper earnings, which accounted for 90 percent of all export earnings and nearly 50 percent of GDP. The aim was to use the earnings to create a manufacturing sector that would produce import substitutes in a highly protected environment. Zambia developed a large and diversified industrial base under public sector control, but the country’s considerable agricultural potential was not tapped. Policies were biased against agriculture. From having been self-sufficient, Zambia had to import food in increasing quantities, and the production of export crops, especially tobacco, declined.

Rhodesia’s unilateral declaration of independence in 1965 created considerable uncertainty regarding Zambia’s access to the sea in the south. In response, Zambia invested in transportation and external communications links through Dar Es Salaam (the Tazara railway). In an effort to reduce imports from the south, the country exploited domestic coal and developed new hydroelectric schemes.

Zambia achieved a moderate rate of economic growth and relative price stability largely due to these strategies, favorable international copper prices, and substantial amounts of bilateral donor assistance in response to the Rhodesian situation. Between 1965 and 1973, GDP growth averaged 2.4 percent a year, with manufacturing growing at 9.8 percent. However, agriculture grew at only 2.0 percent.
1973 to 1982: economic shocks and delayed adjustment

After 1973 the Zambian economy contracted, because of both the massive decline in copper export prices and the doubling of import prices (mainly for industrial inputs and oil). A sharp drop in copper production after 1980 also contributed to the shortage of foreign exchange, in turn causing the underutilization of industrial capacity and the postponement of maintaining and rehabilitating infrastructure. Between 1973 and 1984, real GDP declined an average 1.5 percent a year. With population growing 3.1 percent a year, per capita GDP fell by 35 percent.

Zambia responded to the downturn by making impromptu, short-term cuts in public expenditures, and by heavy external borrowing. The ratio of debt to GNP jumped from 43.7 percent in 1974 to 94.7 percent in 1977. The total debt tripled between 1973 and 1980 from $1 billion to $3 billion. Debt-service problems and large commercial arrears ensued. As a reaction to the shortage of foreign exchange, Zambia placed restrictions on foreign exchange and on trade. The government allowed the kwacha to become overvalued, which discouraged exports, while capital-intensive and import-intensive industry was encouraged by tariff and tax policies. In addition, the government tried to curb inflation through price and interest rate controls.

Meanwhile, the Bank shared Zambia’s optimism that the copper price downturn was temporary and did not criticize the government’s...
TABLE 1.1: ZAMBIA BASIC DATA

<table>
<thead>
<tr>
<th>Area</th>
<th>752,000 kilometers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>8.3 million in 1992</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>3.2 percent, average during 1980-85; about 3 percent since 1990</td>
</tr>
<tr>
<td>Population density</td>
<td>10.7 per sq. km (half the sub-Saharan Africa average)</td>
</tr>
<tr>
<td>GNP per capita</td>
<td>$450 in 1992 (under 90 percent of the average for sub-Saharan Africa)</td>
</tr>
<tr>
<td>Annual growth of GDP</td>
<td>1.4 percent average, 1966–94; -0.3 percent average 1991–94</td>
</tr>
<tr>
<td>Total debt/GDP</td>
<td>1.95 percent, average during 1992–94</td>
</tr>
<tr>
<td>Debt service/GDP</td>
<td>19.5 percent, average during 1992–94</td>
</tr>
<tr>
<td>Debt service/exports</td>
<td>58 percent, average during 1992–94</td>
</tr>
<tr>
<td>Interest on debt/GDP</td>
<td>8 percent, average during 1992–94</td>
</tr>
<tr>
<td>Gross domestic investment/GDP</td>
<td>12 percent, average during 1991–94</td>
</tr>
<tr>
<td>Gross domestic savings/GDP</td>
<td>4 percent, average during 1991–94</td>
</tr>
</tbody>
</table>

strategy of public-sector-led industrialization, which was based on import substitution and depended heavily on imported inputs. The Bank made two program loans to help Zambia cope with the 1973 oil price shock and the collapse of copper prices in 1976, but in general lending continued to be spread over operations in infrastructure, energy, agriculture, education, and financial intermediation. The Bank Group increased the rate of lending from just over $12 million a year before 1972 to $55 million a year during 1973–82. With the first International Development Association (IDA) credit in 1978 Zambia became a client both of the Bank and of IDA.

When international copper prices continued to be depressed, Zambia's economic strategy became impracticable. In 1980 the government accepted the need for reform and turned to the IMF. But a 1981 Extended Fund Facility was discontinued after only one year, with only SDR 300 million drawn, because of disagreement on an economic reform program for 1982. Notwithstanding several stabilization programs negotiated with the IMF, Zambia did not seriously undertake fiscal and exchange reform, and by 1982 the country had an acute financial and economic crisis. Until then the Zambian approach had been to borrow heavily to postpone economic reform. But when private sources of credit dried up in 1982, Zambia could postpone reform no longer.

Zambia decided to return to the IMF and the Bank for assistance. The Bank's assistance was contingent on an agreement being reached with the government on a memorandum of development objectives and policies, which would specify the sequence of actions needed to bring about economic adjustments and would be the justification for the lending program.

1983 to 1987: intermittent structural adjustment

In January 1983 the government formally agreed to such a memorandum and immediately launched a reform program: it devalued the kwacha by 20 percent against the SDR and raised interest rates. It gave retailers and wholesalers the freedom to raise prices (subject to export review) except in the case of a few essential commodities. It gave exporters preferential access to half of their foreign exchange earnings. It increased the price of maize meal by 30 percent and of fertilizer by 70 percent; and it introduced a 4 percent mineral export tax. However, in an effort to force a rescheduling on
its debt, Zambia unilaterally suspended pay-
ments of its foreign debt. As a consequence of
the arrears that resulted, the Bank suspended
disbursements of its loans and credits to
Zambia in October 1983.

Following the elections in October 1983, in
which President Kaunda was re-elected with an
increased margin, the government reopened
negotiations with the IMF, the World Bank, and
bilateral donors for financial support for the
previously agreed adjustment program. This
ambitious program started a process of liberal-
izing domestic prices, of reducing subsidies on
food and fertilizer, of adjusting agricultural
wholesale prices, of freeing interest rates, and of
introducing an exchange rate policy based on a
crawling peg and frequent small devaluations.
Simultaneously, fiscal policies were tightened
up, and the central government's budget deficit
was reduced to under 10 percent of GDP in
1984, from 16 percent in 1982.

Despite the policy improvements, the economy
deteriorated in 1983 and 1984 because of a fur-
ther slide in international copper prices, a dip in
aid, and drought. There were also logistical and
personnel difficulties involved in implementing
the new program, including a lack of enthusiasm
from second-level managers and vacillation on
the part of President Kaunda himself. The gov-
ernment resisted opposition to its policies mani-
fest in student riots in February 1984, but more
widespread industrial unrest in the first half of
1985 led it to relax its financial policies. Com-
bined with the decline in export earnings, this
softening of financial policies aggravated the
country's fiscal and external payments problems.

Before 1985, Zambia tried to implement ele-
ments of a structural adjustment program in a
piecemeal way. In October 1985, however, it
adopted a comprehensive program with Bank
and IMF support, and the World Bank made its
first structural adjustment loan to Zambia. (Ear-
lier loans containing adjustment conditionality
had been limited, sector-based nonproject
loans.) This program represented an effort to
revitalize the 1983 reforms. The most significant
change was the replacement of the crawling peg
exchange rate system with an auction-deter-
mined rate system, which produced a devalua-
tion of the kwacha from K2.2 to K5.15 to the US
dollar at the first auction. Another difference
was that the discretionary administrative pro-
cedures for import licensing and foreign
exchange allocation, which were restrictive and
inefficient, were scrapped. However, bearing in
mind the government's previous tendency to

tinker with its programs in response to com-
plaints from various constituencies, the Bank
made its support conditional on the govern-
ment successfully bringing the crisis under con-
trol, adopting effective reform measures, and
diversifying the economy.

Following ten months of relative stability, dur-
ing which the kwacha depreciated gradually
from K5 to K8 to the US dollar, the situation
deteriorated rapidly in the second half of 1986;
shortfalls in copper exports and a failure to con-
tain the increase in the money supply led to a
sharp depreciation in the exchange rate. The
government, concerned that the depreciation
was fueling inflation, intervened in the auction,
limiting the exchange rate to a specified band.
Such interventions undermined confidence in
the auction, and the kwacha tumbled to K19 to
the US dollar by the end of 1986.

GDP growth in 1986 was close to zero, making
the 1983–86 adjustment period one of zero
growth. Inflation rose, and budgetary and trade
deficits widened. The program did help nontra-
ditional exports expand rapidly, and the use of
manufacturing capacity also increased as a result
of greater domestic demand financed by greater
commercial debt and bilateral assistance. But the
devaluation of the kwacha and the government's
attempts to reduce the budget deficit by reduc-
ing food subsidies resulted in food shortages, ris-
ing prices, and food riots during December 1986.
1987 to 1988: back to controls

At the beginning of 1987 the government suspended the foreign exchange auction altogether, and restricted the exchange rate to the range of K9–K12.5/$1. Then, on May 1, 1987, concerned about the rapid devaluation of the kwacha to K21 to the US dollar and rising social unrest, the president announced that Zambia was abandoning its reform program with the IMF and the Bank, and would pursue its own adjustment program. The new program fixed the kwacha at K8 to the US dollar, introduced extensive price controls and import restrictions, and limited debt-service payments. The strategy was distinctly supply-side in its emphasis. The main priority was increasing output even if this meant increasing the money supply and inflation. Previous government programs, supported by the Bank and the IMF, had tried to contain inflation by controlling demand, even when this limited the expansion of output. Supply expansion, meanwhile, was financed partly by withheld debt-service payments.

Kaunda continued some of the 1985 reforms, and hoped to keep the door open for continued Bank and donor assistance. However, given the rapid buildup in arrears to the Bank, a suspension in loan disbursements was inevitable at the end of May 1987.

Still, Kaunda kept communications open with the Bank and bilateral donors in an effort to win support for his changes. In a letter to World Bank President Barber Conable in August 1987, he asked for Bank comment on his New Economic Recovery Plan (NERP). Conable, meeting with Kaunda in October 1987, responded that the Bank did not believe the NERP could achieve its objectives.

By a confluence of fortunate circumstances, Zambia’s GDP grew by 3.1 percent in 1987. Rains were good, making for a bountiful harvest, and copper prices improved briefly. However, partly as a result of NERP policies, some aspects of the economy deteriorated in 1987. Inflation was exacerbated by the growth in the fiscal deficit and by lax monetary controls. This highlighted the need to tackle other urgent problems—the budget deficit, exchange rate controls, interest rate controls, price controls, and monetary expansion.

In October Kaunda agreed to discuss program adjustments with a Bank mission, and this marked the beginning of a renewed period of Bank influence over Zambia’s development strategy. In January 1988 the kwacha was pegged to a basket of currencies of Zambia’s main trading partners. The auction was reintroduced to allocate foreign exchange but not to fix the rate. However, Kaunda retained most features of the NERP and in September 1988 he sent President Conable a progress report on it. The Bank’s reaction was mixed, seeing some favorable developments, but finding problems of inflation and the budgetary imbalance unsolved.

1989 to 1990: a gradual return to adjustment

By the end of 1988 the government accepted that, despite the fact that GDP was growing at an annual rate of 5.6 percent, the NERP was not solving the country’s major economic problems. In November Zambia devalued the kwacha by 25 percent and pegged it to the SDR, removed some import restrictions, and took measures that increased monetary reserve requirements and raised interest rates. On the fiscal side, maize meal prices were tripled, and a coupon scheme was introduced in January 1989 to reduce the cost of the subsidy. In March 1989 the government increased the share of export earnings that exporters could use for their own imports.

In mid-1989 Kaunda announced that the government had devalued the kwacha by 63 percent, removed all price controls except for
maize meal, introduced a dual exchange regime with a market-rate and a government-rate, and changed to an “open general license” import regime. To help palliate the resulting cost-of-living increase, civil service wages were raised by 30 to 50 percent. The Bank of Zambia increased interest rates and reserve requirements, and made it mandatory for parastatals to pay their overdue service on foreign debt in the local currency into the central bank.

These announcements paved the way for an agreement with the Bank and IMF in September 1989 on the economic reform program as set out in a policy framework paper (PFP) covering 1989–93. The agreement was followed by a consultative group meeting and a Paris Club agreement on Zambia’s foreign debt in July 1990. The policy dialogue between the government and the Bank and IMF culminated in the clearance of Zambia’s arrears and a resumption of normal relations in March 1991. In April 1991 the IMF approved a Rights Accumulation Program. According to this, Zambia (the first country to use the program) began to accumulate rights to draw IMF resources to liquidate arrears to the IMF, if the country fulfilled the macroeconomic conditions laid down in the program.

Adjustment abandoned again before 1991 elections

Zambia again backed off the adjustment program in the months preceding the October 1991 elections. The government gave in to exorbitant wage demands, resorted to expansionary fiscal measures, and boosted maize and other subsidies, while allowing debt service to the Bank to fall into arrears. The Bank suspended disbursements in September 1991. A particular source of disagreement centered on local maize prices. The government said it could not act on the consumer price of maize until after the election, thus reneging on a 30 percent increase promised to bilateral donors in Paris in July 1991. The government also substantially raised civil service salaries, thereby reversing apparent progress in reducing the fiscal deficit. An October public expenditure review mission found subsidies on maize rising rapidly and extrabudgetary pay increases exacerbating the fiscal deficit. The desired pre-election economic boom did not materialize, and Kaunda’s long presidency ended.

After 1991: the new government restores reform program

With inflation running at more than 100 percent a year and GDP declining, the government of President Chiluba soon declared its intention to return to the program that the Kaunda government had started and abandoned. Bilateral donors pledged their support to the new government in facing a devastating drought and in resolving Zambia’s arrears with the Bank. The problem created by the drought was resolved by massive food aid during the next year. By the end of January 1992 arrears with the Bank had been cleared by a combination of special deposits by bilateral donors, and interim financing provided by Citibank against an IDA comfort letter.

In February 1992, the government reached an agreement with the Bank and IMF on a policy framework paper for 1992–94. It outlined a comprehensive policy of reforms for stabilizing and restructuring the economy and for stimulating growth. The program focused on three sets of policies—the removal of subsidies, economic liberalization and stabilization, and the privatization of state-owned enterprises.

The liberalization measures included the abolition of import and export licenses; a lifting of controls on interest rates; the lifting of price controls; and the lowering and compression of trade tariffs. In September 1992 the government introduced bureaux de change and the official
TABLE 1.2: PRINCIPAL ECONOMIC AND POLITICAL EVENTS, 1963–96

<table>
<thead>
<tr>
<th>Zambia</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-1983</strong></td>
<td></td>
</tr>
<tr>
<td>1963—Central African Federation formally dissolves</td>
<td></td>
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<tr>
<td>1964 October—Zambia gains independence with Kaunda as president</td>
<td></td>
</tr>
<tr>
<td>1965 November—Rhodesia declares unilateral independence</td>
<td>1967—Bank makes first IBRD project loan to Zambia (project loans continue through 1982)</td>
</tr>
<tr>
<td>1966—Zambia, unable to rely on coal from S. Rhodesia, opens Maamba mine with output of 100,000 tons</td>
<td></td>
</tr>
<tr>
<td>1968—Kaunda initiates program of self-reliance in industry, state ownership, nationalization of firms. UK decides to reduce aid</td>
<td></td>
</tr>
<tr>
<td>1971—Copper prices fall, remain low in 1972</td>
<td>1973—Bank makes first program loan to Zambia</td>
</tr>
<tr>
<td>1971—Zambia starts to use IMF facilities</td>
<td></td>
</tr>
<tr>
<td>1972—Coal production is at peak to reduce energy imports from S. Rhodesia</td>
<td></td>
</tr>
<tr>
<td>1973—Oil price crisis hits</td>
<td></td>
</tr>
<tr>
<td>1973–74—Copper prices recover</td>
<td></td>
</tr>
<tr>
<td>1975—Copper prices fall again and stay low until 1979–80</td>
<td>1976—Bank makes second program loan</td>
</tr>
<tr>
<td>1976—Copper production peaks at 712,000 tons</td>
<td></td>
</tr>
<tr>
<td>1979—Second oil price shock occurs</td>
<td>1978—Bank makes first IDA credit and Zambia becomes IBRD/IDA blend borrower</td>
</tr>
<tr>
<td>1980—Coup attempt made against Kaunda</td>
<td></td>
</tr>
<tr>
<td>1980—Copper prices recover</td>
<td></td>
</tr>
<tr>
<td>1981—Zambia’s use of IMF resources reaches highest point (SDR 359 million)</td>
<td></td>
</tr>
</tbody>
</table>

exchange rate was unified in December that year. Domestic asset markets were liberalized with the introduction of tender-based weekly auctions for treasury bills, the removal of restrictions on commercial banks' lending rates, and the abolition of exchange controls. A privatization act was passed in July 1992, and the Zambian Privatization Agency was created to convert state-owned enterprises to private ownership.

In 1992 the country faced many economic difficulties. The prolonged drought caused a rise in food imports, which diverted foreign exchange from industrial inputs, so industrial capacity could not be utilized. Copper production fell by more than 8 percent while international copper prices slipped. High pre-election wage settlements not only contributed to a large government deficit and inadequate control of the money supply, but also increased domestic demand and inflation, continuing the deterioration of the previous two years. By the end of 1992 the government made control of inflation a top priority. In early 1993 it did the following
Zambia

1982—Zambia is in full-blown financial crisis

1983 and after

1983 January—Zambia introduces reforms, devalues kwacha, but stops debt repayments
1983 April—USSR agrees to reschedule Zambia's debt
1983 October—Kaunda re-elected by an increased majority
1984 February—Students riot
1984—Copper prices slump. Zambian debt to IMF reaches peak of SDR 754 million
1985—Industrial unrest and public sector strikes dominate first half of year
1986—Copper prices slump again
1987 May 1—Government reverses the economic reform policies agreed with Bank/IMF in 1985
1989 September—Zambia resumes relations with Bank and IMF after reaching agreement on reforms
1990—Consultative group meeting and Paris Club agreement
1991 March—Arrears to Bank cleared
1991 October—Multiparty Movement for Democracy wins the elections. President Chiluba replaces President Kaunda
1993—Zambia introduces cash budget and starts to reduce inflation

1983 October—Bank suspends disbursements
1984—Bank approves Export Rehabilitation and Diversification Project
1985—Bank approves Agricultural Rehabilitation Credit
1986—Bank approves Multi-Sector Credit and industrial reorientation credits
1990—Consultative group meeting and Paris Club agreement
1991 March—IDA approves recovery credits
1991 September—Bank suspends disbursements
1993—Privatization and Industrial Reorientation Credit II
1994—Economic and Social Adjustment Credit
1995—Agricultural Sector Investment Project and Health and Social Credits
1996—Economic Recovery and Investment Credit

These measures brought inflation down sharply during the second half of 1993, and they were continued in 1994. There was a crowding out of the private sector with the sale of treasury bills and with an increase in public-sector debt held by commercial banks. To continue stabilizing prices and strengthening public finances, consumer and producer subsidies were substantially reduced; the need to subsidize public enterprises was reduced by privatizing and reforming parastatals, and the size of the civil service was trimmed. The deficit was partly financed by contractors and suppliers who were owed considerable amounts of money by many government departments. Much maize remained unpurchased during the 1993–94 season. This put a severe strain on farmers, who needed cash to pay off loans and buy inputs for the next season; and when the government did buy the grain, it offered to pay...
Table 1.3: Social indicators, 1986–95

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP per capita ($)</th>
<th>Total population (1,000)</th>
<th>Population growth rate (%)</th>
<th>Life expectancy (years)</th>
<th>Infant mortality rate (per 1,000)</th>
<th>Per capita supply of calories (per day)</th>
<th>School enrollment rates (%)</th>
<th>Energy consumption per capita (kg of oil equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>470</td>
<td>6,429</td>
<td>3.2</td>
<td>51.6</td>
<td>84.8</td>
<td>n.a.</td>
<td>94</td>
<td>17</td>
</tr>
<tr>
<td>1987</td>
<td>300</td>
<td>6,945</td>
<td>3.3</td>
<td>52</td>
<td>84</td>
<td>2,126</td>
<td>100</td>
<td>17</td>
</tr>
<tr>
<td>1988</td>
<td>240</td>
<td>7,196</td>
<td>3.3</td>
<td>53</td>
<td>93</td>
<td>2,126</td>
<td>103</td>
<td>19</td>
</tr>
<tr>
<td>1989</td>
<td>290</td>
<td>7,490</td>
<td>3.7</td>
<td>53.1</td>
<td>80</td>
<td>n.a.</td>
<td>104</td>
<td>19</td>
</tr>
<tr>
<td>1990</td>
<td>390</td>
<td>7,840</td>
<td>3.7</td>
<td>53.7</td>
<td>76.6</td>
<td>2,026</td>
<td>97</td>
<td>17</td>
</tr>
<tr>
<td>1991–92</td>
<td>420</td>
<td>8,110</td>
<td>3.7</td>
<td>49.7</td>
<td>82.1</td>
<td>2,077</td>
<td>95</td>
<td>20</td>
</tr>
<tr>
<td>1993</td>
<td>460</td>
<td>8,319</td>
<td>3.3</td>
<td>49</td>
<td>106</td>
<td>n.a.</td>
<td>n.a.</td>
<td>20</td>
</tr>
<tr>
<td>1994</td>
<td>450</td>
<td>8,272</td>
<td>3.0</td>
<td>48</td>
<td>107</td>
<td>n.a.</td>
<td>n.a.</td>
<td>20</td>
</tr>
<tr>
<td>1995</td>
<td>380</td>
<td>8,936</td>
<td>3.3</td>
<td>48</td>
<td>103</td>
<td>n.a.</td>
<td>n.a.</td>
<td>37</td>
</tr>
</tbody>
</table>

Note: n.a. = not available.

The farmers with promissory notes redeemable in February 1994, well beyond the usual August-September payment date.

Currently, state-owned enterprises that are not financially viable are being closed. Parastatals that remain in the public sector, mainly utilities, are being restructured to free them from the need for public subventions and to give them more financial and management independence. The Zambian Privatization Agency was restructured in 1994 and approved more than 100 companies for sale during 1995. In 1995, two large loss-making parastatals—Zambian Airways and the United Bus Company of Zambia—were liquidated and the public sector holding company, ZIMCO, was dissolved. Studies will be done on the privatization of Zambia Railways, Zambia Consolidated Copper Mines (ZCCM), and other parastatals in infrastructure and energy. But this progress has not been without difficulties, as the government has often hesitated before undertaking these measures and an intense, and at times tense, dialogue with the donor community has been an important factor in the progress.

Zambia’s present strategy—continuing the reform program

In mid-1995, the Zambian minister of finance summarized Zambia’s current development strategy for the Bank’s board. The objective for the next three years is positive per capita growth in a stable macroeconomic environment. But the ultimate objective is to reverse the rising incidence of poverty—today almost 70 percent of Zambians live below the poverty line.

These objectives are being pursued through a program of reforms that include the following components: a value-added tax, a stronger Zambia Revenue Authority, better handling of ZIMCO’s residual assets, less government expenditure in GDP, increased real expenditure on health and education in the budget, a strictly enforced freeze on government hiring, a smaller and more efficient civil service, and more effective use of donor assistance. Government activity will reinforce private sector expansion by increasing public investment in infrastructure and social services and by increasing the amount of resources that may be
invested and encouraging their efficient use. Other measures in the reform program include a new land policy, continued privatization, a reduction in regulations, an enhancement of services supporting the private sector, and a new mining policy contemplating ZCCM's privatization.

This summary's resemblance to recent statements of Bank strategy notwithstanding, Bank staff insist that Zambia's strategy is its own; and reflects the work of its few but capable technocrats and the political directorate. Yet, the Zambian strategy addresses the concerns and reflects the views of the Bank, the IMF, and bilateral donors. It is impossible to determine how much of this strategy Zambia really owns, and how much the statement reflects Zambia's deep awareness of its financial dependence on donors. As a new round of elections approaches (in late 1996) the government's ownership of this strategy will be put to a strong test.
2. Bank assistance strategy in the 1980s and 1990s: short term and crisis driven

Sources of information

The review of the Bank's strategy does not benefit significantly from an events-driven analysis as there was only one event that seems to have provoked a shift in the Bank's attitude toward Zambia. This event was the Bank's introduction of and emphasis on structural adjustment at the beginning of the 1980s, a time when there was a drying up of private credit to highly indebted developing countries. This event prompted the undertaking of economic and sector work that took a new and critical look at the development strategy and prospects of clients. A 1981 economic memorandum set out the Bank's independent view of the appropriate development approach for Zambia, and provided the focus for the Bank's assistance strategy for Zambia over the longer term. However, the Bank's strategy over the shorter term has tended to react to changes in Zambia's adjustment efforts, economic performance, and attitude toward Bank advice.

The approach has been to identify the main threads of Bank strategy from these reactions as recorded in statements of its intentions and from its actions. These actions are inherent in decisions about the amount, content, and timing of economic and sector work, and about the amount, distribution by instrument, objective, sector, and conditions attached to lending. The intentions were recorded in a draft 1981 country program paper (CPP) and a 1985 CPP; in country assistance strategy and operational program papers for FY88–90 and FY89–91 prepared in August 1987 and June 1988 respectively; in a series of status reports prepared in 1988; and in country strategy papers drafted in 1992 and 1993, the second serving as the basis for the country assistance strategy (CAS) of March 1994. The Bank's strategy for the period after 1994 was outlined in the minutes of the loan committee considering the Proposed Economic Recovery and Investment Promotion Credit in February 1995. A new CAS is being prepared for completion in FY96.

Evolution of Bank strategy reflected shift in priorities

The Bank's strategy evolved in the following way:


- 1980–82: The Bank started to base its strategy on its own diagnosis of Zambia's development, a diagnosis that saw the need to reduce the country's dependence on copper.

- 1983–86: Bank support for Zambia's intermittent structural adjustment efforts focused on stabilizing output.
• 1987-90: In response to Zambia's abandonment of the adjustment program, the Bank tried to get the program back on track partly by allowing a prolonged suspension of Zambian access to Bank resources.

• 1991: The Bank through innovative strategy helped Zambia to clear its arrears that had resulted in the suspension of lending, and resumed lending to Kaunda despite the risk that with impending elections he would not meet conditions.

• 1991–94: Bank strategy emphasized support for Zambian stabilization efforts and debt servicing.

• 1994 and after: Bank strategy started focusing on growth and poverty alleviation. Increasing emphasis was placed on privatization and sectoral investment programs.

Before 1980: sharing Zambia's optimism

From 1967 until 1980, the Bank had an uncritical approach to Zambia's development strategy, which emphasized public-sector-led industrialization. The Bank shared Zambia's optimism that the downturn in world copper prices was temporary, and it did not question the advisability of Zambian borrowing to continue the momentum of development. Indeed the Bank approved just under $500 million in support of Zambia's development during this period, spread over 25 operations, including two program loans and numerous project loans in infrastructure, energy, agriculture, education, and financial intermediation. Most of these were IBRD operations.

From 1980 to 1982: the Bank reassessed Zambian strategy

By late 1981 Bank analysis reassessed Zambia's development strategy, and the 1981 country program paper stressed the need to diversify exports away from copper in view of its low prices, declining output, and falling reserves of ore. Bank strategy was redesigned to support reforms to expand output in other sectors. The Bank proposed a lending program for FY82–86 of $160 million (IBRD) and $165 million (IDA), within which a copper rehabilitation loan of $70 million was to be the centerpiece and the vehicle to get the government to undertake institutional and policy reforms in other sectors, including agriculture.

It is clear that the Bank's strategy came to be based on its unilateral analysis of what was right for Zambia. In addition to the two themes of export diversification and policy/market liberalization, there was an undercurrent of concern not to let the economy slide too far. Bank thinking was that some resources would have to be spent on rehabilitating copper mining, since this would continue to be the main source of foreign exchange for some time. At the same time resources would be needed to provide for inputs to allow fuller use of installed industrial capacity.

From 1983 to 1986: Bank-supported structural adjustment

In response to Zambia's agreement in January 1983 to undertake adjustment measures and to introduce reforms to stabilize and liberalize the economy, the Bank made a commitment to support Zambia's efforts. In a 1983 paper on Bank strategy, the issue for the Bank was whether its support should take the form of a structural adjustment loan. It decided against a comprehensive structural adjustment loan before FY86 in view of the general weakness of Zambia's planning and finance ministries. Instead, the Bank decided to provide limited, sector-based, nonproject assistance, with conditions set on how the country should tackle the more general issues of economic reform. Given the time required and the analysis needed for lending to the agricultural sector, it was decided that the
The industrial sector should be tackled first, through a follow-up loan to the Development Bank of Zambia in FY84.

Meanwhile, the Bank shifted the policy dialogue away from the level of technicians in sector ministries to top officials in the Ministry of Finance, the Planning Commission, and the Bank of Zambia. This shift mirrored the increasing importance of macroeconomic matters compared with sector project matters in the dialogue. But the shift was gradual, and during 1984 and 1985 World Bank analysts still believed that sector lending could be used to encourage more general policy reforms. This belief was inconsistent with the lack of centralization and planning in the Zambian government.

In the 1985 country program paper, the Bank reviewed the policy agenda again. At the time the Zambian economy was in crisis from further copper price declines, layoffs, and labor unrest, and the government was vacillating in implementing agreed reforms. The Bank insisted on a full restoration of the liberalization measures that the government had announced and partly implemented in 1983-84; a comprehensive program of stabilization measures meeting IMF standby conditions; and reforms to reduce the country’s dependence on copper exports. In addition the Bank made its lending program conditional on the government’s success in bringing the crisis under control, for Bank staff perceived that government commitment to policy reform was weak. The ensuing economic policy dialogue was difficult; but it ended in an agreement on two credits carrying the essential conditionality for structural adjustment—the 1985 Industrial Reorientation Credit and the 1986 Economic Recovery Program Credit.

**From May 1987 to 1990: waiting to resume adjustment**

The Bank’s strategy on Zambia was disrupted in May 1987 by the government’s reversal of the economic adjustment program and the accumulation of arrears to the Bank, leading to suspension of Bank lending. A country assistance strategy and operational program prepared in July of 1987 stated clearly that the Bank’s strategy over the next three years sought to get the adjustment process back on track, and was planned to be in two stages. These were to be:

- First, to consolidate the gains of the adjustment policies, with the assumption that such policies remained in place. At the same time, there was limited lending to projects in social sectors and in infrastructure rehabilitation. This lending was not dependent on macroeconomic or sector policy reforms.

- Second, to seek an eventual resumption of structural adjustment lending. This strategy involved continuing discussions with the Zambian authorities on macroeconomic policies and other issues, to agree on a policy framework that the Bank could accept and support.

This dual approach is a standard Bank approach when a policy disagreement exists, but it failed to take into account the fact that Zambia had stopped servicing its debt and had accumulated huge arrears. Thus the first stage was not applied, as there was no lending to projects in the social sectors and in infrastructure rehabilitation, and there was no support of the adjustment policies that Zambia had not abandoned. There was no provision in the strategy for the Bank to do anything about the arrears that made suspension necessary and thereby expedite resumption of adjustment lending. The Bank did not seek a way around the suspension rules or devise a means to satisfy them expeditiously.

Shortly after the Bank, the IMF, and Zambia once again reached agreement in September
1989, the Bank convened donors to search for a solution to Zambia’s arrears. The episode of the arrears clearance suggests the Bank could have acted earlier to find a way to help the Zambians; several donors had offered assistance as early as December 1988. There is reason to believe the Bank delayed acting to enhance its leverage in the policy dialogue with Zambia. The tactic succeeded in securing immediate agreement, but failed to produce long-term commitment.

1991: taking a chance

In 1991, the Bank orchestrated the liquidation of Zambia’s arrears to the institution through special contributions by some bilateral donors, the arrangement of short-term interim financing, and by committing itself to expediting the disbursement of funds from renewed lending and from credits that had been suspended. It faced the risk that although President Kaunda had agreed since 1989 to reinstitute the reform program and had taken some measures, he may have been unwilling to follow through on politically unpopular measures, like the removal of maize meal subsidy and the withholding of wage increases for public service employees before the October 1991 elections. Although President Kaunda abandoned the reform program in the months before the election, on the part of the Bank it was a risk worth taking. By removing the obstacles to the Bank’s and other donors’ support, the Bank avoided the charge of prolonging for political reasons the economic difficulties created by the shortage of foreign exchange, and put the onus on Kaunda to demonstrate that he was willing to undertake the needed reforms despite the political risks. Besides, the socioeconomic climate for the election was more stable than it might have been had the economic situation been worse. Also, the Bank’s actions were a clear signal to whichever party won the elections that the Bank would be willing to support a reform program as long as the government appeared committed to it.

1991 to 1994: focus on stability and debt servicing

The next comprehensive statement of Bank strategy for Zambia was in 1992, after the new government had shown its willingness to pursue a strong adjustment program. The statement raised issues of macroeconomic stability, debt service, financing requirements and aid coordination, and Zambian implementation of the program. These issues defined the focus of Bank assistance over the next four years. The analysis drew attention to the fact that Zambia would need a high level of external support to service its external debt—a theme that has recurred.

In its lending during this period, the Bank gave the highest priority to providing balance-of-payments support for debt servicing, and the lowest priority to project financing. The Bank’s role in coordinating aid for Zambia was also a high priority, given the need to mobilize bilateral donor support to close the financing gap and to reduce Zambia’s external debt. The twice-yearly meetings of the consultative group and ad hoc meetings of the Paris Club that had to be organized are indicative of this, and of the importance of such coordination over the last four years. The policy dialogue has been less crucial given the Chiluba government’s willingness to take measures to stabilize the economy, reduce government intervention, and restore growth. The Bank’s economic and sector work and policy dialogue with Zambia focused on the need to reduce inflation, primarily by holding down public sector spending as a way of reducing the fiscal deficit.

1994 and after: confronting weak growth, poverty

In March 1994, another strategy statement set out clearly that the Bank’s goal for Zambia was to assist the government in achieving sustainable economic growth and reducing poverty.
The range of concerns included portfolio performance, beneficiary ownership, donor coordination, balance-of-payments support for debt service, and new-types of sector lending. These concerns were developed into a three-pronged strategy:

- To support policy reform and provide balance-of-payments support through adjustment operations.
- To improve the private sector environment through project investments in infrastructure and human resources.
- To target the poor and vulnerable groups with specific programs in agriculture and in social services.

The lending scenario in 1994 was not only based on continued satisfactory macroeconomic policy performance, the implementation of structural reforms, and an improvement of portfolio performance, but also on future copper prices and certain levels of support from other donors. The strategy specifically made a provision that if the price of copper collapsed further (beyond the trend projected in the document), or failed to recover as expected, and the shortfall in resources could not be covered by other donors, the Bank would be forced to suspend operations should the government be unable simultaneously to maintain the adjustment program and service its Bank debt. In addition, the Bank was to go on playing an important role in aid coordination. To help Zambia achieve a sustainable internal balance, the Bank was to provide assistance and chair the consultative group on its debt renegotiations.

As inflation has subsided, the dialogue has focused on growth. Increasingly, for all borrowers, the Bank is stressing the need to maximize the development impact of its operations; and the planning, implementation, and follow-up in its Zambia program have changed in consequence. The Bank’s economic and sector work on poverty has paved the way for social sector initiatives that are likely to be a higher priority in Bank assistance than in the past, especially since it has become obvious that the economic problems are somewhat intractable.

Early in 1995 the Bank reconfirmed the appropriateness of adjustment lending as part of the Zambia strategy, envisioning annual adjustment operations. The region indicated that this approach is in keeping with an agreement reached in the early 1990s with the G-7. This agreement seeks to move Zambia gradually to a stable balance-of-payments situation through adjustment operations and bilateral debt relief, in order to avoid drastic cutbacks in imports and the strangling of economic growth.

The 1995 analysis found Zambia’s adjustment program to be on course and the Bank’s program evolving in response. While Bank lending will continue to have a significant component of adjustment lending, the emphasis increasingly will be on a bold program of sector investment operations that has been developed to remove constraints on growth and strengthen the economy’s supply response. Zambia has completed the Rights Accumulation Program with the IMF, and has been able to clear its arrears with the IMF, thereby restoring access to that organization’s resources in support of clients’ stabilization efforts. This is expected to reduce the need for the Bank to provide such support in the future.

Note

1. The 1994 Agricultural Sector Investment Project was the first new-type sector loan and is considered a flagship loan for future Bank support to Zambia.
3. Evaluation of Bank assistance strategy

Overview

The evaluation of the Bank’s assistance strategy in Zambia during 1983–95 may be summed up as follows:

- The Bank’s assistance was less relevant to the country’s long-term development than it could have been had it followed more closely the Bank’s earlier diagnosis of Zambia’s problems and prospects. Instead, the strategy overestimated the government’s willingness to reform and focused too narrowly on stabilization. In the process, too little attention was paid to privatization, policy adjustments for private producers, rehabilitation of infrastructure, and maintenance of social services. During most of the 1980s, long-term relevance was compromised by the pursuit of short-term stabilization objectives that remained elusive.

- The efficacy of Bank assistance was mixed. Bank assistance has not helped Zambia establish a trend of positive GDP growth, much less positive per capita income growth. Bank assistance has not solved Zambia’s fundamental problems of worsening poverty and deteriorating social indicators. However, the conditions attached to IDA credits drastically reduced inflation and brought interest rates down to more normal levels.

- If Bank assistance to Zambia is to be more relevant and useful, the Bank must be more realistic in its projections of Zambian recovery. It must acknowledge that the political situation may not always be favorable to development; pay more attention to human and infrastructure constraints; bear in mind that international aid may well decline now that Zambia is no longer a front-line state; and recognize that there can be no quick economic recovery given the deterioration in Zambia’s infrastructure after years of lack of maintenance and underinvestment. The country, moreover, suffers from skill deficiencies, and the pace of institutional change is slow.

Methodology

Relevance, efficacy, and efficiency are the main criteria

Basically, the approach to the evaluation of Bank assistance is to identify criteria for a good strategy and to judge the strategy and its components in terms of the extent to which these criteria have been met. The evaluation is conducted on two levels—that of the strategy as a whole, and that of the components (economic and sector work, lending, aid coordination, and technical assistance in debt management). Relevance, efficacy, and efficiency are the main crite-
ria used by OED for evaluating the Bank’s assistance strategy.

For any country, the relevance of the Bank’s assistance strategy depends on how well it is adjusted to the genuine need of the client—in light of commonly accepted goals of economic growth, stability, and poverty alleviation—and the resource and technological constraints faced by the client. The relevance of such a strategy also depends on the degree to which it responds to circumstances that are particularly important to the client. In the case of Zambia, the large external debt, the role of bilateral donors, the need to coordinate with the IMF, and the incidence of arrears leading to suspension of lending constituted such circumstances. To be relevant, the Bank’s strategy should also fit into the country’s political and social context, which determines a country’s priorities and the way a country pursues them.

Efficacy, the extent to which outcomes have met the project’s objectives, is judged ex post on the basis of the achievement of objectives. The main question is whether and to what extent operations have had their intended impact. This is difficult to determine since the situation without the Bank’s assistance does not exist anymore for comparison, and since the observed situation is usually not only the outcome of the Bank’s operations but of many other factors including operations of other donors. To the extent possible, the evaluator should sort out the contributions of these other factors in an effort to get a fair idea of the Bank’s contribution to the observed outcomes. Thus, in order to achieve its objectives, Bank strategy must be grounded in a realistic analysis of (a) what is possible in the physical, social, cultural, political, and international circumstances; (b) what can be done within a specified time; and (c) what constitute the country’s best development options.

Efficiency is the assessment of outcomes in relation to project inputs, and is usually evaluated in terms of cost overruns, implementation delays, and economic and financial rates of return. In the case of the assistance program as a whole, the focus is on the commitment of the Bank’s budgetary and manpower resources in relation to the lending program. Since these are the main inputs made by the Bank in developing its portfolio of loans, efficiency is an important gauge of portfolio quality.

The Bank also judges its assistance strategy on the basis of the sustainability of benefits and the institutional development impact of its operations. These criteria are important in determining the longer-term contribution to national development. These are usually used in the evaluation of specific projects.

Operationally, the evaluation involves a review of the three main decisions that affect the relevance of the Bank’s assistance. These are as follows:

- How much assistance to provide.
- The form in which the assistance is provided.
- The activities and operations within each type of assistance, and their timing and sequencing.

Answers are sought to the questions: Was assistance based on realistic assumptions regarding the development opportunities and obstacles? Was adequate thought given to peculiar features of the Zambian case? Then, the implementation of the assistance program, on which its efficacy in terms of output of benefits will largely depend, is judged mainly on the actual experience in terms of output of goods and services and institutional and policy improvements. The main input is the evaluation of individual projects and programs done by OED and other evaluators.
Evaluation of Bank assistance

Relevance

In general, Bank assistance was relevant to Zambia's needs. This was due largely to the realistic diagnosis of Zambia's development problems and prospects. At the same time the relevance of Bank assistance tended to be limited by:

- Too much emphasis on short-term stability and not enough on long-term growth.
- An insufficient and unrealistic analysis of the political situation.
- Overoptimism.

Realistic diagnosis of the Zambian development problem. The Bank's 1980/81 diagnosis and associated recommendations conformed to the accepted wisdom and were unexceptionable. The diagnosis clearly focused on what was wrong with the Zambian economic strategy. An attempt was made to be faithful to the diagnosis in designing the Bank's assistance, but implementation was not always consistent with relevance. This was the situation in 1986. When implementing structural adjustment credits, the Bank diluted conditionality in the interest of rapid disbursement, and the inconsistency between the way some credits were implemented undermined the relevance of others. On the other hand, the diagnosis carried out by the Bank in 1980/81 has proven to be remarkably robust and remains essentially valid in 1996, especially in its emphasis on diversification. It proved ahead of its time in stressing the need for liberalization and privatization to correct the defects of government-led industrialization and trade protection, which were popular from the 1950s to the 1970s in many newly independent countries of Africa and Latin America.

Bank assistance has been responsive to Zambia's external debt problems. The amount and composition of Bank lending, the direction of the Bank's economic and sector work, and the nature of technical assistance and aid coordination have been responsive to Zambia's enormous external debt. Early on, the Bank assisted in developing an adequate debt monitoring system, partly to facilitate the rescheduling of bilateral debt. Throughout 1983–95, the Bank helped reschedule and renegotiate debt with bilateral creditors. The Bank's role in aid coordination was developed largely in response to the need to mobilize support for Zambia's efforts to reduce the burden of its bilateral debt and make it more manageable. As the share of debt to the multilaterals increased, and as arrears in servicing such debt became larger and of longer duration, Bank lending was geared to providing foreign currency for the clearance of arrears so that lending operations could continue.

At the end of 1994, Zambia's debt totaled $6.2 billion, of which $3.1 billion was multilateral and $2.7 billion bilateral. Excluding short-term debt, Zambia's external debt is nearly $650 per capita, one of the highest rates in the world. A commercial buyback operation in 1994 reduced the debt by more than $600 million. However, managing Zambia's debt with minimum burden for the country will continue to require substantial and coordinated donor support, with the Bank playing a pivotal role.

Bank strategy has recognized the immense importance of bilateral donors. In order to increase the relevance of its strategy for Zambia's development, the Bank has been careful to recognize the importance of other donors, multilateral and bilateral. Bilateral aid has been significantly larger than multilateral aid, and until 1990 it showed a higher grant element. The Bank wants to avoid overlaps in aid as well as gaps in the combined assistance programs of donors. The important donors in the past (the UK and the USSR) have as long a history of involvement with Zambia as the Bank, and they have traditionally acted independently of the Bank. But
while the Bank may not have had much influence on the amount and content of their aid, it has been able to register most of it. This has helped in gauging what is required from other sources, including the Bank itself, in order to close the gap associated with investment targets. The Bank has devoted substantial resources to the provision of documentation and to the promotion of the consultative group mechanism for mobilizing and coordinating aid to Zambia, including debt restructuring. Zambia and the donors alike have appreciated this component of Bank assistance. Coordination with the other donors remains a high priority at present.

Bank support compensated for Zambia's ineligibility to access the IMF. For years, Zambia mainly needed aid to stabilize its economy and balance-of-payments. From the early 1970s until well into the 1980s the IMF was the main provider of such funds. However, Zambia became ineligible to use IMF resources in September 1987 following the accumulation of overdue service payments to that institution; it did not use IMF resources between 1986 and the end of 1995. Bank lending to Zambia was also suspended in 1987, but unlike the IMF, Bank support was renewed after the clearance of Zambia's Bank arrears in 1991. During the early 1990s policy-based lending by the Bank provided mainly assistance to stabilize the economy, thereby playing the role formerly played by the IMF prior to 1987. Bank strategy in Zambia has been characterized by close coordination between the Bank and the IMF. The Bank has mainly provided structural adjustment credits, bearing similar macroeconomic conditions to those of IMF standby agreements. It is reasonable to assume that had Zambia's eligibility to use IMF resources been restored in 1991, Bank policy-based lending would have represented a smaller share of Bank financing to Zambia in the 1990s.

As of December 6, 1995, Zambia’s ineligibility to use IMF resources was lifted following clearance of arrears of SDR 830.2 million (about $1,234 million). The clearance was facilitated by IMF loans totaling SDR 701.7 million (about $1,043 million) corresponding essentially to the encashment of rights under Zambia's rights accumulation program, which the Bank helped to arrange in 1991. Under this program, when Zambia met certain macroeconomic conditions for World Bank loans, which were like those under an IMF standby arrangement, the country accumulated rights to have IMF resources in the future that could be used to offset debt to the IMF.

Long-term relevance was compromised by short-term objectives. The most visible evidence of Bank assistance is lending. Nearly 70 percent of Bank disbursements to Zambia during 1983-94 were structural adjustment credits. But the relevance of Bank assistance was affected by the relative emphasis between short-term stabilization and structural adjustment. These objectives shifted over time but in general the focus was on the short term.

The long-term objectives of Bank assistance in Zambia have been to diversify the sources of foreign exchange in order to reduce dependence on copper, liberalize the environment for the private sector, and reduce the role of the public sector in commercial activities. Bank assistance has only recently returned to these and started to focus directly on poverty.

In actual implementation, Bank strategy during the early 1980s faced a dilemma. The projects in the pipeline reflected the thinking of an earlier time, and the goals of diversification and liberalization were not immediately reflected in lending in 1983-84. Instead, the Bank supported infrastructure and credit through development banks, and provided a major loan to rehabilitate copper mining. Finally, after receiving economic and sector work completed in 1984, the Bank approved its Agricultural Rehabilitation Credit in mid-1984 and the Industrial
Reorientation Credit in 1985. But both were de facto structural adjustment credits.

Although the goals of Bank strategy were diversification, privatization, and liberalization, conditionality in adjustment lending emphasized liberalization. The Bank required that the government report on its market liberalization efforts one year after approval of the Agricultural Rehabilitation Credit, which was intended to support the reduction in the role of the marketing parastatal (NAMBOARD) and a cutback in the subsidy to maize and fertilizer. Similarly, conditions attached to the Industrial Reorientation Credit related mostly to freeing the foreign exchange market by establishing an auction and liberalizing the import regime. The Economic Recovery Program Credit approved in June 1986 supported a policy package covering the budget, import tariffs, public enterprise reform, and the maize-meal subsidy in addition to these same liberalization objectives. Liberalization was seen in the Bank as a necessary condition for diversification.

While these operations all had conditionality requiring liberalization, in 1985/86 the immediate objective of Bank support was to boost capacity utilization and output by providing foreign exchange for imported inputs. The Bank put such emphasis on stimulating an immediate increase in output that disbursement arrangements were biased toward assuring the prompt transfer of resources, even when the government vacillated in taking some liberalization measures. These operations paid little or no attention to export diversification. The Agricultural Rehabilitation Credit provided financing to import agricultural equipment without any restriction as to whether it would be used to produce exports, new or old; eventually the resources were channeled to imports in general. However, the Industrial Reorientation Credit contained one requirement favoring diversification—that Zambia enact a new investment code to encourage new industries. The new code was enacted, but its purpose was defeated as bureaucratic controls were maintained.

Only one operation—the Second Coffee Project, which was essentially a credit line to the private sector for coffee planting—seemed aimed to encourage another export commodity. Unfortunately, although it was approved in early FY87, this project did not become effective until 1992, when disbursements to Zambia resumed, and by then the implementing agency faced an uncertain future, given renewed emphasis on privatization. Also, the credit has been extended to all agro-industrial crops.

In the early 1990s, Bank structural adjustment credits gave highest priority to debt management and liquidation of arrears. Toward the end of the 1980s, when the debt had grown alarmingly and arrears to multilateral institutions and other sources had piled up, the Bank saw the need to return to prompt debt servicing to restore Zambia's creditworthiness. In addition to facilitating the clearance of arrears, Bank lending was heavily biased toward support for debt servicing.

Then in 1993 the Bank, responding to inflationary pressures (and to the absence of a formal arrangement between Zambia and the IMF), made price stabilization the highest priority in its lending. This was reflected in the emphasis on conditionality regarding fiscal and monetary targets acceptable to the IMF. As inflation abated, conditionality shifted toward privatization to promote growth in the manufacturing and agricultural sectors.

In all these cases, priority was given to short-term stabilization, specifically output expansion, and creditworthiness at the expense of longer-term structural change and infrastructure rehabilitation. Judged against the original diagnosis of Zambia's development problems, these short-term objectives made for a less relevant strategy than Zambian development.
required over the long term. There was no assurance that these priorities would favor greater private investment, rather than inefficient use of resources by the public sector. To the extent that they did not, the result was to increase Zambia’s debt to finance greater immediate consumption at the expense of capital accumulation and future growth.

A more balanced lending program—one with more support for infrastructure, for privatization and private investment in the productive sectors, and for the social sectors—would have had greater relevance to Zambia’s long-term development. Clearly, infrastructure deficiencies impeding agriculture were well known. This is not to say that policies were not in need of change. Rather, a core program of investments in which the benefits were not strongly compromised by defects in the policy environment could have been an important component of the lending program, while still reserving resources to compensate the government for making appropriate policy adjustments. This approach, which was and is fairly common in the Bank, was not seriously considered for Zambia until the prolonged suspension of operations in 1987–91. Yet it would have ensured some enduring benefit from a larger share of Bank resources, even if the government had reversed the adjustment policies.

The Bank’s political analysis was unrealistic. The Bank was unrealistic in its assumptions regarding the political consensus in favor of reform and the strength of the commitment in favor of structural adjustment. This lack of realism adversely affected both the relevance and the efficacy of Bank efforts. The Bank seems to have assumed that because Zambia was a single-party state the government was strong. Bank analysts were late in recognizing the weakness of the government, especially the president, in facing the unions’ demands and public opposition to cost of living increases and economic reforms. At times, decisions to introduce reform, reached by the cabinet, were stopped or reversed by the president when the political stakes were high.

The result was that the Bank was frequently caught by surprise, for instance in 1986, 1987, 1989, and 1991, when economic reforms were reversed shortly after being launched and so had no measurable impact. There were several tell-tale signs that the Bank should have read. For example, in April 1986 the president appointed a new economic team composed of individuals who had a long record of opposing reforms. These people should not have been expected to implement reform policies. By contrast, in 1982 when Zambia’s economic difficulties had come to a head, the president signaled commitment to reform by appointing three pro-reform individuals as finance minister, governor of the Bank of Zambia, and economic advisor. During 1983 and 1984, the government, with Bank and IMF assistance, designed a broad program of policies and measures to strengthen economic management and create an environment conducive to economic growth and diversification.

These episodes raise the question of how the Bank evaluates the political temperature of a country. Clearly the Bank needs to do more expert monitoring and analysis of the political situation and develop sensitivity to the political power of those likely to be affected by reforms. In general, the Bank should try to design measures that at least partly compensate affected groups. This may mean that, in order to get some rather than no policy change from the government, the Bank may recommend policy packages that are less than optimal economically but that are more feasible politically. The Bank did not consider this alternative enough during its perennial confrontation with Zambia over maize-meal pricing, for instance, or over the downsizing of the civil service.

Timing is also an important consideration. Political leaders are often unwilling to take

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Note: n.a. means not available.
Sources: World Bank policy framework papers for Zambia, various years, and World Bank 1996.

unpopular measures just before an election. Thus, it should not have been surprising that Kaunda abandoned seven months before the 1991 elections the austerity program that had been agreed with the Bank. In the future, the Bank should consider carefully whether to provide assistance shortly before an election and avoid providing it with conditions that the government predictably will not meet. This is particularly important as the 1996 elections draw near.

Bank strategy tends to be too optimistic. There was and still is a tendency toward excessive optimism in forecasts regarding growth. This is perhaps due to a superficial analysis of the sources of growth and an underestimation of the factors that may impede the response to policy reforms. In a country where agriculture depends on rainfall and droughts are frequent, where economic activity is dependent on foreign exchange to finance imported inputs, and where the policy environment still does not favor entrepreneurs, Bank forecasts for the next five years call for positive per capita growth, at a rate achieved in only two years since 1985. This is unlikely to happen in the yet-unsettled policy environment. (See Table 3.1.)

The Bank seems to assume that the Zambian economy has fully adjusted to the decline in copper. This is doubtful, for apart from the immense debt that has accumulated there is also an enormous backlog of infrastructure maintenance that will increasingly impair production. Recently the Bank has been calculating a “financing gap” based on estimates of foreign exchange needed to service the country’s large debt and to attain growth targets, and on estimates of inflows from exports and from donors.
But the requirement for meeting economic growth should include that needed to catch up on the maintenance of infrastructure. If not, although the financing gap may be closed, the productive capacity of the economy may decline as the infrastructure continues to deteriorate.

Excessive optimism has led to a "one option" approach by the Bank. This approach assumes that aid from bilateral donors (including debt reschedulings) will be adequate to cover a financial gap associated with a specific growth target, and that, at the same time, the country's multilateral debt can be fully serviced. The future of Zambia is seen to hinge on unlimited, permanent donor generosity. Indeed, to fulfill such an approach, donor generosity must increase to compensate for any future decline in copper earnings.

Alternative options can be worked out depending on which of the three variables—bilateral donor support, multilateral support, and/or the rate of Zambia's economic growth—is assumed to be fixed. One could assume, for instance, that there will be a limit in multilateral and bilateral donor support, and then deduce from that what would be a realistic level of growth and investment. The advantage of devising several options (however unpalatable some of them may be) is that a range of strategies, based on more realistic expectations, can be considered for dealing with a specific concern.

By contrast, under a single option approach, debate is focused on what policy changes the bilateral and multilateral donors will consider adequate as conditions for a given level of support. Such an approach assumes that the link between support and growth is guaranteed to come about as predicted. Meanwhile, the question of what policy and other factors will be adequate to bring about target levels of growth has received less attention. In particular it is too readily assumed that the investment required per unit of additional output will decline. This is unrealistic because the existing infrastructure is deteriorating, and in addition, different infrastructure is needed to serve a more diversified, private-sector-led economy. Investment in new skills is also required. Thus, there is the risk that while donor support may be adequate to service debt, growth performance may continue to be disappointing—a result again of a strategy not being fully relevant to Zambia’s needs.

Recent efforts to foster greater client orientation. At its fiftieth anniversary the Bank emphasized that six "guiding principles" would shape the institution’s focus and effectiveness:

- Selectivity.
- Partnership.
- Client orientation.
- Results orientation.
- Cost effectiveness.
- Financial integrity.

Of these, selectivity and client orientation tend to enhance relevance. Client orientation, for example, involves responding to the real needs of clients and facilitating their participation in the design and implementation of programs.

Since November 1992, the Southern Africa Department, which includes Zambia’s Country Operations Division, has attempted to strengthen client orientation through consultation. The department's goal is to obtain feedback from clients at the policy dialogue, economic and sector work, project preparation, and implementation stages. Comment from all clients is welcome, but particularly so from the government and the direct beneficiaries of Bank-financed operations. In FY94 the department required that all operations submitted to the Board include client consultation.
The Zambia Social Recovery Project approved in 1991 involved a survey of beneficiaries on three occasions. The Southern Africa Department found that such surveys greatly improved the speed and quality of project implementation. The University of Zambia now has the expertise to do surveys of beneficiaries. This augurs well for the relevance of the Bank’s assistance to Zambia.

**Efficacy**

The efficacy of the Bank’s assistance to Zambia has not matched the overall effort made as represented by the level of loan commitments. The most positive influences on efficacy have been:

- Additional resources, which have raised GDP.
- Improvements in the stability of the economic environment.

Meanwhile, the following had a negative impact on efficacy:

- Adjustment lending, which did not induce sustained structural adjustment.
- Failure to take measures during suspensions of disbursements to mitigate impact on ongoing projects.
- Inadequate technical advice.
- Limited capacity on the part of Zambia to benefit from the assistance.
- Insufficient ownership of the program by Zambia.

*Bank assistance has not turned the Zambian economy around, but has kept GDP from falling further.* The efficacy of Bank assistance in achieving growth and stability in Zambia has been mixed. The economy has not yet established a trend of positive GDP growth, much less positive per capita income growth, but it has achieved considerable price stability. Poverty is increasing, and the deteriorating social situation in the country has not yet been reversed. In short, Bank assistance has not brought about a turnaround, much less a solution to Zambia’s fundamental problems.

Yet Bank assistance has been of positive value—the situation in Zambia would have been worse without the Bank. To judge the efficacy of the Bank’s assistance program a counterfactual would be helpful. But none is available. It is difficult to identify the level of well-being that would exist in Zambia in the absence of all external assistance, and the difference that the Bank’s contribution to external assistance has caused. Given the import dependence of industrial production, the availability of foreign currency has been the biggest constraint on Zambia’s economic performance since the early 1970s. Hence, a rough idea of the contribution of Bank financing may be developed by looking at the relationship between GDP and foreign exchange inflows, and at the contribution of Bank disbursement in relation to those inflows. A rough estimate is that each dollar of foreign exchange supported two of GDP. Hence, if the Bank’s quick-disbursing financing accounted for 5 to 6 percent of GDP, it could have enhanced GDP by 10 to 12 percent in the years in which structural adjustment funding was disbursed.

One operation, the Mining Rehabilitation Credit, has been assessed as having had a significant impact in stopping the decline in copper production and in improving efficiency. Both had a salutary effect on the ret foreign exchange earnings of copper. To the extent that this helped relieve the foreign exchange constraints on output, Bank assistance to mining may have increased output generally and not just in the sector.

*Adjustment lending did not lead to adjustment.* The view that Bank support came too much in
the form of quick-disbursing credits that did not support adjustment focuses on the Kaunda government's tendency to jettison adjustment measures that proved unpopular. It sees the failure of structural adjustment as due to the fact that Zambia obtained resources before applying the policies long enough for them to be effective. If support had been disbursed less quickly the Zambian government might have stayed the course.

One problem in the 1980s was that bilateral donors were not fully behind structural adjustment, and so Zambia could ignore pressure to sustain reforms. It could always turn to the bilaterals for support. This situation changed in the early 1990s, as bilateral donors generally started supporting structural reforms. Because the Chiluba administration has stayed the course, the matter has not been tested, but it is fair to say that any strategy to link the flow of resources to Zambia's reform efforts will be more successful than before.

Prolonged suspension without complementary measures undermined efficacy. The Bank suspended its lending operations to Zambia three times. The first occasion, in October 1983, was short and did not interrupt relations in a significant way. The second occasion, in May 1987, lasted until March 1991. Third, in September 1991 disbursements were again suspended. On this occasion the suspension lasted until early 1992.

The long second suspension, lasting almost four years, clearly reduced the efficacy of the Bank's assistance program. Investment lending was particularly vulnerable, since implementation was delayed even more. Also, a large number of loans made in the early 1980s were canceled, after minimal disbursement. In fact, the average disbursement lag of 50 percent or more for IDA's agricultural projects was due mainly to the suspension of IDA disbursements from 1987 to 1991. Two other IDA agricultural operations did not survive the suspension of disbursements. Suspension of disbursements also led to delays in projects in other sectors and to higher costs.

Some of the negative effects of the suspensions included:

- A setback for the rehabilitation and adjustment plan for copper.
- A setback for the restructuring plan for agriculture.
- An undermining of the viability of several projects in agriculture.
- A delay in the drafting of a new investment code.
- A delay in the restructuring of INDECO (the government's industrial development holding company).
- A compromise on the progress in industrial restructuring.

When public investment projects slowed down during the suspensions, project costs rose. These costs included the interest paid during construction, the cost of hiring and firing contractors, and delays in project benefits. Abandoned projects represent a loss of the investment up to that point. However, the Bank was not totally ineffective during these periods; some economic and sector work was done, although on a reduced scale. Meanwhile, the fact that many studies on Zambia were dropped partly reflected the Bank's internal reorganization. Dialogue with Zambia continued however. This helped the eventual turnaround of policy and the preparation of arrangements for paying the arrears and resuming disbursements.

Some of the negative effects of suspension could have been avoided by providing more time and technical assistance to help in the
shut-down and mothballing of projects where necessary. While there is evidence that the Bank did try to mobilize support from other donors in some cases so that project implementation could continue, donors can be lobbied more effectively to assist.

Once the disagreement over policy was resolved and Zambia took a number of adjustment measures in 1990, the Bank began an effort to help the country pay its arrears. In March 1991, under an innovative procedure in which the Bank coordinated the efforts of several donors, the arrears were cleared. The Bank identified funds available to clear arrears, and even played a major role in arranging a Bank of England bridge loan of $200 million. The Bank approved and disbursed an IDA credit on the same date to repay the bridge financing, completing the transaction in 40 minutes. Zambia was restored to accrual status and was once again eligible for the disbursement of existing loans and credits and for new operations.

In December 1991, shortly after President Chiluba was elected, the US government decided to contribute $10 million to help Zambia pay its arrears to the Bank. The Bank saw this as evidence that the donor coalition was being restored; it had been in disarray as a result of the third suspension in September 1991. As of mid-January 1992, Zambia was overdue by $50.5 million to the IBRD and by $1.2 million to IDA. Its withdrawal rights were reinstated on January 30, 1992, making it eligible to draw on an $80 million tranche of the Economic Recovery Credit. Helped by a Bank letter of support, a bridge loan was provided by Citibank for $43 million; the funds were disbursed and repaid on the same day.

The innovative approaches of 1991 and 1992—interim financing, coordinated donor support, and provision of a supportive letter—suggest that the Bank can act to help clients overcome arrears problems and avoid the disruption of a prolonged suspension. However, guidelines do not exist to tell Bank staff when to use such means. Withholding help in liquidating arrears may have produced some leverage for getting an agreement with Zambia, but it did not produce genuine commitment.

Lack of adequate technical packages undermined implementation. The Bank had general solutions to Zambia’s ills, but frequently did not have adequate technical packages of operationally feasible measures and projects. The general solution to dependence on copper was diversification; the solution to the negative private sector environment was liberalization; and the solution to public sector dominance was privatization. However, the specific actions, policy measures, and investments needed to diversify the economy were never adequately explained. Technical advice offered to Zambia to help it implement the policies was not always suitable and not adequate. (Zambia’s agriculture was a notable example.) The upshot was that the necessary infrastructure, additional resources, and technical skills necessary for a solution were never identified in time or submitted to timely study. In the case of liberalization, studies on industry and agriculture in the mid-1980s identified which rules and arrangements had to be changed. The Bank was therefore able to make these the object of specific conditionality in its lending. Toward the mid-1990s an attempt was made to identify steps in privatization, but initially the efforts were mainly off-the-cuff rather than based on economic and sector work; conditionality to induce privatization was limited to the establishment of a privatization agency and the setting of arbitrary targets for the number of public enterprises converted to private ownership. Recently, conditionality on privatization has been well defined and successful. Actions such as the closure of ZIMCO and Zambian Airways and the selling of the first 10 percent of parastatals were clearly understood and have been implemented by the Zambian authorities.
Zambia's limited absorptive capacity has also reduced efficacy. Constraints on Zambia's capacity to absorb Bank advice and finance have limited the results of operations in Zambia. Among these constraints are deficiencies in (a) the development strategy and policies; (b) human resources (especially in management skills in the civil service); and (c) physical infrastructure. The Bank has tried to increase Zambia's capacity, particularly in the public sector, through economic and sector work, technical assistance, and financial support for relevant projects in education/training and infrastructure. For example, a specialized training study, undertaken in 1986 by the Education and Manpower Development Division of the Bank's Eastern and Southern Africa region, assessed the supply and demand for skilled labor in the civil service, parastatals, and the private sector in the region. The study recommended that in the short to medium term, agricultural education and training have the highest priority in order to implement the government's sectoral policy. A companion piece of Bank economic and sector work examined wage policy issues. This study concluded that continued wage reductions would increase the possibility of a deterioration in the performance of government workers, and eventually lead to a breakdown in the provision of public services.

Greater ownership would have strengthened efficacy. During the 1980s, there was no consensus in the Zambian government regarding economic liberalization. Many officials had grown up in an environment of public sector dominance in commercial activity and of private sector regulation. The Bank's emphasis was bound to ruffle some feathers in the government. The president's strategy of maintaining control was to play rivals against each other. In such an environment, the risk of reversing agreements on liberalization was probably greater than that of reversing a strategy that emphasized diversification: the latter involves investments while the former deals with a change of rules. Hence, there was a need to foster greater Zambian ownership of the liberalization strategy. By the early 1990s, even Zambian officials came to accept the merits of liberalization, with the result that ownership has not been an issue.

Similarly, the Bank's economic and sector work and dialogue on privatization have not been adequate to foster understanding and a sense of Zambian ownership of privatization, and so this has also been an area of slow progress. The slowness partly reflects an assumption about the nature of privatization, that the private sector would want what the public sector wants to shed. But the slowness also reflects a less than total commitment to privatization because of a lack of consensus in the government. Moreover, many officials employed in public enterprises are not particularly keen to change the status quo. Clearly, effective ownership by all, including those directly affected, requires that adequate compensation be planned and discussed prior to the announcement of privatization. Also, since privatization has not been a universal solution in other countries, another way to increase commitment to the idea would be to do a study establishing the policy's merit in each case. Such an analysis has only recently started in Zambia.

The Bank's new approach in such sector investment projects as the Agricultural Sector Investment Program, with its intensive client consultations, is likely to result in more effective ownership of projects and policies by the Zambians. Increasingly, the Bank is encouraging the Zambian government and project beneficiaries to become more involved.

**Efficiency**

Efficiency relates the strategy's outcome to the resources that have been used to produce that outcome. Ideally, the output should be a measure of the impact of the Bank program or operation on well-being in the client country, but
Table 3.2: Zambia—Allocation of Staff-Years and Commitments and Disbursements per Staff-Year in Zambian Operations, by Fiscal Year

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</thead>
<tbody>
<tr>
<td>Total staff-years</td>
<td>6.2</td>
<td>10.5</td>
<td>16.3</td>
<td>17.4</td>
<td>19.0</td>
<td>23.2</td>
<td>24.8</td>
</tr>
<tr>
<td>Client services</td>
<td>5.1</td>
<td>9.9</td>
<td>15.8</td>
<td>16.7</td>
<td>18.3</td>
<td>22.1</td>
<td>22.0</td>
</tr>
<tr>
<td>Lending</td>
<td>0.1</td>
<td>3.2</td>
<td>9.8</td>
<td>7.2</td>
<td>7.8</td>
<td>9.1</td>
<td>9.3</td>
</tr>
<tr>
<td>Country ESW</td>
<td>2.4</td>
<td>1.9</td>
<td>3.2</td>
<td>3.5</td>
<td>4.1</td>
<td>6.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Total commitment</td>
<td>0</td>
<td>0</td>
<td>288.2</td>
<td>247.7</td>
<td>183.5</td>
<td>198.0</td>
<td>192.7</td>
</tr>
<tr>
<td>Total disbursement</td>
<td>4.7</td>
<td>2.2</td>
<td>207.2</td>
<td>101.1</td>
<td>164.4</td>
<td>185.7</td>
<td>191.5</td>
</tr>
<tr>
<td>Total commitment/lending</td>
<td>0</td>
<td>0</td>
<td>29.4</td>
<td>34.4</td>
<td>23.5</td>
<td>21.8</td>
<td>20.7</td>
</tr>
<tr>
<td>Total disbursement/lending</td>
<td>47.0</td>
<td>0.7</td>
<td>21.1</td>
<td>14.0</td>
<td>21.1</td>
<td>20.4</td>
<td>20.6</td>
</tr>
<tr>
<td>Total commitment/client services</td>
<td>0</td>
<td>0</td>
<td>18.2</td>
<td>14.8</td>
<td>10.0</td>
<td>9.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Total disbursement/client services</td>
<td>0.9</td>
<td>0.2</td>
<td>13.1</td>
<td>6.1</td>
<td>9.0</td>
<td>8.4</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Notes: Total commitments and disbursements are in millions of dollars. Total commitments and disbursements per staff-year devoted to lending or client services are in dollars.

Table 3.3: Africa Region—Allocation of Staff-Years and Commitments and Disbursements per Staff-Year in African Operations, by Fiscal Year

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</thead>
<tbody>
<tr>
<td>Total staff-years</td>
<td>856.6</td>
<td>864.0</td>
<td>875.2</td>
<td>930.1</td>
<td>943.7</td>
<td>966.8</td>
<td>902.1</td>
</tr>
<tr>
<td>Client services</td>
<td>727.3</td>
<td>643.5</td>
<td>632.2</td>
<td>693.6</td>
<td>711.9</td>
<td>738.0</td>
<td>659.6</td>
</tr>
<tr>
<td>Lending</td>
<td>234.1</td>
<td>250.8</td>
<td>226.5</td>
<td>241.3</td>
<td>221.8</td>
<td>212.5</td>
<td>214.4</td>
</tr>
<tr>
<td>Country ESW</td>
<td>166.4</td>
<td>143.1</td>
<td>142.1</td>
<td>167.7</td>
<td>175.1</td>
<td>180.8</td>
<td>136.6</td>
</tr>
<tr>
<td>Total commitment</td>
<td>3,924.7</td>
<td>3,933.9</td>
<td>3,394.2</td>
<td>3,973.6</td>
<td>2,817.3</td>
<td>2,807.9</td>
<td>2,284.3</td>
</tr>
<tr>
<td>Total disbursement</td>
<td>2,474.0</td>
<td>2,788.0</td>
<td>2,849.0</td>
<td>2,551.0</td>
<td>2,619.0</td>
<td>3,196.0</td>
<td>2,796.0</td>
</tr>
<tr>
<td>Total commitment/lending</td>
<td>16.8</td>
<td>15.7</td>
<td>15.0</td>
<td>16.5</td>
<td>12.7</td>
<td>13.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Total disbursement/lending</td>
<td>10.6</td>
<td>11.1</td>
<td>12.6</td>
<td>10.6</td>
<td>11.8</td>
<td>15.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Total commitment/client services</td>
<td>5.4</td>
<td>6.1</td>
<td>5.4</td>
<td>5.7</td>
<td>4.0</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Total disbursement/client services</td>
<td>3.4</td>
<td>4.3</td>
<td>4.5</td>
<td>3.7</td>
<td>3.7</td>
<td>4.3</td>
<td>4.2</td>
</tr>
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</table>

Notes: Total commitments and disbursements are in millions of dollars. Total commitments and disbursements per staff-year devoted to lending or client services are in dollars.

This concept of output is elusive and impossible to measure. Proxy measures of the Bank's efficiency are the levels of lending committed and disbursed during a year in relation to the number of staff-years of Bank manpower used to generate them. These are measures of the portfolio's efficiency, in that lending adds to the Bank's assets. Four measures of efficiency are derived by using total commitments and total disbursements as proxies of output in relation to staff-
Table 3.4: Ratios of Lending per Staff-Year—Zambia and Africa Region, by Fiscal Year

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</tr>
</thead>
<tbody>
<tr>
<td>Total Commitment/Lending</td>
<td>0</td>
<td>0</td>
<td>1.96</td>
<td>2.09</td>
<td>1.85</td>
<td>1.65</td>
<td>1.94</td>
</tr>
<tr>
<td>Total Disbursement/Lending</td>
<td>4.45</td>
<td>0.06</td>
<td>1.68</td>
<td>1.33</td>
<td>1.78</td>
<td>1.36</td>
<td>1.58</td>
</tr>
<tr>
<td>Total Commitment/Client Services</td>
<td>0</td>
<td>0</td>
<td>3.40</td>
<td>2.59</td>
<td>2.53</td>
<td>2.35</td>
<td>2.53</td>
</tr>
<tr>
<td>Total Disbursement/Client Services</td>
<td>0.27</td>
<td>0.05</td>
<td>2.91</td>
<td>1.65</td>
<td>2.44</td>
<td>1.94</td>
<td>2.05</td>
</tr>
</tbody>
</table>

Years devoted to lending and staff-years devoted to client services (including lending, supervision, country economic and sector work, and aid coordination and technical assistance).

Data for the period 1989 to 1995 inclusive allow a comparison of the Zambian operations with those of the Africa region. Total commitment per staff-year devoted to lending to Zambia during the period FY91–95 inclusive was $26 million, while disbursement per staff-year devoted to lending was $19 million. Total commitment per staff-year devoted to client services to Zambia during the same period was $12 million and total disbursement per staff-year for the same purpose was $9 million. Meanwhile for the Africa region the comparable figure for total commitment per staff-year devoted to lending was only $14 million and disbursement per staff-year was under $13 million. Similarly, total commitment and disbursement per staff-year devoted to client services by the Africa region were significantly less than the figures for Zambia set out above.

The greater efficiency of Zambian operations since 1991 has apparently been due to the larger lending program and the greater share of lending devoted to quick-disbursing policy-based loans. It also reflects the greater commitment of the Zambian government to the adjustment/stabilization package, thereby fulfilling more promptly the conditions attached to these loans. This situation is in contrast to the period before 1991, when lending to Zambia suffered from frequent and sometimes prolonged suspension.

The greater efficiency of Zambian operations during the 1990s relative to those of the Africa region may be partly explained by the greater share of client services in total staff-years. Zambian operations regularly allocated more than 90 percent of staff time to client services compared with about 75 percent by the Africa region. This allowed a greater percentage of staff time to be spent on lending, supervision, and economic and sector work than the region as a whole was able to allocate. The lower figures for the region may have been due to the incidence of civil wars and other factors, which
| Table 3.5: Comparative allocation of staff-years—Zambia and Africa region, by fiscal year |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|
| **Zambia**                      |        |        |        |        |        |        |        |
| Total staff-years               | 6.2    | 10.5   | 16.3   | 17.4   | 19.0   | 23.2   | 24.8   |
| Client services                 | 5.1    | 9.9    | 15.8   | 16.7   | 18.3   | 22.1   | 22.0   |
| Lending                         | 0.1    | 3.2    | 9.8    | 7.2    | 7.8    | 9.1    | 9.3    |
| Country ESW                     | 2.4    | 1.9    | 3.2    | 3.5    | 4.1    | 6.0    | 3.9    |
| Project supervision             | 1.8    | 2.9    | 1.9    | 5.4    | 5.5    | 5.9    | 8.1    |
| **Percent total staff-years**   |        |        |        |        |        |        |        |
| Client services                 | 82     | 94     | 97     | 96     | 96     | 95     | 89     |
| Lending                         | 2      | 30     | 60     | 41     | 41     | 39     | 38     |
| Country ESW                     | 39     | 18     | 20     | 20     | 22     | 26     | 16     |
| Project supervision             | 29     | 28     | 12     | 31     | 29     | 25     | 33     |
| **Africa**                      |        |        |        |        |        |        |        |
| Total staff-years               | 856.6  | 864.0  | 875.2  | 930.1  | 943.7  | 966.8  | 902.1  |
| Client services                 | 727.3  | 643.5  | 632.2  | 693.6  | 711.9  | 738.0  | 659.6  |
| Lending                         | 234.1  | 250.8  | 226.5  | 241.3  | 221.8  | 212.5  | 214.4  |
| Country ESW                     | 166.4  | 143.1  | 142.1  | 167.7  | 175.1  | 180.8  | 136.6  |
| Project supervision             | 175.0  | 199.9  | 209.8  | 235.2  | 265.4  | 268.6  | 235.4  |
| **Percent total staff-years**   |        |        |        |        |        |        |        |
| Client services                 | 85     | 74     | 72     | 75     | 75     | 76     | 73     |
| Lending                         | 27     | 29     | 26     | 26     | 24     | 22     | 24     |
| Country ESW                     | 19     | 17     | 16     | 18     | 19     | 19     | 15     |
| Project supervision             | 20     | 23     | 24     | 25     | 28     | 28     | 26     |

disrupted lending in the Gambia, Liberia, Sierra Leone, and so on.

**Lessons**

It is likely that the efficiency of Zambian operations will fall, given the projected decline in the importance of structural adjustment loans in total lending, and with staff-year-intensive operations emphasizing a more participatory approach in project identification and design becoming more commonplace. Moreover, the overhead use of human resources, that is, staff-years not used for client services, bears watching. This use should be studied by the region to determine whether it is too high and, if so, to see how it may be lowered without impairing long-term efficiency.
4. Economic and sector work

Overview

The Bank's economic and sector work (ESW) on Zambia has been relevant in the sectors it has covered and the issues it has analyzed. However, there have been important gaps in its scope. Overall, the Bank has studied only some of the right issues. While in general the Bank's ESW has been of a high standard, some sector work has been too theoretical to be of much practical assistance in the design of operations. However, the growing involvement of government officials and donors in economic and sector work in recent years is having a good effect on the ownership and relevance of ESW studies, and on the implementation of their recommendations.

An overview of Bank economic and sector work on Zambia in the 1980s and 1990s highlights the following:

- Bank ESW identified three major policy areas for Zambian development—liberalization, privatization, and diversification—during the last 15 years.

- Bank economic and sector work gave priority attention to liberalization. Liberalization has been successfully implemented, due in part to the more informed policy dialogue that Bank ESW made possible.

- The Bank has done little or no economic and sector work on privatization in Zambia. Privatization, initially slow, has made good strides recently. The Bank should ascertain the lessons from the Zambian experience.

- Similarly, no in-depth study has been done on the requirements for diversifying the Zambian economy. Diversification of the Zambian economy has not progressed much. Moreover, dialogue between Bank and government officials regarding diversification opportunities and constraints is not making much headway. Yet the government is doing investment promotion with the Bank's blessing.

- The Bank has done several public expenditure reviews. This work has helped bring the public sector deficit under control.

- In 1994, the Bank conducted a thorough assessment of poverty in Zambia. This is now being used in the design of public policy to mitigate the problem.

- Sector work done in the course of identifying projects for investments has been particularly useful in mining and agriculture.

In sum, Bank economic and sector work on liberalization contributed significantly to the adjustments in the policy environment for industry and agriculture during the period...
under review. However, the absence of significant Bank ESW to underpin investment promotion and infrastructure planning limited the relevance of the Bank’s work.

Bank economic and sector work on liberalizing the policy environment was a relatively easy undertaking. This is because the laws, rules, and regulations governing business activities are mainly written, and even unwritten procedures are open to observation. In addition, by means of economic analysis, it is possible to predict the effects of policy measures, and this helps in the design of policy-related operations. On the basis of its experience in other countries the Bank can work out what policies work best. By contrast, ESW to promote investments and to plan what the complementary infrastructure should be is relatively difficult. It requires attention to detail and depends on experience with a particular client. What will work in Zambia in this area cannot be determined by a theory about what works elsewhere.

The Bank concentrated on liberalization issues in Zambia because of its belief that resources were misallocated as a result of price distortions. In 1983-86 the Bank seemed convinced that by liberalizing access to foreign exchange, and liberalizing prices and trade, exports would be diversified. But the reality was that state-owned enterprises were all-important; they increased their output to satisfy domestic demand by using idle installed capacity more fully, but did little to diversify. The most important distortion preventing a diversification of production was public sector involvement in production and commerce in less than free competition with the private sector. Effective liberalization required privatization. Actually, Bank ESW justified privatization on grounds of efficiency; state-owned enterprises in Zambia were inefficient.

Bank ESW did not study the Zambian environment to find out and advise the government about the many issues that normally arise in privatization exercises. In its day-to-day work, no government has the expertise to predict what all the problems will be when it comes to privatizing a sector that dominates manufacturing. The Bank has provided advice and monitored privatization elsewhere, and has gained some experience. Meanwhile, during the 1990s the Bank included conditionality on privatization in Zambia’s Economic Recovery Credit, Privatization and Industrial Reorientation Credits I and II, and Economic and Social Adjustment Credit. In mid-1995 (after three years), the sale of 13 out of 160 companies had been completed (accounting for 6 percent of the value of turnover of the companies for sale).

Privatization involves the transfer of state-owned enterprises to the private sector through gift, sale, management buyouts, contracting out operations, or conversion into worker or consumer cooperatives. To go ahead with privatization the right legislation needs to be in place and much other legal work needs to be done since many state-owned enterprises operate under special laws. Accounting information on companies also needs to be updated, especially in relation to the companies’ assets and liabilities. Attention must be given to contingencies, like severance payments to workers. Other important privatization issues also need to be studied. For instance, privatization by sale to the domestic private sector diverts private savings away from other investment opportunities in the sector in order to change asset ownership. So unless the public sector reinvests the proceeds, total investment in the economy may fall. Another alternative—privatization by sale to foreigners—avoids the sacrifice involved in local private investment but such a move may be controversial politically. Also, the issue of whether the proceeds of privatization should be used to amortize foreign debt rather than public debt is a matter worth studying.

To diversify its economy, Zambia needed information on realistic opportunities for new lines of production and for expanding some existing
lines, as well as information on the constraints that needed to be relaxed for the opportunities to be realized. A government needs this kind of information to convince investors, to make its own investments in related infrastructure, and to create an enabling policy environment for private investors to take decisions. This is the role that Bank ESW needed to play in Zambia’s development in the early 1980s, but generally it did not do this.

The Bank reviewed Zambia’s expenditure policies on several occasions, to facilitate the work of the consultative group, to mobilize external finance, and to achieve economic stabilization. But it did not do this work to help Zambia identify areas for infrastructure investment and thus assist in the country’s economic diversification. This aspect of Bank ESW was a natural follow-up to its liberalization focus, since liberalization frequently involves changes in taxes and tariffs that have a potential impact on public sector deficit and macroeconomic balances.

Bank assessment of poverty in Zambia based on household surveys has been useful in planning programs that target the very poor. The Bank’s ESW was timely and of high quality. It was not easy work based on the application of accepted theory, in which the Bank has a comparative advantage, but the Bank accepted the challenge of doing it. The degree of beneficiary consultation and field work and the involvement of Zambian social workers and sociologists makes this ESW an example of how the Bank can still be relevant and credible in assistance of this kind. Largely on the basis of recent Bank economic and sector work, the government has decided to address the issue of poverty by improving the quality and accessibility of social services.

Review of the ESW program

Economic and sector work on Zambia in the 1980s and 1990s mainly consisted of five types of studies: (a) country economic memoranda; (b) public sector expenditure reviews; (c) sector studies; (d) resource studies; and (e) poverty assessments. In addition, ESW connected to lending operations and evaluation included appraisal reports, president’s reports, strategy papers, project completion reports, and performance audit reports. This section will focus on the five types of studies not directly connected to lending.

Economic memoranda: most lacked carry-through proposals

Four country economic memoranda were completed in 1981, 1984, 1986, and 1993. All were in broad agreement on the diagnosis of Zambia’s economic problem. They differed though in their optimism regarding economic recovery, and in the extent to which they laid out a strategy for relaxing the binding constraints to growth, as opposed to identifying the requirements for a resurgence of growth.

The 1981 report, written while the Bank still regarded the problem of international copper prices as temporary, concluded that “a significant upsurge in growth can be obtained mainly by increasing longer term external borrowing, so as to expand imported inputs...” But it recognized that such borrowing would have to be carefully monitored and the external resources productively used. In addition, the report counseled strengthening the management of the external debt servicing process.

The 1984 memorandum had the benefit of later insights on the debt burden and the copper outlook, as well as on the government’s 1983 reform program and a number of later Bank studies. It underscored the need to reschedule debt-service obligations and restructure debt away from short-term instruments to long-term concessional loans. It saw as “mandatory...that economic policies be changed in such a manner that they lead not only to resumed growth and
diversification of production and exports, but also to a lessening of the capital and import dependence of the economy.” It recommended continued devaluation of the Zambian kwacha, given the country’s urgent need to expand the range of internationally competitive goods and encourage nontraditional exports. The report concluded that, even with the recommended policies, exports would probably not increase by more than 1 to 2 percent a year in real terms between 1984 and 1990, and that imports meanwhile would still be a serious constraint on economic growth, which could recover to 2 to 2.5 percent a year.

The 1986 memorandum analyzed development prospects for the various sectors to identify the measures in addition to the post-1982 reforms that would be needed for sustained medium-term growth. While concurring with the previous report on the need for exceptional debt relief and export diversification, this report was much more optimistic regarding growth prospects for the remainder of the decade—suggesting a target of 3.1 percent a year as achievable. However, the memorandum’s realism is called into question by the fact that this target would require a 50 percent rise in the investment/GDP ratio and a substantial increase in domestic saving within a few years. The 1986 report attempted to identify the opportunities for growth in agriculture, but was less precise about the medium-term prospects for manufacturing. Such prospects, it said, “hinge on a triad of rehabilitation, restructuring, and reorientation.” Meanwhile major structural change was expected to result from a “rationalization” of public sector operations. However, how the rationalization was to be achieved was not spelled out. In addition, while mentioning that the obstacles to exporting manufactured goods were serious, the report failed to identify what should be done to overcome them. Thus this piece of ESW did not seem to achieve its objective so far as the manufacturing sector was concerned.

The 1993 memorandum addressed the issue of whether per capita economic growth is possible in Zambia. Finding ample reasons for pessimism and few for optimism, the authors decided that what was important was improving the standard of living of all Zambians, and particularly of those living at or near the subsistence level. It agreed with earlier memoranda in seeing longer-term growth as depending on export growth and on the quantity and quality of investment. However, it put more emphasis on investment in people, specifically in education and health.

The 1993 memorandum identified two key policy priorities—encouraging nontraditional exports and minimizing dependence on imports—as indispensable for growth in the following ten years, in view of the country’s likely foreign exchange constraints. It claimed that without considerable balance-of-payments support throughout the period, growth in per capita GDP would not take place. The report provided no grounds for optimism, but it examined the prospects for nontraditional exports in Zambia and provided practical advice on how to develop these exports in the near term. Thus, the 1993 memorandum does not share the shortcomings of earlier memoranda that tended to identify the requirements for growth without analyzing whether the requirements could be met, and without laying out a strategy to do so.

**Public expenditure reviews helped reduce public sector imbalances**

The Bank has done at least five public sector expenditure reviews and related studies in Zambia since 1982. The aim of the reviews was to help the government restore a balance in its budget and balance-of-payments, and regain growth that is equitably distributed. The reviews proposed (a) sharp reductions in public spending to achieve a budget surplus; (b) significant reallocation in the budget to support
priority sectors and programs; (c) a shift in the composition of expenditures in favor of recurrent operating expenses and away from the wage bill, while increasing salaries to the skilled and upper grades; and (d) a strengthening of management by linking economic planning and monitoring more closely with budgeting. In practice, such proposals meant reducing consumer subsidies and placing more emphasis on cost recovery. Agricultural services, education, health, road maintenance, and development administration were designated as core areas where cost efficiency could be enhanced. Essential activities to receive additional resources were to be identified within core areas, while services in noncore sectors were to be reduced. A 1992 public expenditure review made detailed recommendations for cutting the costs of services in the core sectors—education, health, and agriculture. It also suggested downsizing the military and integrating donor counterpart funds in the general budget.

Some of the major findings of a 1987 public expenditure review related to the investment program. This was also the subject of a 1990 World Bank public investment program report. According to the 1987 review, large increases in investment would be required by the state-owned enterprises that control much of Zambia's essential infrastructure. However, both the 1987 and 1990 reports suggest that a core investment program that could fit within available resources would have to be one that forgoes all new investment and which concentrates funds on vital rehabilitation programs. Rehabilitation of the copper sector was accorded highest priority, and other investment issues were reconsidered. The main recommendations of a 1992 public expenditure review were that (a) there should be no further public investment in the manufacturing sector; (b) Zambia Consolidated Copper Mines should stick to a basic investment program of $480 million; (c) Zambia Railways should focus on its core business as a freight railway and end its passenger services; and (d) Zambian Airways should consider cutting its intercontinental services and budget for some low-volume passenger African destinations.

Bank economic and sector work on public sector finances in Zambia has been closely linked to the Bank's stabilization and structural adjustment assistance. The impact and efficacy of the ESW, in turn, has directly depended on the government's commitment to the reform program. Thus, efficacy was compromised when the government abandoned the reform program in 1987, then ignored budget restraints and distributed maize subsidies, and increased public sector salaries before the election in 1991. The situation changed when the Chiluba government was elected. Immediately after taking office in 1991, it reduced subsidies of maize and fertilizer, and said it would cut the budget deficit from 7 percent of the GDP in 1991 to 2 percent in 1992. The government also announced that it would take other measures consistent with the recommendations of Bank public sector expenditure reviews and related economic and sector work. A 1992 drought interfered with these declared objectives. However, the impact of ESW was renewed shortly after, as evidenced in a Zambian Ministry of Finance circular dated August 9, 1993, which said: "The policies and priorities of the Government are to be found primarily in two documents, the Economic and Financial Policy Framework Paper (PFP), 1992–94 and the Public Investment Program (PIP), 1993–95. It is of vital importance that budget submissions are consistent with the policies in these documents."

The effectiveness of the public expenditure review and related economic and sector work will improve once the Zambians participate fully in the preparation of these documents. A move toward this end is reflected in the fact that the Zambian team now prepares a background paper based on terms of reference agreed with the Bank.
Resource studies analyzed labor and financial markets

Economic and sector work on labor, training, and wages suggested reversal of the "narrow the gap" policy. Bank ESW has also examined Zambian resources. In 1986, two internal studies focused on labor. The first—one on wage policy and the structure of wages and employment—was carried out in collaboration with the Prices and Incomes Commission of Zambia and formed part of a larger Bank-sponsored study of government wage policies in Africa. In Zambia, the study was particularly important because of government and parastatal influence on wages and labor relations in the formal sector (including the formal private sector), and because of the size and strength of the trade unions. The study examined the real wage losses among different worker groups and the effectiveness and consequences of the government's policy of "narrowing the gap," that is, reducing skills/wage differences. It found that civil servants' pay as a whole had eroded significantly and that senior civil servants in particular had fared badly in the previous 15 years. The findings were similar for the private sector, with higher skill categories of workers becoming relatively worse off. The study concluded that the government should abandon its attempt to narrow the gap and train more skilled people. The implications of this conclusion for pay policy—in achieving and maintaining the desired skill mix in government and in modernized industries—were spelled out in the country economic memorandum on Zambia five months later.

The second study—on specialized training—assessed supply and demand for skilled manpower in the civil service, parastatals, and the private sector, and recommended cost-effective ways of closing the skills gap. The study noted that effort and financing were spread too thinly over all kinds of training, and that some training was obsolete. It recommended that in the short and medium term, agricultural education and training should have priority. Business education and management training should follow, with training in accountancy a priority at all levels. This last need was addressed under the Financial and Legal Management Upgrading Project, which was supported by an IDA credit in 1993.

The recommendations of these 1986 studies did not immediately influence Zambian policies. Some recommendations had to be repeated in other Bank ESW. For example, the 1987 public expenditure review recommended that the reform program include "increased salaries at the upper grade levels of the civil service to improve the retention and motivation of skilled staff." Public sector staffing and the structure of incentives were still issues that were being addressed in the Bank's public sector management review in 1991. The impact of this ESW and related advice was delayed in part because the government was concerned with political repercussions. It feared the repercussions of staff cutbacks in the civil service, even when this obviously involved cutting back redundant staff. Additionally, the government feared increasing higher-level salaries while keeping lower-level pay fixed in the face of rapidly rising prices caused by a devaluation of the kwacha and maize subsidy reductions. Efficacy of Bank economic and sector work in this area had to wait for a change in the political climate. This occurred in October 1991.

The 1993 financial sector report highlighted outdated legislation and interest rate policy. Unlike many African countries that nationalized their commercial banking sectors, Zambia left most of its banks in private hands. (Only the National Commercial Bank, representing about 30 percent of total banking business, is wholly government owned.) However, with a history of substantial government involvement in the economy, Zambia has a large number of government-owned nonbank financial institutions, including development banks, the
Zambia’s financial sector became the subject of Bank ESW in a 1993 report on financial sector development. This report principally focused on state-owned banks in Zambia. It raised two questions about the Bank of Zambia—its lack of independence from the Ministry of Finance and the outdated legislation governing the Zambian central bank’s operations. The lack of independence was reflected in the Bank of Zambia’s weekly auction of treasury bills, done for fiscal purposes but resulting in high interest rates and a sharp reduction in credit to the private sector. Meanwhile, Zambia’s development finance institutions were found to have been impaired by inflation, a devaluation of the kwacha, and interest rate policy. They also faced a continuous deterioration of their portfolios. The main recommendation made to most of the institutions was that interest rates should be increased to reflect market rates. In addition, the report suggested that the private sector be free to hold foreign-currency-denominated assets. The report covered money and capital market developments. Fortunately, it considered the sequencing of reforms. It emphasized that legislative reform of the financial sector was the most urgent matter, with an amendment of the Bank of Zambia Act and the Banking Act, and a new securities law highest on the agenda.

Experience indicates that it will be some time before the report, given its scope and number of recommendations, has a discernable impact on Zambian policy. As with some of the recommendations of the public expenditure review, a consensus has still not been reached among donors regarding the financial report’s proposals. Thus, while the World Bank is critical of the treasury bill auction, and has been focusing on ways to narrow the risk premium on yields, the IMF is opposed to any deviation from the Treasury’s current auction policies. There is agreement that nominal and real interest rates have been falling, and that if the drop continues, it will eliminate the problem of high interest rates for the treasury bills that crowd out private sector credit. Nevertheless, other aspects of the report are unlikely to have significant effect as long as the multilateral financial advisors disagree. Meanwhile, the policy of pursuing financial liberalization before controlling the fiscal deficit is supported by the World Bank and the IMF, but it has been criticized by academics. However, other aspects of the study—a revision of the Banking Act and the Financial Institutions Act—are uncontroversial, and in 1994 the government announced that it would implement them. Other points raised in the report form the basis for Bank lending operations.

**Poverty assessment: short-term actions identified to help vulnerable groups**

In 1994, the Bank published a thorough assessment of poverty in Zambia. This assessment focused on actions that would ensure that the poor share more quickly in the benefits of reform by increasing their human capital and productivity. It also identified short-term actions to provide a safety net to vulnerable groups and recognized that the high population growth rate hinders poverty reduction. The methodology employed in the assessment included a participatory component, as well as a household survey. The assessment found that the poor lack productive assets—such as oxen, storage facilities, and farm implements—and that their human capital is reduced by malnutrition, poor health, and low educational levels. In urban areas poverty is aggravated by inflation, poor services, overcrowding, and inadequate sanitation. The main recommendations of the assessment seek to raise the growth of smallholder agriculture by improving rural infrastructure and technology and supporting private marketing and storage. For the urban poor, the main objective is removing obstacles to microenterprise development and improving
basic urban services and access to education and health. The assessment also recommends a program of labor-intensive public works to provide a safety net to vulnerable groups.

Since the Bank has had little direct involvement in Zambia’s social sectors over the past decade, and the government’s social sector reforms are recent, there has been a lot of scope for collaboration and joint learning. There has also been collaboration with donors on poverty assessments, as donors have more experience with social issues in Zambia than the Bank. However, the current shortage of resources and the scale of Zambia’s poverty problem mean that the government will still have to leave a significant part of the problem to nongovernmental organizations and other donors who have a history of involvement in the field. This will require much consultation between the Bank and other participants, making it difficult to discern the particular impact of Bank economic and sector work. Work such as the poverty assessment will no doubt form part of the information base for numerous complementary projects by a wide range of institutions to reduce poverty.

**Sector work: relevant and effective**

Agricultural sector recommendations were eventually adopted. The World Bank undertook two major internal studies in 1983 and 1984 to help the Kaunda government effect fundamental policy, institutional, and strategic changes in the agriculture sector. The 1983 agricultural research and extension review became a prime source for the report on policy options and strategies for agricultural growth, issued the following year. The 1984 paper was prepared with the cooperation of Zambian officials.

The research and extension review correctly identified the “critical shortage of appropriately qualified and experienced Zambian professional staff,” as well as the inadequate training of numerous “technical and support staff.” It underlined the unsatisfactory conditions of public service in agriculture, in comparison with state-owned enterprises, as well as in privately owned and foreign companies. The review also highlighted the lack of coordination among the various branches of the Ministry of Agriculture and Water, the need for greater funding of current expenditures, and the lack of appropriate extension information for the vast majority of smallholders. In addition, it found that “the current reorganization of research around commodity and specialist research teams and adaptive research planning teams, and of extension along training and visits lines, are initiatives in the right direction and deserve full support.” The review cautioned against the excessive cost of training and visits in areas where the population is considerably scattered.

The report on policy options and strategies for agricultural growth followed the 1983 economic memorandum by only two months, but did not reflect the latter’s cautious optimism about the performance and intentions of the government’s policy reform. Instead, it argued convincingly that Zambia has remarkable but woefully underexploited agricultural potential.

This rather theoretical paper did not analyze Zambia’s rural finance or farm credit system. Only in the paper’s concluding chapter, where donors are exhorted to include credit studies and surveys in the future, is there reference to such subjects. Also, the paper does not mention the staffing problems that the 1983 agricultural review found so urgent. The paper finds that the main policy issues in Zambian agriculture relate to “marketing and pricing, parastatal efficiency, resource allocation, and land tenure.” It recommends changing traditional or customary land tenure arrangements—which are confined to certain areas—to 99-year leaseholds. Subsequent research has not endorsed this proposal very enthusiastically. Meanwhile, the paper referred briefly to the need for cooperation
between the Ministry of Agriculture and the Ministry of Lands.

The conclusions of another internal World Bank study on Zambia’s agricultural pricing and parastatal performance, issued in June 1985, are consistent with the priority recommendations of the 1984 policy options report and with the conclusions of a Zambian government paper, *Restructuring in the Midst of Crisis* (May 1984).

In 1991, the Bank updated the 1984 agriculture sector strategy. The 1991 version included comments made earlier in the year at an agriculture strategy workshop held in Zambia to review and discuss the draft report.

This 1991 paper and the Zambian workshop preceded and formed the basis of the approach used in the Agricultural Sector Investment Program. The present government agrees with this approach, and the investment program is currently the Bank’s flagship operation in Zambia’s agricultural sector. It is important that the Bank’s principal agriculture reports in the mid-1980s presaged the concern of the Bank’s agriculture staff over the lack of donor coordination in Zambia. However, it took ten years to translate this concern into action. Almost seven years elapsed from the 1984 review of Zambia’s agriculture before anything was done. This long delay stemmed in part from a delay in adopting a new approach.

Bank sector work in agriculture during the 1980s undoubtedly had an impact on policy in Zambia. In 1984, with the help of consultants financed by an IDA credit, the government formulated a 15-year strategy for agricultural research and extension. This strategy became the foundation for an IDA credit (ZAREP) two years later. In 1992, the Organization for Economic Cooperation and Development (OECD) found that the impetus for reform came primarily from external sources, notably Zambia’s creditors and donors. The government, OECD said, defended itself by blaming the need for reform on external sources: the IMF, the World Bank, and bilateral donors. The government eventually formed its policies based on the World Bank’s principal recommendations for Zambian agriculture—the liberalization of agricultural marketing, a lifting of price controls, and the reduction of maize and fertilizer subsidies. But the customary classification of Bank reports as “for official use only” limited their distribution among Zambians, and consequently their political impact. Zambia’s private sector, for instance, took no part in either drafting or reviewing the reports.

**Mining:** recommendations of loan-financed technical studies implemented. Mining sector work in Zambia has been done mainly in the context of project identification and evaluation. As a result, this work has been both relevant and effective. Extensive analysis of Zambian mining was done when the Export Rehabilitation and Diversification Copper Project was appraised in 1983. The Bank loan for this project included $2.2 million for technical studies. These studies focused on maximizing the operations of Zambia Consolidated Copper Mines (ZCCM). They included a review of mining operations; proposals for improving mining and metallurgical operations; a plan to close uneconomical mines; a comprehensive program for maintaining and replacing mining equipment; cost/benefit analyses of investments; and a plan to modernize the mining sector’s purchasing and accounting systems. ZCCM management accepted most of the recommendations, and they were implemented, albeit with varying degrees of success. In 1991, Zambian copper was again analyzed and issues relating to the sector were thoroughly updated during appraisal of a ZCCM technical project. Also, a June 1992 OED audit of the Export Rehabilitation and Copper Project provided detailed information on Zambia Consolidate Copper Mines and the copper industry.
In addition to these technical studies, economic reports covered extensively copper mining sector issues such as the economy's dependence on a single commodity; the need for diversification; the need for copper mining rehabilitation and restructuring while diversification is implemented; and the foreign exchange resources generated by copper exports and taxation of copper as source of revenue. Two country economic memoranda in the mid-1980s and a 1993 report provided details on these issues from a macroeconomic viewpoint. In line with the arguments of the Bank's recent economic memorandum, the Bank's strategy in relation to Zambian copper has changed, moving from attempts to improve ZCCM's efficiency through restructuring to deliberate efforts to privatize the state company partly or wholly. One of the conditions of the 1993 Privatization and Industrial Reform Credit II was that Zambia study the privatization options for ZCCM. The study was completed, and in early 1995 the government issued a statement on mining policy that provides for the sector's development by private investment and for privatizing ZCCM.

Significant sector work on coal was done during the appraisal of the Maamba Collieries Project. The 1982 Energy Assessment Mission reviewed several aspects of the coal sector—the resources, operations, demand, coal substitution, pricing, and institutional aspects—and made recommendations that led in part to the financing of the Coal Engineering Project. In contrast, little in-depth sector work seems to have been done on gemstones, although this matter was analyzed in a superficial way in the 1991 Bank Technical Assistance Project.

Studies on industry helped reorient policy in 1985. The most important sector work done on Zambian industry was a 1984 Bank industrial sector report. This work, which included a sample survey of manufacturing firms, revealed that Zambian manufacturing was highly dependent on imported inputs and spare parts, and indeed imported about half of its inputs. Furthermore, metal imports accounted for 81 percent of all manufacturing inputs. This report proved particularly useful to the government and had a big impact on the government's 1985 policy reorienting industry.

In mid-1985, when Zambia launched a new industrial strategy, the keystone of the reform was changing the country's foreign exchange regime to allocate foreign exchange more efficiently and to encourage exports and efficient import substitution. At the same time, the country's import licensing system was also abolished. The government also paid some attention to the inefficiency within the Industrial Development Corporation (INDECO). Bank ESW had called attention to this inefficiency, and one of the conditions of the FY86 Industrial Reorientation Project was a plan to restructure, or phase out, poorly performing public enterprises.

Further industrial sector work was done in the context of operations in the 1990s. The 1992 and 1994 Privatization/Industrial Reform Credits emphasized that the crux of the new industrial reform process was privatization. However, there is no indication that any Bank study preceded the 1990 government announcement that it was beginning a privatization program. Although divestiture of some enterprises in INDECO’s portfolio was mentioned at the time of the Bank’s Industrial Reorientation Credit in 1986, it was not carried out. Only in 1991 were four state-owned corporations put up for sale, and only in 1992 was INDECO phased out. Insignificant results on the privatization front reflect the lack of economic and sector work.

The lesson seems to be that the integrity and speed of a privatization program can only be maintained if concerns about divestiture are anticipated and are dealt with directly and in a transparent manner. The program has been the subject of intense political debate and even con-
troversy. While one cannot blame the Bank entirely for this situation, it must be observed that the policy is one that has been largely sold to the Zambian government by the Bank. Moreover, the Bank has not participated actively in the necessary dialogue to answer concerns.

**Suspensions reduced staff hours on Zambia**

Bank staff resources deployed for economic and sector work on Zambia averaged 151 staff-weeks a year during 1983–94. This means that less than four full-time staff worked on all ESW for Zambia, including economic memoranda, sector studies, resource studies, and preparatory work for consultative group meetings. The figure is low compared with other sub-Saharan African countries, and reflects the drastic reduction in ESW during 1988 and 1989. (See Table 4.1.)

Suspension of disbursements to Zambia during 1987–92 significantly interfered with Bank economic and sector work. This can be seen in the percentage of studies dropped from the work program each year. The brief suspension of disbursements in 1983 was associated with a 33 percent drop in ESW in FY84. No work was dropped over the next two years, but during FY87–89, an average of 83 percent of studies were dropped. This rate fell by half in 1990, however, only to rise again during the brief suspension in 1991. Since then the rate has fallen again. (See Table 4.2.)

**Gaps and other shortcomings in ESW**

There are some important topics in Zambia that have not yet been the subject of Bank economic and sector work. Land policy, cultural factors, and an adequate strategy for a land-locked country have not yet been studied in detail. Another topic is Zambia’s export strategy. Here the Bank recommends that research be backed up by market access studies, given Zambia’s geographical disadvantages. Moreover, the Bank’s recommended development strategy currently has a rural emphasis. However, given the increased urbanization of the population, a more urban-based strategy would be appropriate. Another topic, in the health sector, is AIDS, which is altering the age distribution and dependency status of the population, with relatively young children having to function as heads of households. The implications for child education and the development of income sources for young household heads therefore needs attention.

Finally, mention must be made of the fact that forecasts of GDP growth in Zambia tended to be optimistic. Table 3.1 is illustrative.

**The main lessons**

Some of the main lessons from the review of Bank economic and sector work in Zambia over the last 15 years are:

- The momentum of ESW should not be reduced because of a suspension of disbursement, as this makes a resumption of the assistance program difficult.

- The effectiveness of public expenditure reviews is enhanced when the client is involved in the work.

- ESW that is about long-term development ought to be at the core of the Bank’s assistance strategy. It should identify the major requirements for development and ensure that these requirements are adequately studied and reviewed over time, so that a continuing and deepening dialogue on development policy can take place.

- Sector work done in the context of lending operations tends to be relevant to the needs of the client and highly effective since the recommendations stand a good chance of being implemented.
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Note: n.a. = not available.
Table 4.2: Zambia—dropped economic and sector work, 1983–94

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<td>1994</td>
<td>n.a.</td>
<td>7</td>
<td>7</td>
<td>50</td>
<td>14</td>
</tr>
</tbody>
</table>

Note: n.a. = not available.

It is crucial that sector work be practical and that it take account of the client's technological circumstances. The work must develop and identify adequate technical solutions to problems.

Given the client's limited capacity to do its own economic and sector work, Bank ESW is crucial to the progress of major policy reforms. As in the case of diversification and privatization, little progress is likely to be made in the absence of preparatory economic and sector work.
5. Evaluation of lending

Overview

This evaluation of Bank lending to Zambia seeks to determine whether the amount of lending was appropriate, whether the type of lending and sectoral allocation were the best for the country, and whether the resulting portfolio has been of high quality. Portfolio quality is judged on the basis of whether the outcomes are satisfactory or unsatisfactory, whether the benefits of the operations are likely or unlikely to be sustained (or are uncertain), and whether the impact of assistance on institutional development is substantial, moderate, or negligible. The main conclusions are as follows:

- Lending for structural adjustment predominated, but substantial structural adjustment was not achieved until the 1990s when a new administration was elected. Adjustment lending to serve stabilization objectives allowed Kaunda's administration to draw down Bank financing while vacillating in commitment to growth-promoting reforms.

- The efficacy of project lending during the 1980s was undermined by the long suspension of disbursements after May 1987.

- Portfolio performance in Zambia compares unfavorably with that of the Africa region and the Bank in general, and it deteriorated until 1987. OED rated as satisfactory the outcome of 60 percent of rated operations, accounting for 72 percent of the value of commitments to Zambia as of September 1995. However, only 36 percent of the 11 projects approved during 1983-95 were given a satisfactory rating. Ten of these projects were approved before 1987. Meanwhile the rating for sustainability of benefits is poor, with only 17 percent approved during 1980-95 considered as likely sustainable.

- Successful projects tended to be small and did not involve many management or technical skills. Unsuccessful projects shared a heavy dependence on weak administration and management, and suffered from insufficient budgetary allocation and unclear delegation of authority, as well as uncertainty regarding the policy environment.

- The ongoing portfolio shows improvement, but is too optimistic regarding absorptive capacity constraints, especially regarding skills, management, and supervision. Attention to training and appropriate sequencing of operations to avoid human resource bottlenecks seems essential and preferable to reliance on technical assistance.

- The flagship of the ongoing lending program, the Agricultural Sector Investment Program, is essentially a pilot project involving a new participatory approach to devel-
cial intermediaries, which was discontinued after 1985, accounted for less than 1 percent of commitments. (See Table 5.2.)

Sectoral distribution of lending commitments reflected the importance of structural and other adjustment lending. The distribution among sectors was as follows: multisector, 32 percent; industrial/industrial development finance, 18 percent; agriculture, just under 16 percent; financial, 14 percent; social sectors (education and population and health), 9 percent; mining, just under 7 percent; and infrastructure (transportation and water supply), 3 percent. (See Table 5.3.)

**Lending not excessive, but allocation inappropriate**

IBRD/IDA lending to Zambia was not out of line with lending to other countries in the region during the 1980s, although it may have become so during the 1990s. Table 5.4 shows that Ghana (at $14.25 per capita per year), Kenya (at $13.80), and Zambia (at $13.50) were the leading recipients of Bank Group assistance among the region’s seven countries during 1983-95. Malawi, Zimbabwe, and Uganda formed a middle group, receiving between $9 and $12 in per capita assistance, and Tanzania was last with under $7. During 1991-95, Zambia was the leading recipient at $24.68, well ahead of Ghana at $16.40 and almost double the group comprising Malawi, Uganda, and Zimbabwe.

Despite the increase in average commitments in constant terms, and the level of lending in relation to other East African countries, the World Bank has been criticized for not lending Zambia enough. The argument centers on net transfer of resources. Net transfers from IBRD were negative or nearly zero for much of 1980-93. Meanwhile, net transfers from IDA were positive, rising from $2 million in 1980 to a peak of

---

**Table 5.1: Bank and IDA Lending Committed to Zambia, 1953–95**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total commitment ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953–72a</td>
<td>171.5</td>
</tr>
<tr>
<td>1973–82</td>
<td>520.4</td>
</tr>
<tr>
<td>1983–90</td>
<td>356.3</td>
</tr>
<tr>
<td>1991–95</td>
<td>1,110.12</td>
</tr>
</tbody>
</table>

a. Includes lending to Rhodesia before Zambia became independent.

### Table 5.2: Lending classified by major instrument, FY80–95

($ millions)

<table>
<thead>
<tr>
<th>Period</th>
<th>Financial intermediary lending</th>
<th>Sector adjustment lending</th>
<th>Structural adjustment lending</th>
<th>Specific investment lending</th>
<th>Sector and maintenance lending</th>
<th>Technical assistance lending</th>
<th>Sum of</th>
<th>Sum of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total disbursed</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>I/c disbursed</td>
<td>I/c</td>
<td>I/c</td>
<td>I/c</td>
<td>I/c</td>
<td>I/c</td>
<td>I/c</td>
<td>I/c</td>
</tr>
<tr>
<td>1980–82</td>
<td>16.40</td>
<td>22.50</td>
<td>12.00</td>
<td>29.00</td>
<td>48.70</td>
<td>59.50</td>
<td>18.50</td>
<td>19.10</td>
</tr>
<tr>
<td>1983–86</td>
<td>—</td>
<td>—</td>
<td>236.20</td>
<td>222.00</td>
<td>—</td>
<td>—</td>
<td>48.70</td>
<td>59.50</td>
</tr>
<tr>
<td>1987–90</td>
<td>—</td>
<td>10.00</td>
<td>—</td>
<td>—</td>
<td>318.80</td>
<td>397.20</td>
<td>19.70</td>
<td>100.00</td>
</tr>
<tr>
<td>1991–94</td>
<td>—</td>
<td>—</td>
<td>290.70</td>
<td>347.70</td>
<td>—</td>
<td>—</td>
<td>318.80</td>
<td>397.20</td>
</tr>
<tr>
<td>1995</td>
<td>—</td>
<td>—</td>
<td>n.a.</td>
<td>n.a.</td>
<td>318.80</td>
<td>397.20</td>
<td>19.70</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>16.40</td>
<td>32.50</td>
<td>526.90</td>
<td>569.70</td>
<td>318.80</td>
<td>410.90</td>
<td>91.70</td>
<td>284.90</td>
</tr>
</tbody>
</table>

**Note:** I/c = loans/credits; n.a. = not available; — = not applicable.

**Source:** World Bank Financial Database.

### Table 5.3: Commitments and disbursements by sector, FY80–95

($ millions)

| Period  | Agriculture | Education | Energy | Financial development finance | Mining | Multisector | Population/health | Public sector | Transport | Water | Sum of | Sum of |
|---------|-------------|-----------|--------|-------------------------------|--------|-------------|------------------|---------------|-----------|-------|-------|-------|-------|
|         | Total        | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | Total dis. of I/c | |
| 1980–82 | 13.5 | 36.5 | 9.5 | 25 | 7.4 | 11.7 | 14.9 | 15 | — | — | — | — | 13.2 | 40 | 84.5 | 128.2 |
| 1983–86 | 63 | 64.5 | — | — | 3.2 | 3.1 | 69.9 | 62 | 17.2 | 14.3 | 71.9 | 75 | 62.9 | 58 | — | — | 10.9 | 20 | 15.3 | 16 | 314.5 | 312.9 |
| 1987–90 | 11.3 | 33.4 | — | — | — | — | — | — | 10 | — | — | — | — | — | — | — | — | — | 11.3 | 43.4 |
| 1991–94 | 8.2 | 33 | 4.3 | 32 | — | — | 50.6 | 128 | 241 | 238 | 10.7 | 21 | 318.8 | 397.2 | 14.2 | 20 | 3.4 | 10 | 0.2 | 8.5 | — | 651.9 | 917.4 |
| 1995 | n.a. | 60 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 13 | n.a. | 86 | n.a. | n.a. | n.a. | n.a. | 33 | n.a. | — | |
| Total  | 96 | 167 | 14 | 57 | 10.6 | 45 | 136 | 205 | 259 | 262 | 83 | 96 | 381.6 | 455.2 | 14.2 | 20 | 3.4 | 10 | 50.3 | 69 | 15.3 | 16 | 1,062 | 1,401.9 |

**Note:** dis. = disbursed; I/c = loans/credits; n.a. = not available; — = not applicable.

**Source:** World Bank Financial Database.
Table 5.4: Lending to selected African countries, 1980-95
(IBRD/IDA commitments in dollars per capita)

<table>
<thead>
<tr>
<th>Year</th>
<th>Zambia</th>
<th>Ghana</th>
<th>Kenya</th>
<th>Malawi</th>
<th>Tanzania</th>
<th>Uganda</th>
<th>Zimbabwe</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>7.10</td>
<td>5.10</td>
<td>11.60</td>
<td>2.30</td>
<td>7.40</td>
<td>5.70</td>
<td>0.00</td>
</tr>
<tr>
<td>1981</td>
<td>4.50</td>
<td>2.60</td>
<td>7.70</td>
<td>19.00</td>
<td>5.00</td>
<td>1.30</td>
<td>14.70</td>
</tr>
<tr>
<td>1982</td>
<td>10.20</td>
<td>0.00</td>
<td>7.30</td>
<td>1.70</td>
<td>3.90</td>
<td>8.20</td>
<td>0.00</td>
</tr>
<tr>
<td>1983</td>
<td>3.20</td>
<td>6.30</td>
<td>10.30</td>
<td>8.40</td>
<td>2.40</td>
<td>9.10</td>
<td>30.90</td>
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<tr>
<td>1984</td>
<td>15.00</td>
<td>10.20</td>
<td>10.70</td>
<td>14.70</td>
<td>1.70</td>
<td>8.80</td>
<td>11.90</td>
</tr>
<tr>
<td>1985</td>
<td>7.70</td>
<td>9.70</td>
<td>1.90</td>
<td>6.30</td>
<td>2.10</td>
<td>5.10</td>
<td>1.20</td>
</tr>
<tr>
<td>1986</td>
<td>20.40</td>
<td>12.10</td>
<td>5.50</td>
<td>14.30</td>
<td>4.10</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1987</td>
<td>5.90</td>
<td>14.70</td>
<td>2.20</td>
<td>8.80</td>
<td>5.30</td>
<td>2.10</td>
<td>1.10</td>
</tr>
<tr>
<td>1988</td>
<td>0.00</td>
<td>19.70</td>
<td>6.40</td>
<td>11.20</td>
<td>3.70</td>
<td>10.90</td>
<td>8.20</td>
</tr>
<tr>
<td>1989</td>
<td>0.00</td>
<td>18.10</td>
<td>10.10</td>
<td>9.90</td>
<td>8.40</td>
<td>8.90</td>
<td>12.20</td>
</tr>
<tr>
<td>1990</td>
<td>0.00</td>
<td>12.50</td>
<td>8.30</td>
<td>16.50</td>
<td>21.00</td>
<td>13.90</td>
<td>1.50</td>
</tr>
<tr>
<td>1991</td>
<td>33.10</td>
<td>20.70</td>
<td>11.40</td>
<td>11.80</td>
<td>5.40</td>
<td>16.50</td>
<td>6.30</td>
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<tr>
<td>1992</td>
<td>25.30</td>
<td>18.10</td>
<td>13.00</td>
<td>22.40</td>
<td>9.60</td>
<td>15.20</td>
<td>31.30</td>
</tr>
<tr>
<td>1993</td>
<td>21.40</td>
<td>21.50</td>
<td>4.20</td>
<td>8.10</td>
<td>12.80</td>
<td>12.50</td>
<td>17.50</td>
</tr>
<tr>
<td>1994</td>
<td>23.90</td>
<td>5.10</td>
<td>2.30</td>
<td>2.70</td>
<td>7.10</td>
<td>14.20</td>
<td>8.10</td>
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<tr>
<td>1995</td>
<td>19.70</td>
<td>16.60</td>
<td>2.20</td>
<td>13.70</td>
<td>0.40</td>
<td>4.30</td>
<td>0.00</td>
</tr>
</tbody>
</table>


$199 million in 1991. Together, net transfers by IBRD and IDA averaged about zero during 1980-93. Net transfers were negative during 1980-84, positive in 1986 and 1987, and about zero during 1988-90. They were again negative in 1991 at $145 million, as Zambia paid up arrears to the Bank, then turned positive again in 1992 and 1993. The Bank has been sensitive to this criticism and has recently been trying to maintain positive net transfers.

The criticism of inadequate lending in the 1980s has some validity but rests on speculation regarding alternative political economy scenarios. Most lending in 1985-87 was to provide foreign exchange support for output expansion and so stabilize the economy, but the injection of resources was inadequate to head off a foreign exchange crisis at the time. The argument is that in 1986, a sufficiently large transfer could have prevented the massive depreciation of the Zambian kwacha in the exchange rate auction. By the same token, it could have helped avoid the large import price increase that stifled the output response and led to a rapid rise in the cost of living, provoking a popular outcry against the adjustment measures. Moreover, if the depreciation of the kwacha had been less drastic, those in favor of exchange controls in the government might not have been able to convince the president to abandon the adjustment program agreed with the Bank and IMF in 1985.

Those who make the argument that Bank lending in the 1980s was not enough also say the lending was not much in relation to Zambia's capacity to implement projects. Because commitments to Zambia have been mostly for adjustment operations to provide balance-of-payments support, lending has not made significant demands on Zambia's capacity to implement projects. While it is true that Zambia has not had difficulty absorbing the small amount of project lending it has received since 1986, it probably could not have absorbed much
more without difficulties, especially since the civil service lacked (and still lacks) managerial and technical skills.

Those who think that lending to Zambia has not been enough point to the fact that Bank exposure is low. In mid-1994, Zambia accounted for 1.52 percent of development credits outstanding to IDA, and 0.21 percent of total loans outstanding to the IBRD. The Bank has been an important source of finance for Zambia, holding 22.6 percent of its long-term debt (outstanding and disbursed) at the end of 1993. As for low exposure, this has been associated with a fairly high portfolio risk. The debt-service burden (total debt service as a percentage of exports of goods and services) has been in the 30–50 percent range in the 1990s (with the debt service to the Bank being about 7 percent), and there have been arrears in the service of Bank debt during the 1980s and early 1990s.

The criticism that Bank lending to Zambia has been too low carries little weight in the period after 1990. The predominance of adjustment lending has meant that absorptive capacity has not limited the effectiveness of this level of lending. In addition, after most of the backlog of arrears was liquidated, the net transfer became increasingly positive.

**Allocation was inappropriate for long-term development goals**

The allocation of lending among instruments was inappropriate in light of the long-term objective of restructuring the Zambian economy to reduce dependence on a single export. Structural adjustment lending was done at the expense of investment lending but did not succeed in achieving policy change. IBRD/IDA lending from 1983 was to have supported the long-term objective of diversification, via liberalization of the economic environment and the privatization of state-owned enterprises. The lending program inadequately addressed the physical infrastructure and manpower constraints associated with a diversification of the economy.

Structural adjustment lending was used during the mid-1980s to encourage stabilization and support a quick increase in production, at the expense of assuring sustained policy change and institutional improvements. This arose because the Bank allowed tranches to be drawn down before loan conditions were fulfilled and measures sustained. Neither the stabilization nor the adjustment objectives were well served. In the early 1990s, rapidly disbursing lending for structural adjustment was allowed to serve the needs of debt servicing and stabilization. Fortunately the new government was committed to change and did not abandon adjustment. The price stabilization objective was achieved, but structural adjustment was delayed, and full recovery of the economy now faces infrastructure constraints.

**Portfolio performance compares unfavorably with the region and the Bank**

This section focuses on OED’s evaluation of completed projects and programs in Zambia. It describes portfolio performance by sector and lending instruments and, based on a review of project completion reports (PCRs) and performance audit reports (PARs), attempts to delineate the significant factors associated with the Bank’s portfolio performance in Zambia. It also discusses the status of the Bank’s current portfolio in the country, and concludes with lessons of experience and implications for future Bank lending.

**Performance trends deteriorated until 1987**

PCR-PAR performance ratings are available for 40 completed operations in Zambia as of September 1995; the operations represent commitments of $2,061.8 million. OED outcome
ratings were satisfactory for 60 percent of the operations, accounting for 72 percent of the value of commitments. Of the 11 approved during FY83-95, only four (or 36 percent) were given an outcome rating of satisfactory; ten of these rated projects were approved prior to 1987. From this finding, one may conclude that performance deteriorated at least up until 1987. The percentage of satisfactory outcomes rises to 44 if approvals for FY80-82 are included. However, even with this percentage, the Bank’s portfolio performance in Zambia since 1980 compares unfavorably with the Bankwide satisfactory average of 68 percent and with the Africa region’s satisfactory average of 62 percent.

Table 5.5: Zambia—OED outcome ratings

<table>
<thead>
<tr>
<th>Outcome Rating</th>
<th>Number</th>
<th>Percent</th>
<th>Value ($ millions)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory outcome</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment loans</td>
<td>4</td>
<td>57</td>
<td>361.6</td>
<td>71</td>
</tr>
<tr>
<td>Non-adjustment loans</td>
<td>20</td>
<td>70</td>
<td>400.1</td>
<td>73</td>
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<tr>
<td>Total</td>
<td>24</td>
<td>60</td>
<td>761.7</td>
<td>72</td>
</tr>
<tr>
<td>Unsatisfactory outcome</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment loans</td>
<td>3</td>
<td>43</td>
<td>145.5</td>
<td>29</td>
</tr>
<tr>
<td>Non-adjustment loans</td>
<td>13</td>
<td>39</td>
<td>149.3</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>40</td>
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</tr>
<tr>
<td>Total rated</td>
<td>40</td>
<td>100</td>
<td>1,056.5</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: OED database.

Table 5.6: Zambia—OED sustainability ratings

<table>
<thead>
<tr>
<th>Sustainability</th>
<th>Number</th>
<th>Percent</th>
<th>Value ($ millions)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likely sustainability</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment loans</td>
<td>0</td>
<td>0</td>
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<td>Non-adjustment loans</td>
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<td>21</td>
<td>22.4</td>
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<tr>
<td>Total</td>
<td>3</td>
<td>42</td>
<td>22.4</td>
<td>28</td>
</tr>
<tr>
<td>Uncertain sustainability</td>
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<td>Non-adjustment loans</td>
<td>9</td>
<td>64</td>
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<td>111.5</td>
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<td>14</td>
<td>103.7</td>
<td>51</td>
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<tr>
<td>Total</td>
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<td>17</td>
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<td>32</td>
</tr>
<tr>
<td>Total rated</td>
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<td>100</td>
<td>1,056.5</td>
<td>100</td>
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Source: OED database.
Table 5.7: Zambia—OED Institutional Development (ID) Ratings

<table>
<thead>
<tr>
<th>Substantial ID</th>
<th>Number</th>
<th>Percent</th>
<th>Value ($ millions)</th>
<th>Percent</th>
</tr>
</thead>
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<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Non-adjustment loans</td>
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<tr>
<td>Total substantial ID</td>
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<td>25</td>
<td>15.6</td>
<td>2</td>
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<table>
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<td>60</td>
<td>353.1</td>
<td>76</td>
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<td>Non-adjustment loans</td>
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<td>47</td>
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<td>42</td>
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<td>Total moderate ID</td>
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<td>437.7</td>
<td>66</td>
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<td>111.5</td>
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</tr>
<tr>
<td>Non-adjustment loans</td>
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<td>20</td>
<td>102.0</td>
<td>50</td>
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<td>Total negligible ID</td>
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</tr>
<tr>
<td>Total rated</td>
<td>20</td>
<td>100</td>
<td>666.8</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Task Managers Workstation/Management Information System; OED database.

OED sustainability ratings are available for 20 projects, all but two approved during FY80-95. Of the 18 approved during FY80-95 only three (or 17 percent) were given a sustainability rating of likely. The majority, 12 (or 67 percent), were rated uncertain, and the remaining three were rated unlikely.

Institutional development ratings are also available for the 20 operations with sustainability ratings. Of the 18 approved during FY80-95, only four (or 20 percent) had a substantial impact on institutional development. The majority, ten, had a moderate impact, and the remaining six had a negligible impact.

Portfolio performance in Zambia varied across sectors. Only energy, agriculture, and multisector operations were represented by more than one operation, and the sample of projects rated is not necessarily representative of the population of all projects. All four projects evaluated in the energy sector had satisfactory outcomes, with a likely sustainability and a substantial institutional development impact. Conversely, only one of the five projects in agriculture turned out to be satisfactory, and all had doubtful sustainability and modest or negligible institutional development impact. Finally, the sustainability of the two (out of three) satisfactory loans for multisector programs and policy was judged as uncertain, and their institutional development impact was considered modest.

Sector-specific issues that account for variations in sectoral performance trends include (a) institutional development, and the extent to which it influences project management; (b) staff development; (c) timeliness in project implementation and the building up of capacity; and (d) degree of project complexity and specificity of objectives.

The lessons from this short review of Zambia’s successful and unsuccessful projects are:

- Systems (for example, extension) should be modified to reflect the conditions and constraints specific to the country.
- Project design needs to allow for a realistic implementation period.
### TABLE 5.8: SECTORAL OUTCOME RATINGS FOR OPERATIONS APPROVED IN FY80–95

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number satisfactory</th>
<th>Number unsatisfactory</th>
<th>Percent satisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Education</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Energy</td>
<td>4</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Industry</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Multisector</td>
<td>2</td>
<td>1</td>
<td>67</td>
</tr>
<tr>
<td>Transport</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Water</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>All</td>
<td>8</td>
<td>10</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: OED database.

- Design should take full account of the limitations in implementation capacity—a small, manageable project is preferable to a large unmanageable one. Pilot projects deserve more attention than they have received up to now.

- The institutional system for delivery of credit is as important as the funding.

- Training is essential both as a way of overcoming a shortage of skills and as an incentive to the civil service.

- The additional burden on the project’s official manager, administrator, or technician should be fully considered in planning implementation.

- Appraisal must pay attention to institutional weaknesses.

- Implementation authority and responsibility should be properly matched.

### Structural adjustment operations

The Bank has supported adjustment operations under both the Kaunda and Chiluba administrations. Seven adjustment operations have been initiated—three under the first government and four under the second. The objectives and policies of the adjustment operations have been roughly the same. Some progress was made both in the 1980s and the 1990s, but the outcomes of the two periods have differed in at least one important way. During the last two years, the government has had more success than its predecessor in bringing inflation under control, through strong fiscal policy.

The adjustment operations of the 1980s were (a) the Agricultural Rehabilitation Project, approved in FY85; (b) the Industrial Reorientation Project, approved in FY86; and (c) the Economic Recovery Program, approved in FY86.

Although these operations were not called adjustment operations, they all supported Zambia’s policy and institutional reforms by providing the foreign exchange needed for the country’s recovery and diversification effort. In addition to reforms to restore macroeconomic stability, the Bank supported structural measures in three productive sectors—mining, industry, and agriculture—to ensure a positive response in terms of production.

The Agricultural Rehabilitation Project was a hybrid. The project’s principal objective was to significantly increase production, particularly
Box 5.1: Successful Projects

Of the 18 operations that were approved after 1979 and evaluated by OED, eight have been classified as successful.

Four of the successful operations are energy projects, accounting for 100 percent of energy operations. It is worth noting their common features: All four were small, with the amount committed by IBRD/IDA varying from $3.1 million to $6.6 million. The range of disbursements is even smaller—$2.6 million to $4.1 million—because the two larger operations involved considerable underspending. All four were also essentially studies with a component of overseas training for Zambians. The studies were done by foreign contractors/consultants. Bank staff generally did the identification and design work, but the need for the projects was accepted by the Zambian government. The studies provided information that helped government technocrats solve problems without placing additional demands on scarce local staff or depending much on local management once contracts with the foreign consultants were signed. Meanwhile supervision by Bank staff compensated for any shortfall in local management. None of the projects required much local counterpart financing or significant institutional support over a long period. All tended to involve individual activities that could lead to a decision about a follow-on project, but which would not set in train a continuing set of activities. So they were not susceptible to the administrative weaknesses and technical deficiencies of the Zambian public sector.

The single successful agricultural project was the Smallholder Dairy Development Project, approved at the end of 1981. It involved a small commitment of $7.5 million, of which $6 million was canceled because of unavailability of the main input—crossbred dairy cattle. The project had other handicaps: government preparation was not adequate, counterpart funds were delayed, and interagency coordination within the government was poor. Nevertheless, the project was successfully implemented in a redesigned, scaled-down version. Milk collection and sales even surpassed the targets of the much larger original project.

This project's success seems attributable to some factors shared with the energy projects:

- The projects were small in size. This meant that a minimal additional burden was placed on the managerial and technical staff of the agencies involved.
- Training was provided both to the farmers through extension services and to the government workers involved, improving their technical capability and giving them an incentive to accept the additional burden associated with the project.

in maize, but the project was designed in such a way that it also supported policy reforms, as adjustment operations try to do. At the same time it provided foreign exchange for the importation of tractors and other agricultural implements. The underlying aim of the project
Box 5.2: Agricultural projects were mostly unsuccessful

Four of the five agricultural projects evaluated by OED were rated unsatisfactory. The Agriculture Rehabilitation Project was not classified as an agriculture project, being in essence policy-based lending in support of reforms in pricing and marketing. The others supported supply-side investments, and all four were approved and implemented before the present government was elected to office. The Southern Province agricultural development and the Eastern Province agricultural projects were similar in most respects, but they also had much in common with the Fisheries Development Project. Their primary objective was to raise the output of major crops and livestock by improving extension services, by providing greater access to credit and better input supply, and by doing research. Overall, the projects achieved little relative to their objectives.

Despite the shortcomings, the projects involved some on-farm research trials and helped to strengthen research-extension links and establish the training and visiting extension system. Where technical assistance components were involved, the targets were usually met. Also, there was substantial progress in construction work (for example, in storage facilities and livestock crush pens). Little construction work was done, however, in fish processing and marketing facilities and extension staff housing. Also on the plus side, many farmers adopted improved technology for growing maize, and 1,200 fishermen and fishing scouts were trained. However, farm credit remained unutilized because of institutional deficiencies, and benefits have not been sustainable in the absence of adequate funding of recurrent costs.

These projects shared some disadvantages that largely account for their unsatisfactory performance: There was heavy dependence on weak administration and management; inadequate extension capability and delivery; insufficient budgetary allocation for the local counterpart funds; cumbersome and bureaucratic procurement procedures; imperfect delegation of authority; and poor coordination and unclear delineation of responsibilities among the agencies involved. Another important factor was the climate of uncertainty regarding government’s pricing and marketing policies. A counterpart of the above was the Bank’s persistent optimism about the feasibility of success in these circumstances.

was to eliminate agricultural subsidies and liberalize production and marketing of maize, maize meal, and fertilizer. Implementation of the reforms went as scheduled, and tranche release proceeded without delays.

The Industrial Reorientation Project, prepared shortly after the agricultural project, was designed to reverse the overvaluation of the currency by introducing a foreign exchange auction. This led to massive devaluation that
had serious implications for the Agricultural Rehabilitation Project. Following the fall of the kwacha, the price of maize remained fixed far below what was necessary to keep pace with the rising cost of foreign exchange, with the result that private investment in imported tractors and other agricultural implements was no longer profitable.

The 1986 Economic Recovery Program, which was a structural adjustment loan in everything but name, provided an additional, badly needed $50 million for the foreign exchange auction and supported policies affecting the budget, import tariffs, public enterprise reforms, foreign exchange administration, and the maize meal subsidy. The program rewrote the agricultural project’s covenants on the maize meal subsidy, moving the date for eliminating the subsidy from May 1987 to the end of that year.

Late in 1986, the government decided to accelerate the elimination of the maize meal subsidy in order to reduce the fiscal deficit, twice announcing the measure and then backing down before finally implementing the decision in December. Without concurrently raising the retail price to help the millers, the decision caused shortages and then nationwide food riots, resulting in deaths and vast property damage. In response to the riots, the government abandoned the Bank/IMF-supported adjustment policies.

**1980s adjustment operations rated unsatisfactory**

The outcome of these adjustment operations was rated unsatisfactory. OED found that the Agricultural Rehabilitation Project achieved neither of its main objectives, as it failed to raise maize production significantly and left the agricultural sector highly dirigiste. On the Industrial Reorientation Project, OED noted that the reforms were reversed only 18 months after their inception and had no measurable impact. The project completion report on the Economic Recovery Program also concludes that the adjustment measures that were supported were not given enough time to work through the economy before the government abandoned the reform effort in May 1987. Sustainability was rated unclear for all three. Institutional development impact was rated negligible for the Industrial Reorientation and the Economic Recovery Credits, and partial for the Agricultural Rehabilitation Project.

Bank analyses have pointed to many factors for these operations’ performance. On the positive side, later evaluations found the individual reform packages practicable, with adequate ownership by the government; and the basic aim of the strategy, objectives, and support policy instruments appropriate. Progress was made in some areas; for instance, the financial performance of state-owned enterprises improved. However, the lack of consistency among each of the adjustment operations and the excessive optimism of the overall stabilization/adjustment approach constituted major weaknesses. As mentioned, maize pricing policies and exchange rate policies did not have a consistent impact on the profitability of investing in maize production. The foreign exchange reform was not supported enough by the conditions set for monetary and fiscal policies, as the government was indecisive and inept in reducing the deficit. The Bank was overly optimistic in its assessment of the determination and courage of the political leadership to carry out the reforms. It also failed to include in project design, compensation or a safety net for those who would bear the brunt of reforms. Furthermore, it underestimated how serious the constraints were to a prompt agricultural supply response. The Bank also overestimated the feasible speed of industrial growth and of diversification, when entrepreneurship was lacking, technology was outdated, skilled labor was in short supply, and infrastructure was poor.
Earlier evaluations of the 1985 structural adjustment program. Two earlier evaluations of adjustment programs in Zambia by former Bank staff devoted special attention to the 1985-87 period.

Ravi Gulhati (1985) noted that the 1985 decision to liberalize credit and foreign exchange markets (including the delicensing of imports) was made in the middle of a financial crisis and was soon reversed. Although the need to depreciate the currency and attain positive interest rates was urgent, he questioned whether liberalization on the scale attempted was the right move at the time. He suggested that liberalization of the markets for credit and foreign exchange should have followed (rather than preceded) a much greater control of the budget and underlying inflationary pressures. In addition, given that Zambia's balance-of-payments was subject to a large measure of uncertainty, it would have helped greatly if at the outset of the auction, the Bank of Zambia had had a comfortable margin of foreign exchange reserves and access to a substantial amount of external loans. "This was clearly not the case," Gulhati said.

In addition, Gulhati found that:

- The main thrust of policy packages was to stabilize the economy and regain financial balance. The objective of securing reasonable growth of GDP took a back seat. The objective of poverty alleviation or equitable distribution of the burden of adjustment was also given short shrift. This scheme of priorities looked odd against the background of protracted decline in the Zambian economy, strong pressures of a rapidly growing population, and competing pressure groups within the polity who were greatly concerned about the distribution of the economic pie.

- Targets agreed to by the government were based on assumptions that proved inaccurate about terms of trade, resource transfers from abroad, and copper exports. Targets reflected what was desired for swift correction of financial imbalances. Neither party expected swift supply-side responses in production and exports.

- Measures to enhance efficiency focused on distortions. Little was done to reduce the incidence of nonprice obstacles to small-holder production, for example, to provide better marketing channels, improved technical packages, and appropriate physical infrastructure.

- The idea of protecting vulnerable groups in urban areas from the impact of higher maize prices was late. The public sector tried to shore up urban employment while production and productivity declined, but this proved financially ruinous and was inconsistent with the need to curtail the fiscal deficit.

- The process underlying reforms was flawed. There was limited ownership outside a narrow group of politicians and senior officials.

- A lack of adequate external support also undermined reforms.

Some of the findings of an internal Bank study on the Zambian Adjustment Program call into question the operational policies and practices of the Bank generally, and are not specific to Zambia. The main questions and lessons include the following:

- Given the history of broken promises on reform in Zambia and the evident limited political and public commitment to adjustment, a more cautious approach to providing assistance for adjustment, particularly in 1980-87, would seem to have been called for.

- Internalization of the reform process is critical.

- A sector approach focusing on agriculture and gradually moving toward a broader
reform effort as the country’s willingness grew may have been more successful than a full-blown adjustment program.

- Due to the lack of implementation capacity in Zambia, a slower pace of adjustment was called for.

- The Bank should not rely exclusively on quick-disbursing lending for policy reform. In some cases, agreement on policy reform would be more appropriate in the context of project or sector lending, not necessarily requiring disbursing balance-of-payments support.

- Quick-disbursing “tide-you-over” lending may be particularly inappropriate when the political and public-acceptance risks are high.

- Concessions to blunt criticism, such as targeted assistance to those most adversely affected by the reform, may have helped to ensure the program’s political sustainability.

Adjustment operations in the 1990s shift to diversification, privatization

There have been five major adjustment operations since the restoration of disbursements. These are:


- The Privatization and Industrial Recovery Credit II (PIRC II), approved in 1993.

- The Economic and Social Adjustment Credit, approved in 1994. (When disbursements to Zambia were resumed in 1991, the Bank allowed draw-down of the final tranche of the Economic Recovery Credit, which had been suspended since May 1987.)


These credits reflect a shift in emphasis for adjustment policy, away from increasing the output of a public-sector-dominated production system. The shift aimed to develop noncopper exports and to pursue efficiency by privatization. The shift has been gradual, partly to protect vulnerable groups from the burdens of adjustment.

The 1991 Recovery Credit sought to encourage nontraditional export growth, lower capital and import intensity of production and consumption, and increase investments and savings—objectives shared with adjustment operations of the 1980s. Another objective—assisting Zambia with its foreign exchange cash-flow while arrears to the Bank were being paid—was not shared with earlier operations. The credit design includes the specific objective of protecting vulnerable groups from the worst impacts of adjustment. The conditions attached to this credit reviewed the issues of maize pricing and subsidies, tried to address the fiscal deficit by limiting banking credit to the government, and hinted at future emphases by setting a target for the sale of state-owned enterprises. This is the only 1990s structural adjustment loan evaluated by OED. The outcome has been rated as satisfactory, sustainability as unlikely, and institutional development impact as negligible.

The next three operations involved more decisive change in the direction of structural adjustment. The Privatization/Industrial Recovery Credit supported market liberalization, major new initiatives in private sector development, privatization, and parastatal and civil service reform. The centerpiece of the reform was privatization: enactment of the Privatization Act was a condition of effectiveness. Other conditionalities covered the social safety net and targets for parastatal reform and privatization. The follow-on credit, PIRC II, provided balance-of-payment support for the next stages of Zambia’s para-
statal reform and privatization program, which was the key component of Zambia's structural adjustment program. The Economic and Social Adjustment Credit approved in FY94 was to support continuing efforts to restore macroeconomic stability, to remove bottlenecks to exports and agricultural expansion, and to overcome obstacles to the delivery of vital social services. Its central concerns were to ensure adequate government spending and efficiency in the social sectors, and to amend land laws and develop a land market.

A cursory evaluation of the 1990s adjustment operations shows that they have resulted in the expeditious transfer of foreign exchange, since the Zambian government has demonstrated considerable enthusiasm in meeting the conditions for tranche release. Available data on the major economic indicators show that after some delay, the adjustment program has brought the fiscal and monetary magnitudes under control, and that inflation has been substantially reduced.

An alternative approach is to look for lessons in the evaluations of the earlier adjustment attempts, and see to what extent these have been reflected in the design of the 1990s programs. The adjustment operations of the 1990s have gone far toward avoiding the strongest criticisms of Gulhati and the study on Zambia's adjustment. There is overt concern for the social costs of adjustment and the plight of vulnerable groups. In the overall lending program, quick-disbursing adjustment operations are not being used to address many sectoral issues. Instead, sector investment operations are being used to support part of a comprehensive program by means of appropriate policy and other conditionality. In addition, greater attention is being given to mobilizing and coordinating support from many donors to ensure adequate adjustment resources.

Another approach to evaluation comes from the OED study on the Bank's experience with structural and sectoral adjustment (Jayarajah and Branson 1995), which identifies the following as conditions for successful adjustment:

- Recognizing the diversity of economic and political structures and the administrative capabilities of countries that are adjusting.
- Working closely with the adjuster in developing a program supported by appropriate economic and sector work, and engaging in a healthy policy dialogue.
- Avoiding attempts to reform over a wide front simultaneously, especially when the adjuster is handicapped by political, social, and administrative constraints.
- Emphasizing positive net resource transfers, especially in countries with high debt overhang; adjusting the level of resource transfers to compensate for exogenous shocks so as to keep the program on track.

The adjustment operations of the 1990s have been mindful of these concerns, especially in returning Zambia to positive net transfers, recognizing administrative weaknesses and addressing them through training, and developing a mutually agreed program supported by sector work and dialogue.

Some of the lessons identified by the Gulhati and adjustment studies seem to have continued relevance to the design of new reform exercises, especially as regards the role and attitude of governments:

- Policy packages have to be localized and perceived as indigenous initiatives.
- Much more effort needs to be made to build consensus among influential actors and to educate the public. The imperative of securing a consensus may require further altering of the technical design of policy packages to...
accommodate vested interests without undermining the main thrust of the reform.

- In the absence of progress in the international machinery, the reforming government must assure itself of sufficient reserves before undertaking risky policy initiatives. Many worthwhile initiatives have collapsed as a result of insufficient liquidity to cope with unforeseen developments.

**Evaluation of ongoing portfolio**

The ongoing portfolio is made up of 17 operations. Table 5.9 shows the credit amounts and approval dates.

There is no preferred method of evaluating the ongoing portfolio. This study uses three means. The first is based on the Form 590 supervision status ratings; the second seeks to identify how demanding each project is on the main determinants of absorptive capacity; and the third examines each project in terms of specified Bank themes.

**Do form 590 ratings show a satisfactory portfolio?**

Form 590 judges the quality of the ongoing portfolio at the last supervision based on the overall ratings on implementation status, management performance, and availability of funds. Clearly, this approach is not applicable to planned projects and to projects not yet subject to supervision. Supervision information is available (as of 1995) for 14 projects in the ongoing portfolio. Of these, Bank staff gave one a rating of 1 (or highly satisfactory) in its implementation, 12 a rating of 2 (or satisfactory), and one a rating of 3 (or unsatisfactory). The general conclusion is that the portfolio is satisfactory in terms of its implementability. This conclusion

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Credit number</th>
<th>Project title</th>
<th>Credit amount ($mill.)</th>
<th>Board date</th>
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</thead>
<tbody>
<tr>
<td>1991</td>
<td>C2269</td>
<td>Mining Technical Assistance Support</td>
<td>21.0</td>
<td>06/13/91</td>
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<td>1991</td>
<td>C2273</td>
<td>Social Recovery Project</td>
<td>48.7</td>
<td>06/19/91</td>
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<tr>
<td>1992</td>
<td>C2405</td>
<td>Privatization and Industrial Recovery Credit</td>
<td>200.0</td>
<td>06/30/92</td>
</tr>
<tr>
<td>1992</td>
<td>C2406</td>
<td>Privatization and Industrial Recovery Credit/Technical Assistance</td>
<td>10.0</td>
<td>06/30/92</td>
</tr>
<tr>
<td>1993</td>
<td>C2422</td>
<td>Agricultural Marketing and Processing</td>
<td>33.0</td>
<td>09/08/92</td>
</tr>
<tr>
<td>1993</td>
<td>C2429</td>
<td>Education Rehabilitation I</td>
<td>32.0</td>
<td>10/27/92</td>
</tr>
<tr>
<td>1993</td>
<td>C2515</td>
<td>Transport Engineering</td>
<td>8.5</td>
<td>06/17/93</td>
</tr>
<tr>
<td>1993</td>
<td>C2523</td>
<td>Privatization and Industrial Recovery Credit II</td>
<td>100.0</td>
<td>06/24/93</td>
</tr>
<tr>
<td>1994</td>
<td>C2535</td>
<td>Financial and Legal Management Upgrading</td>
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<td>1994</td>
<td>C2577</td>
<td>Economic and Social Adjustment</td>
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<td>C27640</td>
<td>Economic Recovery and Investment Promotion</td>
<td>140.0</td>
<td>07/11/95</td>
</tr>
</tbody>
</table>

Source: Bankwide Lending Operations Database.
should be accepted, though, with reservations. This is because the projects evaluated by OED during FY90-94 showed a 36 percent difference (or "disconnect") between the share of projects rated during the last supervision year as satisfactory in achieving development goals and the share of projects rated satisfactory in this category after completion. This disconnect shows the optimism in supervision ratings.

The Zambia Social Recovery Project (FY91), rated highly satisfactory, was rapidly implemented and achieved a 70 percent disbursement ratio only three years into the project, that is, halfway through the planned implementation period. This performance has been attributed to systematic use of client consultation to improve implementation arrangements and enhance development effectiveness.

Supervision data on management performance show that ten operations had a rating of 2, one had a rating of 3, and only three had a rating of 1 at mid-1995; this is only a slight improvement over the previous year. The ratings on the availability of funds were better; seven projects had a rating of 1, while the other seven had a rating of 2. Availability of local counterpart funds has not impaired portfolio performance. Weaker management notwithstanding, the portfolio is satisfactory, though more intensive Bank supervision and some technical assistance to strengthen management may need to be considered.

**Does the portfolio consider constraints on absorptive capacity?**

Another way of trying to judge the portfolio is to examine each project in terms of the demands it makes on the main factors determining absorptive capacity, and to determine whether a factor may be an obstacle to portfolio implementation. The factors are decisionmaking at the policy level, management, institutional change, skills, and research (for instance, ability to do studies and surveys and to draft laws and regulations). Analysis of the 17 ongoing projects indicates that eight require policy decisions; eight require institutional change; 15 will make heavy demands on management; eight will be demanding of skilled workers; and 11 will require research, planning, and legal drafting skills. Economic and sector work on the shortage of management and research capability in the public sector—specifically the major findings and recommendations of the 1992 and earlier public expenditure review—shows that the portfolio is likely to run into absorptive capacity constraints arising from the shortage of managerial, research, planning, and legal skills. This is consistent with the data from the Form 590 supervision reports.

Legislation envisioned in the portfolio—on privatization, control of monopolies, tax reform, land, companies, the financial sector, and banks and near-banks—will significantly burden the scarce resources in these areas, especially when the associated regulations are considered. The Financial and Legal Management Upgrading Credit (FY93) provides training and other assistance for these purposes.

**Does the portfolio reflect dominant Bank themes?**

The portfolio honors Bank thematic concerns, but lacks attention to diversification. The Bank at any given time has certain priorities depending on how it is interpreting its mission in development. The appropriateness of its portfolio depends in part on whether and how the portfolio supports these priorities. While the Bank has not abandoned its long-standing goal of promoting economic growth, three themes are greatly important to contemporary Bank support: (a) alleviating poverty by directly addressing issues relevant to the poor; (b) creating a strong private sector in a liberal, market-directed economy; and (c) enhancing the role of women in development. In addition, an appro-
appropriate portfolio must address issues that are important to the particular client. In Zambia, the shortage of skills, rundown state of infrastructure, and weakness of institutions suggest that training, institutional development, and rehabilitation of economic infrastructure will be essential to a good portfolio. Recently, the theme of ownership and beneficiary participation has also been stressed as important to the Bank's effectiveness. It is notable that recently, diversification has not been prominent among the major themes in the Zambian portfolio.

This study examined the ongoing portfolio in terms of the Bank's current priorities. Several projects have components aimed at the poor. The 1991 Recovery Credit provides for the evaluation of the maize-meal coupon system, and the Privatization/Industrial Restructuring Project has a social safety net as a condition for release of the second tranche. The 1992 Education Rehabilitation Project includes rehabilitation of primary schools in poor areas. Meanwhile, the 1995 urban restructuring and water and the second social recovery II projects aim to benefit the poor directly. The private sector and liberalization issues are dealt with by the 1991 Recovery Credit, Mining Technical Assistance Support, Agricultural Sector Investment Program, Agriculture Marketing and Processing Project, and Privatization and Industrial Recovery Credit II.

At least six projects include training in accountancy. The agricultural marketing and processing, agricultural sector investment, and the second social recovery projects include aspects aimed to improve the development of women. The social recovery operation cites enhancing the role of women in development as one of its two objectives. Four operations specifically address deficiencies of economic infrastructure, and four have clearly identifiable institutional development components. Agriculture Sector Investment, Urban Restructuring and Water, and Social Recovery II all provide for beneficiary participation, with the latter including a component to monitor beneficiary assessment and funding for community initiatives. This brief glance at portfolio content suggests that the Zambian portfolio has provided for the main themes. However, more attention could have been paid to the sequencing of operations that could have benefited from each other's output.

The Agricultural Sector Investment Program is the flagship project

The Agricultural Sector Investment Program (ASIP), representing a dramatic departure from the traditional project approach, merits detailed review and a preliminary evaluation. It has seven special features that differentiate it from traditional projects:

- The program covers the entire country's agricultural program.
- It was prepared by a Zambian task force whose members were drawn from both the public and private sectors.
- It is to be implemented within the institutional framework of the Ministry of Agriculture, Forestry, and Fisheries, not by separate project units.
- Donors' procedures for procurement, reporting, accounting, and auditing will be standardized to the extent possible.
- The use of long-term expatriate technical assistance will be kept to a minimum and short-term technical assistance will be hired on demand from the ASIP implementors.
- The program has built-in flexibility that allows for annual reviews and adjustments.
- It is embedded in public sector reforms in the agricultural sector aimed at increasing
### Table 5.10: Lending by IBRD and IDA to Zambia by Objective, FY80–94

($ millions)

<table>
<thead>
<tr>
<th>Period</th>
<th>Environment Management</th>
<th>Economic Sustainable Development</th>
<th>Environmentally Sustainable Development</th>
<th>Not Classified</th>
<th>Poverty and Human Resource Development</th>
<th>Private Sector Development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total disbursed (l/c)</td>
<td>Sum of l/c</td>
<td>Total disbursed (l/c)</td>
<td>Sum of l/c</td>
<td>Total disbursed (l/c)</td>
<td>Sum of l/c</td>
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<tr>
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<td>6.6</td>
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<td>—</td>
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<td>751.2</td>
<td>916.8</td>
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**Note:** l/c = loans/credits; — not applicable.

**Source:** World Bank Financial Database.
decentralization and encouraging participation by beneficiaries.

The program has four main components: (a) policy and institutional improvements in marketing, trade, and pricing, food security, and land use and tenure; (b) public investments; (c) private sector development, including the creation of an enabling environment and incentives, and the development of financial and other input services; and (d) pilot investment schemes, such as small-scale investments in rural communities that employ matching grants, the privatization of government farms, and the promotion of new technologies.

The total cost of the ASIP has been set at $350 million; the IDA credit approved in March 1995 will provide $60 million of this total. This component will finance civil works for the rehabilitation of research stations and the creation of agricultural training colleges, laboratories, and office buildings. About $10 million of IDA financing for the rural investment fund will provide grants to smallholder farmer groups to assist in buying inputs and making capital investments. In addition, the credit will finance consultant services, mainly short term.

**ASIP conditionality**

Besides the sectoral and policy reforms, the government agreed to fulfill 13 conditions (some are particular to the program). These conditions included maintaining an agricultural sector steering committee and engaging an independent institution to carry out annual impact evaluations, beneficiary consultations, and sector analyses included in progress reports to IDA and other donors. Other conditions serve the privatization agenda, for example, privatizing or liquidating Lima Bank and advancing state farm privatization.

This range of conditionality suggests that the Bank has not modified its early 1980s stance of trying to procure general reform through project and sector operations. This approach to fundamental themes of development strategy through sectoral operations could be useful where there is an umbrella operation specific to the theme, through which component parts of the strategy can be coordinated. Without this umbrella it is questionable whether themes such as privatization will get the comprehensive attention they deserve.

**Preliminary assessment of ASIP**

A preliminary evaluation of the approach used in the Agricultural Sector Investment Program comments on the program’s planning process (Mano Consultancy Services 1994), as distinct from some issues on substance summarized below. Based in part on the private views of insiders, including the Ministry of Finance, the evaluation makes the following points:

- Donors were possibly overinvolved in a locally based exercise.
- Certain key groups were underrepresented: the farmers’ union and the private sector in general, parliamentarians, and the National Executive Committee of the Multi-party Movement for Democracy (the ruling party).
- Subsistence and emergent farmers were somewhat neglected; little attention was paid to the ASIP’s effects on poverty.
- The reorganized Ministry of Agriculture, Forestry, and Fisheries should rely on ministry staffers rather than on an independent team of consultants.
- Participants’ real commitment to liberalization was doubtful, given proposals for continued government involvement in input supply and maize marketing and the delay in privatizing institutions controlled by the
Ministry of Agriculture, Forestry, and Fisheries until 1997.

Nevertheless, the evaluation acknowledges that “ASIP is envisioned as a dynamic process that will pass through many more iterations.” It expresses hope that the plan “to take ASIP to the people” and to have it reviewed post-appraisal by the farmers union, Parliament, and Multiparty Movement for Democracy policymakers, will make ASIP truly participatory.

- On finance and credit, the short-term impact of the commercial credit policy may be severe, although smallholders will be able to adapt in the medium term.

- Pressure against subsidies may shift lending from villagers toward the larger emergent farmers. This possibility needs examination.

- The ASIP approach on research and extension appears to be based on the ongoing Agricultural Rehabilitation and Expansion Project, even before the latter has been evaluated. Some different approaches (non-Ministry of Agriculture, Forestry, and Fisheries) underway in the country need to be considered as possible alternatives.

- The ASIP’s concern to alleviate poverty and provide food security for vulnerable groups has not been supported with specifics.

This is not the only source of criticism of the Agricultural Sector Investment Program. One of the principal Zambian collaborators said that in Zambian eyes the ASIP was the Bank’s program—that the Bank tried to provide too much guidance and that “some Bank staff are not good listeners.” He concluded that Zambia would probably have done the same things without Bank pressure, but would have felt true ownership. He thought that there was not enough local participation due to a sense of urgency caused by the Bank. In addition, many donors have been critical of the Bank’s dominant role.

At the same time, the OED mission heard some positive comments about the program. The officer of one of the key bilateral donor programs asserted that the donor was quite satisfied with the Bank’s leading role. While feeling that the process was a bit hurried, the officer commented, the donor would be happy to back the project and close its supervision of the bilateral program, assuming transparent reporting. The donor was satisfied that during preparation of the project, donor representatives in Zambia had met to review most aspects of the program, including strategies to harmonize procurement policies.

**ASIP may be falling short on participation**

The hallmark of the ASIP is that it provides for decisionmaking by both the client/beneficiaries and the donor/supporters. But is it unlikely to be effective in achieving real participation. To what extent has participation been mentioned and the concept pinned down in project documentation? What views did the mission pick up in interviews on how much the matter of participation has influenced operations and whether it is effective?

According to the World Bank president’s report, ASIP provides for participation in three ways: at program preparation, by having a broadly based, Zambian-led task force; at monitoring and evaluation, by introducing systematic client/beneficiary consultation; and continuously, by providing resources directly to communities for locally initiated and implemented projects. The list of actions in the letter of intent on Zambian sectoral development says systematic client/beneficiary consultation will involve “adjusting the Central Statistical Office questionnaire (on crop production) to include beneficiary feedback and impact assessment.” Such participation will be achieved by
<table>
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<th>OED ID</th>
<th>Project title</th>
<th>Time overrun (years)</th>
<th>Cost overrun ($ millions)</th>
<th>Rating</th>
<th>Sustainability</th>
<th>sector</th>
<th>Annual Review Commitment ($ millions)</th>
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</table>

a. U=Unsatisfactory; S=Satisfactory.
b. UNC=uncertain; UNL=unlikely; LIK=likely.
c. NEG=negative; MOD=moderate; SUB=substantial.

Note: — not applicable.
The shift from top-down planning to genuine participation will be difficult and slow in Zambia. Great care has to be exercised to avoid undermining participation. The shortage of officials poses a problem. When the Bank suggests that consultants have to be used to compensate for the shortage of officials, some Zambians feel they are losing control to consultants. When the Bank sends 21 people to participate in program design, some Zambians and others feel the process is Bank-dominated and the program just another Bank project. The letter of intent for Zambia's sector development, drafted by the Bank for signature by Zambia, can become suspect. Clearly, genuine participation will require a more profound rethinking of Bank processes and procedures than has been done so far.

**Lessons and observations**

Some of the lessons identified by Gulhati and the Bank's internal study on Zambia's adjustment program are still relevant to the design of new reforms, especially as regards the role and attitude of governments:

- Policy packages have to be localized and perceived as indigenous initiatives.
- Much more effort needs to be made to build consensus among influential actors and to educate the public. The imperative of securing a consensus may require that the technical design of policy packages be further altered to accommodate vested interests without undermining the main thrust of the reform.
- In the absence of progress in the international machinery, the reforming government must assure itself of sufficient reserves before undertaking risky policy initiatives. Many worthwhile initiatives have collapsed as a result of insufficient funds to cope with unforeseen developments.
FIGURE 5.1: TOTAL DISBURSEMENTS AND CREDITS, FY80–94

Total disbursements during 1980–82

- Technical assistance lending (9%)
- Financial intermediary lending (19%)
- Sector maintenance lending (39%)
- Specific investment lending (14%)

Sum of loans and credits during 1980–82

- Technical assistance lending (9%)
- Financial intermediary lending (18%)
- Sector maintenance lending (50%)
- Specific investment lending (23%)

Total disbursements during 1983–86

- Technical assistance lending (3%)
- Financial intermediary lending (15%)
- Sector adjustment lending (76%)
- Specific investment lending (15%)

Sum of loans and credits during 1983–86

- Technical assistance lending (4%)
- Financial intermediary lending (19%)
- Sector adjustment lending (71%)
- Specific investment lending (15%)

Total disbursements during 1987–90

Specific investment lending (100%)

Sum of loans and credits during 1987–90

- Specific investment lending (77%)

Total disbursements during 1991–94

- Technical assistance lending (2%)
- Sector adjustment lending (45%)
- Specific investment lending (3%)

Sum of loans and credits during 1991–94

- Technical assistance lending (4%)
- Sector adjustment lending (38%)
- Specific investment lending (49%)

- Structural adjustment lending (43%)
Bank analyses of the early adjustment operations found that progress was made in some areas, for instance in improving parastatal financial performance. However, the lack of consistency among the adjustment operations and the excessive optimism of the overall stabilization/adjustment approach represented major weaknesses. As mentioned above, maize pricing policy and exchange rate policy did not have a consistent impact on the profitability of investing in maize production. The foreign exchange reform was also inadequately supported by the loan conditions set for monetary and fiscal policies, as the government was indecisive and inept in reducing the deficit. The Bank was overly optimistic in its assessment of the determination and courage of the political leadership to carry out the reforms. It also failed to include compensation or a safety net in project design for those who would bear the brunt of the reforms. The Bank also underestimated how serious the constraints were to a prompt agricultural supply response, and overestimated the feasible speed of industrial growth and diversification when entrepreneurship was lacking, technology outdated, skilled labor in short supply, and infrastructure poor.

The adjustment operations of the 1990s have been mindful of the conditions for successful structural adjustment set out by Jayarajah and Branson, especially in returning Zambia to positive net transfers, recognizing administrative weaknesses and addressing them through training, and developing a mutually agreed program supported by sector work and dialogue.
6. The Bank’s role critical in aid coordination/mobilization and debt management

The coordination and mobilization of aid, and technical assistance in debt management, are two instruments that have been important and even groundbreaking in the Bank’s work in Zambia. Precise means of evaluating these two instruments have yet to be developed, but even a preliminary review may provide guidelines on how to improve these instruments in Zambia and elsewhere.

In the last decade, the Bank played a crucial role in mobilizing donor support for Zambia through an unusually active dialogue with the donor community and the client country. The growth of gross disbursements of official development assistance (ODA) to Zambia reflects the Bank’s effort. Average gross ODA grew from about $650 million per year for 1984–86 to $1,330 million for 1991–93.

Importance of aid

The importance of aid flows to Zambia cannot be overstated. At its peak in 1992, the disbursements from multilaterals and 22 multilaterals amounted to $1,479 million, or about $130 per capita. They represented about 32 percent of GDP, 67 percent of export earnings, and 77 percent of total public expenditure. Taking into account external debt service and debt relief, net transfers of ODA from all sources to Zambia averaged about $313 million per year during 1991–93.

The donor community is large and influential in Zambian affairs. Several donor agencies work in Zambia. At one stage there were 150. Leading bilateral donors have included Canada, Denmark, Finland, Germany, Japan, the Netherlands, Norway, Sweden, the UK, and the US. In the 1970s, the UK was the major donor. The major donor for the last five years has been Japan, accounting for about 20 percent of total bilateral assistance.

History of aid

Zambia has received external assistance since its independence in 1964, benefiting from UK aid that aimed to help former colonies make the transition to independent states. Other donors, motivated by geopolitical concerns, wished to support a front-line state facing hostile regimes and liberation struggles in neighboring states. During the first decade of independence, annual ODA averaged about $38 million. But as the liberation struggles intensified, and Zambia’s economic situation worsened because of deteriorating terms of trade, gross ODA disbursements increased to an average of $430 million during the next decade.

Aid flows remained high during 1983–87, especially after 1985 when the Bank and the IMF supported Zambia with structural adjustment programs. The large inflow of aid failed to bring
about sustainable reforms, but added considerably to Zambia’s external debt. Growth of aid stopped during 1987–91 when Bank disbursements were suspended because of arrears. Although several key bilateral donors also stopped disbursements, gross ODA inflows still averaged about $460 million during 1987–89.

After the 1989 agreement between Zambia and the Bank/IMF on a policy framework paper, the donor community turned its attention to Zambia’s debt and substantial arrears to international creditors. In March 1991, under an innovative procedure involving the coordinated efforts of several donors, Zambia’s arrears with the Bank were cleared, a special program was established for dealing with arrears to the IMF over the next four years, and relations with donors were normalized. Overseas aid poured into Zambia following the installation of President Chiluba’s government in November 1991 under a system of multiparty democracy, and in view of an improved government stance on economic policy, private sector development, and poverty alleviation. The support helped relieve the hardships caused by the prolonged drought of 1992 and helped keep the country from falling into arrears.

The aid relationship

Donors initially focused on their projects, ignoring policy framework

In the 1970s there was a mismatch between the government’s aim of industrialization in towns and the rural bias of most bilateral donor assistance. The Zambian government had access to international capital markets and was able to borrow abroad to pursue its own investment priorities. The donors—in pursuit of geopolitical objectives, and attracted to Kaunda’s humanist development philosophy—saw their role as one that addressed Zambia’s economic inequalities. They focused on projects in the rural areas and social sectors, while ignoring policy issues and imbalances in the macroeconomy.

Aid up to the early 1980s set few conditions and involved little coordination. It consisted mainly of project support. Bilateral donor assistance for the most part was conceived and provided in a policy environment that was quite lax and without the government’s full commitment. As project preparation and implementation problems mounted, bilateral donors bypassed the government’s centralized decisionmaking system and increasingly assumed full responsibility for planning, preparing, and implementing their own programs. In the absence of any donor coordination or aid management by the Zambians, donors took the initiative without a framework for setting national priorities.

Meanwhile, the Zambians, faced with budgetary pressures, had an incentive to maximize the number of donor projects with little regard for their contribution to long-term development or consistency with government strategy. Sub-sectors that were not donor priorities were neglected. Funds devoted to projects were sometimes not included in the budget because planning was weak and local ministerial staff were not involved in the aid absorption process. These problems led to a waste of resources on nonviable projects, hampered the implementation of good projects, and undermined sustainability of the flow of benefits. Thus, for example, although there were 180 separate donor-funded projects in agriculture by 1988, involving about $130 million per year in assistance to the sector, the impact was minimal. This was because of inappropriate policies, lack of local ownership, poor aid coordination, and a shortage of counterpart funds.

Donors took a tougher stance and improved coordination in the late 1980s

By the mid-1980s, multilateral donors, who increasingly focused on policy reforms and
formal conditions for assistance, began a fundamental change in the aid relationship. As Zambia’s indebtedness mounted, donors were unwilling to provide further support without major reforms. Not long afterwards donors started to discuss, at international meetings and in Zambia, the need to coordinate and to support programs and priorities articulated by governments. Ideas on how to promote sectoral coordination in Zambia and the concept of a lead donor started circulating in 1990. At the time, the role of lead donor for education was assigned to Sweden, health to the Netherlands, and water supply and sanitation to Germany and Norway. The tasks of a lead donor were to assist the government in preparing sectoral investment programs, analyze policies and institutions, recommend levels and composition of donor support, and assist in donor coordination. The concept, particularly of full donor coordination, did not quite take hold until 1992, when serious coordination efforts were explored for the agriculture and health sectors, within a context of planned Bank operations.

The Bank’s role in aid coordination/mobilization

The Bank’s role has evolved at three levels—regional, national, and sectoral. The Bank has played an active part and been applauded for its performance in the first two. It has been a slow leader in the third and has been criticized for its prominence.

Special regional coordination program of assistance is effective

At the regional level, the Bank formally launched the Special Program of Assistance (SPA) for sub-Saharan Africa at a donor conference in 1987. Although empirical and methodological problems make it difficult to assess its true impact, the SPA appears to have improved the flow of resources to eligible countries. Real net ODA disbursements to SPA recipients have risen from an annual average of $5.3 billion during 1981-86 to $9.1 billion during 1987-92. The Special Program of Assistance has been particularly effective in mobilizing support for adjustment programs, and for promoting the standardization and simplification of the terms and conditions of such assistance. In Zambia, the SPA forum has effectively linked with the consultative group forum, with the latter including in its discussions and agenda some of the SPA initiatives, for example, the SPA objective of coordinated donor support for sector investment programs.

Consultative group meetings have been the main formal means of coordination and mobilization

At the country level, consultative group meetings chaired by the Bank have been the main formal means of donor coordination. Meetings have an important symbolic role, providing an opportunity for taking stock of Zambia’s progress in adjustment and for engaging all parties in an open dialogue. They also provide political backing for the reformers in the government and for pushing the pace of reforms. Donors feel that the Bank is more ready to talk with them on economic matters because of the need to prepare and share economic memoranda at these meetings. The consultative group process may have contributed to recent donor collaboration on public expenditure reviews and poverty assessments. The Bank’s leadership role in the meetings has been widely praised in the donor community, particularly during the difficult period of the early 1990s, when the Bank took the initiative to first orchestrate the clearance of Zambia’s arrears and then keep the donor program on track.

The Bank’s resource mobilization role in the consultative group meetings has been particularly challenging because the adjustment program since 1991 has required the absolute
commitment of both the Zambians (to meet conditionality) and the donors (to bridge the financing gap). Donors have been reluctant to make long-term concessions because of their own budget cycles and the uncertainty of the reform program. The Bank's role has been complicated by the bilateral donors' substantial power, which has been strengthened by the consultative group process. For example, in 1993 many donors broke their financial commitments to Zambia over governance concerns, specifically the state of emergency declared in March of that year and the government's failure to act on allegations that two ministers were engaged in drug trafficking. Large financing shortfalls occurred until donors renewed pledges in 1994, when the concerned officials were dismissed and the government embarked on drafting a new code of ethics. While donors have been willing to provide large amounts of resources in recent years (or perhaps because of this) they continue to have reservations about the sustainability of the reform program and about governance issues.

The government should lead sectoral coordination

Until recently, the Bank did not attempt seriously to coordinate aid at the sectoral level. However, in recent years, considerable efforts have gone into a coordinated and integrated approach for the health and agriculture sectors. In agriculture, the Bank's Agricultural Sector Investment Program is the pivot around which sectoral coordination is taking place. A Zambian task force comprised of private and public sector representatives was involved in the program's preparation. The Bank has tried to limit itself to a catalyst role, but has faced conflicting pressures—a desire to promote local ownership on the one hand, and a need to offset institutional weaknesses in public sector management and to maintain the momentum of the process on the other. However, in the health sector, the Health Sector Support Project has been driven by the Ministry of Health, which prepared a plan for all donor contributions to the sector and adopted a very open and transparent approach with donors.

Donors and the government have commended the Bank's sectoral coordination initiatives in these two sectors, although they were critical of the Bank's dominant role during the preparation of ASIP. Missions from headquarters—with their size, frequency, and sense of urgency—have not helped to correct the perception of heavy-handed and excessive Bank intervention. Many officials and donor representatives consider that more discreet and continuous interventions by a strengthened Resident Mission would be preferable. Bank staff have been sensitive to the criticisms. A deliberate attempt has been made to play down the image of the Bank as a lead donor in agriculture—the Bank supported the assumption of responsibility by the United Nations Development Program for chairing monthly meetings on the agriculture program, and by the Institute of African Studies (University of Zambia) for monitoring sector performance.

Strengths and weaknesses of the Bank's role

Comprehensiveness, technocratic approach is the main strength

The Bank's main strength is its comprehensive grasp of the economic aspects of Zambia's short-term management and long-term development problems. This grasp, plus Bank facility in dialogue, has fostered greater donor understanding of the structural reform process through which Zambia must pass to achieve stability and growth.

Another strength is the Bank's technocratic approach, which gives it the confidence of donors of various ideological persuasions and of successive donor administrations. This confi-
Box 6.1: Innovations in Aid Coordination for Sectoral Programs

The proposed Agricultural Sector Investment Program (ASIP) is among the first of a new generation of projects that attempt to improve aid effectiveness through reduced fragmentation of donor support and increased local participation in project preparation and implementation. The approach, with its associated benefits and risks, can be generalized as follows:

Main characteristics

- Sectorwide in coverage.
- Prepared largely by local stakeholders.
- Supported by all donors involved in the sector (no separate donor investments are allowed outside ASIP).
- Minimizes the use of long-term expatriate technical assistance.
- Involves harmonization of donors’ implementation procedures (such as for procurement, reporting, accounting, and auditing).

Potential benefits

- A cohesive framework and combined resources for implementation of a public agricultural sector investment program, which reflect a shared vision of sectoral priorities.
- Improvements in the effectiveness and cost-efficiency of public sector management by replacing numerous separate projects in the public expenditure program with one single operation.
- Improvements in capacity building and sustainability because local stakeholders are in the “driver’s seat.”

Potential risks

- During preparation: inadequate capacity at line ministry to manage and coordinate the task; tendency by donors and Bank to force the pace of preparation, thereby undermining ownership and sustainability; failure to fully carry all the donors on board; failure to incorporate local stakeholders at the provincial and district levels.
- During implementation: failure of donors to dovetail their projects into the program; inadequate funding of the government share of local costs; failure to decentralize decisionmaking to local levels.

Weaknesses include insufficient field presence and ESW

There is valid criticism that the consultative group initiatives (and close collaboration between the two).
Box 6.2: Sweden’s Evaluation of its Aid to Zambia

Objectives of Swedish aid initially emphasized rural and social development

Sweden’s support from the beginning emphasized rural development in the fields of agriculture and health, with the objective of improving rural living standards. Finding that education and other social infrastructure were largely neglected, Sweden supported higher education initially, but since 1980 emphasis has been redirected toward primary education in rural areas. In the 1970s Sweden also provided technical assistance and infrastructure projects, and from the 1980s provided import support. Technical assistance and infrastructure support have largely been discontinued, although Sweden continues to cofinance a macroeconomic team at the Ministry of Finance.

Achievements have been positive but not outstanding

- Production targets for the agricultural sector support were not reached. Programs in agriculture were complicated and overly ambitious and never worked well.
- Effectiveness of Swedish aid to help the poor has been hampered by the political environment, which favored urban over rural populations.
- Impact of aid on income distribution was limited. Inequality may have been reduced as a result of the sharp increase in urban poverty.

The majority of affected officials, because the meetings are generally held far away. Thought should be given to meeting in Zambia, where local donor operative and officials could participate. Locally held consultative group meetings may foster a greater sense of ownership, and bring a different perspective more favorable to sectoral coordination.

Economic and sector work has not been used to full advantage to study the aid coordination process. Zambia’s own aid coordination remains a largely neglected and misunderstood aspect of public sector management, lacking integration with planning and the budgetary process. Bank economic and sector work has not shed much light on this area. There is no comprehensive database on aid flows; Bank ESW could provide assistance in developing one. Bank ESW particularly has not concerned itself with the macroeconomic effects of aid. The Bank’s attitude seems to be that aid, largely devoted to debt rescheduling, has helped to gradually reduce debt. The aid has probably not resulted in a significant expansion of money and has not generated inflation. Studies by other evaluators have suggested that aid has been spent in part on imports, mitigating inflationary effects. However, to the extent that not all aid that flows into the country goes back out as debt service or payment for imports, the effect has been to increase reserves, and to generate pressure for the appreciation of the kwacha. One evaluation suggests that aid does cause a real appreciation,
Support to macroeconomic management has been successful.

Swedish aid, along with other aid, shares some undesirable side effects

- Long-term aid flows probably support an overvalued exchange rate, which acts as a disincentive to necessary resource shifts toward the export sector.
- Aid may undermine the domestic tax effort of the government.
- Aid may lower the domestic savings rate.

Lessons

- It is best to concentrate on simple but basic components of social and economic infrastructure, education, and health. This should be done within sectoral ministry programs and not in the form of integrated rural development programs.
- Donor assistance to production should be directed to create an enabling environment for the private sector.
- To be sustainable, support to public institutions should be linked to civil service reform.
- The Swedish International Development Agency should continue to coordinate with other donors, and further concentrate its efforts to develop professional competence and provide more analytical input into fewer activities.
- Since the mid-1980s, aid has been provided under tight ex ante conditionality, but Sweden sees merit in ex post conditionality, which would allow aid as general budget support to reward a government showing commitment to good governance.

Aid coordination experience offers lessons

The following lessons emerge from the Bank’s experience in aid coordination:

- Consultative group meetings are quite useful for mobilizing resources, particularly for heavily aid-dependent countries undergoing adjustment, and for bringing the donor coalition behind adjustment.
- A greater field presence simplifies the process of sectoral aid coordination. It can foster local ownership and allow for more timely contributions to ease project implementation problems.
- The debt crisis galvanized greater aid mobilization, but donors do not wish debt management to be the dominant criterion in aid allocation decisions.
- In-country aid coordination and management by client countries is as important as coordination among donors, and the institutional framework to serve this end needs to be studied and rationalized. Good aid coordination and management
requires clear development goals and strategies, a capacity to identify and prepare projects, effective project programming and budgeting, and sound monitoring and financial management.

- Additional opportunities for Bank-donor collaboration in economic and sector work should be explored, given the favorable recent collaboration on public expenditure reviews and poverty assessments.

- Standardization of donor procedures should be explored. Recently the Agricultural Sector Investment Program and the Health Project have found that harmonizing procedures greatly facilitates the absorption of aid.

Debt management assistance has reduced the burden on Zambia

Bank assistance in the management of Zambia's external debt has to be judged on the basis of improvement in the profile of the debt, although it is impossible to measure the Bank's inputs or to identify how much of the improvement is attributable to it.

By August 1992, due to Paris Club reschedulings and debt cancellations by bilateral creditors, Zambia's debt had fallen by $1.5 billion to $6.5 billion. The 1990s have seen a net fall in the interest burden because $597 million of interest was capitalized and $76 million forgiven by donors during 1990-93. During the same period, net interest arrears were reduced by $118 million. The interest burden on new commitments will also be lower because the rate on new loans has gone down, partly as a result of the shift from private toward official creditors. Meanwhile, $853 million of principal repayments due has been rescheduled, thereby mitigating the immediate burden of debt service. The future burden of the debt will also be lightened by the shift from private to official and partly by the shift within official toward more concessional financing. The grace period of new commitments doubled during 1990-93, from over four to just under ten years, again reflecting the shift to official sources, since the grace period of private lending declined during this period.

Over time, the structure of Zambia's debt has been changed, with Bank assistance. The share of multilateral debt has increased. The Bank is holding a larger share of Zambia's debt and accounts for a larger share of debt service obligations, as a result of the rise in per capita commitments by IDA—an average of $25 a year during 1991-95, up from $12 during 1983-87. This has done much to reduce the burden of Zambian debt by replacing maturing IBRD debt, with short terms and higher interest rates, with new IDA lending on highly concessory terms. Commercial and short-term debt has been reduced as a result of debt buy-back operations that drastically lowered the exposure of the London Club creditors. In addition, Paris Club creditors have provided significant debt relief.

These improvements are not reflected in the usual debt indicators relating debt stock and debt service to GNP and to exports of goods and services (in the 1990s the denominators have fallen below the levels in 1980 and in 1989). Nevertheless, Zambia's creditworthiness has been restored and arrears have been reduced. Zambia has access to Bank and IMF resources, and some bilateral donors who had withheld support have been induced to resume.

Yet this has not occurred without criticism of the role the Bank has played. Some in Zambia still believe the debt service curtailment in 1987-89 was the appropriate approach. They suggest that paying off arrears and continuing full debt servicing postponed investment in infrastructure and diverted management attention to debt service, both delaying recovery. The implied criticism is that the Bank has failed to deal real-
istically with Zambia's debt overhang, and has misplaced priorities—focusing on restoring creditworthiness rather than recovery of economic growth, and emphasizing servicing of the debt rather than debt forgiveness.

The Bank has limited leverage in procuring forgiveness of Zambia's debt by the bilateral donors, who had already made some concessions in this direction during the early 1990s. It seems unfair to suggest that the Bank has been unrealistic about Zambia’s debt overhang. While the Bank has increased its share of Zambia’s long-term debt, the projection of Zambia’s long-term debt obligations indicates that principal and interest payments due to bilateral official creditors in 2003 will be three times the amount due to multilateral creditors. Clearly, further reduction of debt depends heavily on the bilateral donors’ willingness to forgive debt. Furthermore, the forgiveness of debt by the Bank (and other multilaterals) is not within the power of the Bank’s management and must await a consensus among its members.

Note

1. In the 1990s, the Bank's economic and sector work has been concerned about the adequacy of foreign exchange to permit overseas debt service and to finance enough imports to support economic activity. Bank calculations of the foreign exchange gap provide the goal for donor contributions. These calculations seemed particularly critical in mobilizing aid to clear arrears in 1991 so that disbursements of approved loans could continue.
7. Progress toward objectives of Bank assistance

The extent to which the objectives of the Bank's assistance strategy have been achieved may be summarized as follows:

- Economic management in Zambia has improved considerably, especially in monetary and fiscal discipline since 1992. The primary fiscal deficit was reduced from 7 percent of GDP at the beginning of the 1990s to 1 percent of GDP in 1995. But growth has not been restored and the sustainability of the reforms faces serious challenges, particularly with the upcoming 1996 elections.

- Achievements in liberalizing the economic environment for the private sector, beginning with the foreign exchange market, have been significant.

- Privatization has been slow, but accelerated in 1995.

- Achievement in diversifying production and especially exports in Zambia has not been significant.

- During the period 1984–94, poverty increased in relative and absolute terms. There has been substantial deterioration in the major social indicators during the last 15 years.

**Economic management good so far but next steps unclear**

The primary fiscal deficit was reduced from 7 percent of GDP at the beginning of the 1990s to 1 percent of GDP in 1995. At the same time, inflation was reduced from over 100 percent per year during 1988–92 to 35 percent in 1994. The government continues to use a cash budget approach, which eliminates excess domestic spending over revenues. Maize and fertilizer subsidies have been eliminated. As of the beginning of 1995, some 12,000 public sector workers had been retrenched.

There have been significant improvements in the budgeting process, partly brought about with the help of the Bank's public expenditure reviews. The government's goal is to operate a balanced overall domestic budget starting in 1995. The 1995 budget benefited from much greater dialogue than previously among the Ministry of Finance, the Planning Office, and sector ministries; it also benefited from clearer definition by the Cabinet of the parameters and procedures for budget preparation. A multi-year program approach to budgeting has been adopted for sectors for which a long-term strategy has already been articulated (for example, health and agriculture) or where such a strategy is in an advanced stage of preparation (for example, education). The first year of the public
investment program and the capital budget are now more properly linked than before. More emphasis is now placed on rehabilitation and maintenance, and the removal of infrastructure bottlenecks. Greater authority is being devolved to local governments; allocations to provinces are being based on objective indicators (for example, school enrollment, number of farm households, and the level of poverty).

Liberalization has been significant

There have been significant achievements in liberalizing the economic environment for the private sector, beginning with the foreign exchange market. Restrictions on the foreign exchange market have been progressively lifted since 1990, resulting in a diminishing role for the parallel market as shown by a shrinking premium. Few, if any, distortions remain in the foreign exchange market. The Export Retention Scheme, begun in 1984, allowed exporters to retain 50 percent of earnings for their own use within six months. In 1992, the retention rate was raised to 100 percent and exporters were permitted to trade in retentions. Foreign exchange bureaus were allowed to open in October 1992 and the Bank of Zambia began to sell directly to them in June 1993. The auction was reintroduced by the Bank of Zambia in December 1993 and is held three times per week. Banks are required to submit their quotes on the morning of the auction, specifying the amount of foreign exchange they are willing to buy or sell and the rate at which they are willing to do business. Later in the same morning notification is given of the auction’s outcome, and the transfer of funds takes place two working days later. The reintroduction of the auction was a central part of the Bank of Zambia’s attempt to develop an active interbank foreign exchange market.

Interest rates have been completely freed. The Bank of Zambia has ended all interventions in credit allocations and interest rates, recently reducing the high reserve and liquidity requirements for commercial banks. A treasury bill auction has been established, thereby eliminating the use of the bills’ rate as a means of setting interest rates generally.

All trade restrictions on imports and exports have been removed. Duty exemptions have been reduced. The highest tariff rate has been reduced from 100 percent to 40 percent, and a mechanism for relief from tariff anomalies has
been adopted. The duty drawback system was simplified and began making significant payments in 1994. The government has liberalized the licensing and simplified the procedures for small-scale enterprises. It has also started to foster a land market, initially by creating in 1994 the legal basis for a market in leasehold land, and to facilitate subdivision of land and property.

Privatization, slow initially, gained considerable momentum in 1995

Privatization was slow before 1995. The Privatization Act was passed and became operational in July 1992, and the Zambia Privatization Agency was established. A Privatization Trust Fund to receive the shares of some public enterprises prior to disposal to the private sector was set up in June 1993. The fund received the shares of Chilanga Cement Company and Rothmans Zambia Ltd. held by government; it resold these shares to the public in 1995. Of the 160 state-owned companies, all eligible for sale under the privatization program, negotiations were concluded to sell 23 companies; the sale of 13 was completed at the beginning of 1995. At the end of December 1995, the companies/units privatized had risen to 60, with negotiations completed for another 12 and heads of agreement signed for another 30. Meanwhile, the portfolio had been increased so that a further 108 companies/units were in various stages of preparation.

Privatization of mining got underway with a study of the options to privatize Zambia Consolidated Copper Mines. The study has been completed, and the government has established a Mining Privatization Unit. Discussions are underway with potential private investors. The government is trying to combine the privatization strategy with a strategy to develop the Konkola Deep-Mining Project.

In the financial sector, the government has opened the insurance industry to private companies and is drafting a new insurance law, ending the public sector monopoly of the insurance industry. It has approved the inclusion of the export/import bank (Eximbank) and the Lima Bank, state-owned suppliers of term finance, in the 1995 tranche of companies for privatization.

Diversification has a long way to go and needs to be emphasized

Achievement in diversifying production and especially exports in Zambia has not been significant. Although the share of nontraditional exports has risen from 10 percent to 15 percent of total exports during the last decade, the earnings from nontraditionals are still very small. The growth, moreover, continues to be constrained by an anti-export bias that is inherent in tariff policy and by a lack of sustained real depreciation in the exchange rate. In addition, the scenario of expanded nontraditional exports envisaged in an internal 1993 Bank report has not been realized in the last two years. This is not surprising since the constraints identified in the report could not have been relaxed in such a short time. These constraints include inadequacies in the geological information and gem-marketing system; lack of investment and experienced management in tobacco; need to irrigate cotton; capacity constraints and aging plant in the case of cement; and length of the growing period for coffee.

During the latter half of the 1980s, the share of mining in GDP declined marginally compared with its share during 1975-84. The shares of agriculture and manufacturing increased slightly during corresponding periods. However, these changes cannot be said to reflect the diversification strategy that was started in the first half of the 1980s.

On the government’s side, diversification is seen in political terms. According to a 1995 staff appraisal report, given the difficulties some regions have in growing and marketing crops such as maize, the government was encouraging
farmers to expand their crop portfolio. The idea was to improve farmers’ income base by growing high-value crops that can easily be marketed, require less external inputs, and take into account agro-ecological considerations. After mentioning some possibilities, the report goes on to say that the diversity in outputs will help reduce risk by broadening income sources. The report reflects all the concerns of the original argument for economywide diversification, but it is couched in terms of how individuals are affected. It seems that the government should be careful not to relegate diversification to an aside rather than the essential of the development strategy.

Recently, diversification has been revisited in Bank economic and sector work, but it has not been given sufficient consideration in view of its importance. A 1993 internal Bank report on the prospects for sustainable and equitable growth in Zambia specifically analyzed the prospects for nontraditional exports. The products studied comprised more than 70 percent of the then current nontraditional exports. These include gemstones, tobacco, cotton, cement, engineering products, coffee, cut flowers, and maize. The March 1995 staff appraisal report for the Agricultural Sector Investment Program, in reviewing macroeconomic performance in Zambia since 1964, admitted that Zambia continues to be vulnerable to the vicissitudes of international copper prices. The report also noted that Zambia’s large urban population and the potential market for exports in southern Africa should encourage diversification toward higher-value crops such as sunflowers, soybeans, and cotton, and livestock. The appraisal report also identified a $6 million subprogram to support efforts by the private sector to diversify into nontraditional exports. It recommended support for pilot schemes in specialized technical services in extension, management assistance, adaptive research, quality improvements, and control measures. The report also said private entrepreneurs or associations should be assisted in carrying out pre-investment studies, outreach programs, training, market research, and promotion activities. It added that financing would be provided for working capital and short-term investments.

**Poverty has increased, social conditions have deteriorated**

During the period 1984–94, poverty increased in relative and absolute terms. There has been a substantial decline in social conditions over the past 15 years. Recent surveys indicate that absolute poverty afflicts more than two-thirds of the population. According to poverty surveys carried out in 1991, about 71 percent of the population was poor (80 percent in rural areas and 45 percent in urban areas). Preliminary data from a 1993 poverty survey indicated that 90 percent of the rural population and 57 percent of the urban population were poor. As an example of the decline in social conditions, the infant mortality rate, which had declined to 80 per 1,000 live births in 1981, increased to 107 by 1994. Primary school enrollment ratios fell from 96 percent in 1985 to 84 percent in 1994.

The outlook for an early reduction in poverty is not good. The last country economic memorandum said that 40 percent of the population will still be poor under the best of circumstances. Projections of employment growth suggest that urban poverty will increase over the next five years. This suggests that other strategies, including safety nets in towns, will be needed. While liberalization in agriculture, involving the removal of price controls, is expected to improve the plight of medium- and large-scale farmers over the medium to long term, the immediate disruptions in the marketing system, which result in noncollection of crops, have harmed poor farmers.

The Bank has had some involvement in the social sectors over the past decade. The two social recovery credits included funds for small community-based projects in health, nutrition,
and education. There were five loans for education before 1982, but only one since then. The sixth and most recent (FY93) project, Education Rehabilitation, focused on the repair and expansion of primary schools, qualitative renewal, and the strengthening of professional and administrative support. The first credit for a Health Sector Support Project was made in 1995.

Structural adjustment programs in the 1980s paid little or no attention to the situation in the social sectors. This lack of attention has been corrected in the programs of the 1990s. Zambian experience shows that structural adjustment programs need to address poverty issues directly. Stabilizing the balance-of-payments and providing incentives for growth have not provided immediate relief for the poor. It has been seen as necessary to provide safety nets as a short-term palliative, but poverty is too widespread and deep-seated for safety nets, which are not a long-term solution, to adequately address it. Increasingly, the effective answer is believed to lie in improving the productivity of the poor and increasing their access to social and economic services. Thus the dilapidated state of the health and education systems constitutes a major impediment to the reduction of poverty.

The government has said that a key objective is to reverse the substantial decline in social conditions in Zambia. In fulfillment of its agreement under the Bank’s Economic and Social Adjustment Credit—to redirect budget resources to the social sectors—the government increased the social sector’s share of the budget from 28 percent in 1993 to 33 percent in 1994.

Achievements in the agriculture, industry, mining, and social sectors

Agriculture

Performance of the agricultural sector has been poor. Despite its favorable endowment of arable land and relatively inexpensive labor, the Zambian agricultural sector has not grown since the mid-1980s. The production trend of major food crops since the late 1980s has been downward. For instance, the production of maize, which had increased substantially between the early and late 1980s, has fallen back almost to its 1981 level; the officially marketed output has decreased to less than half of that recorded in the late 1980s. Total land area cultivated declined during the first half of the 1990s. Maize production has been adversely affected by marketing and price uncertainty, drought, and shortage of credit. The shift from maize has been partly offset by increased plantings of other major crops, for example, groundnuts, beans, sorghum, and millet. Some export crops—tobacco and cotton—remain below late 1980 levels; but one other, flowers, seems to be gaining ground.

Zambian agriculture seems to be in a transitional phase; it is adjusting to the dismantling of the earlier policy environment in which marketing and pricing, as well as the system of input and output subsidies, were controlled. However, restrained credit availability and cutbacks in public expenditures have impeded farmers’ efforts to mobilize resources.

Bank assistance in modifying the policy environment for agriculture has had a significant but not necessarily benign short-term impact on the sector. From the early 1980s the Bank encouraged the Kaunda government to move Zambia gradually away from a highly regimented and subsidized system that had been responsible for deeply entrenched distortions. Despite difficulties in obtaining wider support for the reforms, there was tangible movement toward a more market-oriented strategy from 1983 through 1987. Unfortunately, the attempted reform of the market for maize meal led to riots in 1987, which panicked the government into an almost complete reversal of the reform program.
In 1992 the policy dialogue was resumed. By the end of 1994, prices and trade in all farm products and inputs had been effectively decontrolled and denationalized, subsidies on fertilizer and on maize meal had been removed, and budgetary provisions for subsidizing interest on farm loans were slated to dry up completely by 1996. A number of parastatal corporations were due to be dismantled.

It is difficult to discern any kind of relation between the Bank’s commendable sector policy work and the “agricultural” projects approved during the 1980s. Even the first “time-slice, sub-sector”-wide project (ZAREP) was based on completely unrealistic assumptions, which became evident less than a year after its inception. In the 1980s there was an evident lack of continuity in the Bank, reflected in failure to follow up on certain key issues from one policy document to the next—an unfortunate consequence of personnel turnover.

Bank lending has not been very helpful to agricultural development. The Bank and IDA have made a total of 15 loans and credits to Zambia since 1968 that were officially classified as agriculture. Of these, only six were approved from 1984 to 1992. Of the total, seven projects have had only completion reports reviewed by OED, and five have been audited. Only four of these 12 projects were rated as satisfactory; only the latest of these, approved in 1981, was evaluated for sustainability, and it was classified as uncertain.

The staff appraisal report for the Research and Extension Project stated quite frankly that the Bank’s accomplishments in the agricultural sector with projects approved and initiated prior to 1984 were dismal. The program consisted of a number of projects (some of which were not yet completed by 1984, however): two were for industrial forestry, two for livestock/dairy development, two for tobacco production, one for coffee production, and two for area-based agricultural development (in eastern and southern provinces). The first livestock loan was canceled in 1973 at the government’s request because of pricing problems and poor management. The dairy project encountered initial implementation problems, was scaled down, and is now progressing well. The first and second industrial forestry projects were relatively well-executed. The two tobacco farming projects were unsuccessful in meeting their objectives because of managerial and pricing problems. The coffee project has also been hampered by cost overruns, shortages of foreign exchange and counterpart funds, and management deficiencies. The progress of the two area-based projects, which have substantial research and extension components, has been slowed by delays in recruitment of technical assistance personnel, inadequate funding, and lengthy procurement procedures.

The damage from the prolonged suspension of disbursement between 1987 and 1991 to the four ongoing agriculture projects—three of which had just started—was grave in view of the fact that the government could not make up for the interrupted cash flow from IDA. Only two survived to be resuscitated in 1992.

Lessons. By the early 1980s, Bank staff responsible for Zambia had learned certain lessons, foremost among them that:

- Enclave projects cannot succeed in a hostile policy and institutional environment.
- Balance-of-payments support loans, irrespective of the conditionalities attached, had not achieved significant improvement in the sectoral policy environment.
- Pushing a reluctant government into an accelerated reform pace can be counterproductive.
- Unrealistic appraisal reports and Board presentations with respect to the policy and
institutional risks not only jeopardize project effectiveness but even tend to impair, rather than strengthen, the lending pipeline.

Manufacturing

After decades of protectionist policies, heavy state involvement, and general economic decline, the manufacturing sector remains plagued by low productivity and low-quality output. During the ten years 1983–93, the index of manufacturing production grew annually by only 0.5 percent, that is, not faster than in the previous ten years. A majority of manufacturing subsectors showed a negative growth rate (textiles, paper and products, chemicals, nonmetallic mineral products).

The only important subsectors that showed positive growth were food, beverages, and tobacco, with 3.1 percent annual growth in 1983–93. Since 1993, production of woven cloth has declined by 50 percent, while in the garment industry production has declined even more dramatically due to the massive importation of used clothing.

The share of manufacturing in total GDP grew from 19 percent in 1983 to 28.7 percent in 1993; but this was due to a significantly slower growth of other sectors' share in GDP. The structure of manufacturing has changed little, with traditional subsectors (food, beverages, and tobacco) still contributing more than half of value-added in 1993. Manufacturing remains hampered by the lack of diversification from import substitution to export activities and lack of investment (except in some export-oriented industries).

Employment in manufacturing practically stagnated, rising only from 59,800 in 1983 to 60,300 in 1991. Its share in total employment declined from 12.7 percent to 12.2 percent in the same period. In 1991, average real earnings in manufacturing were 25 percent of the 1975 level.

Parastatals remain the largest single group of manufacturing enterprises and they still employ about half of the total manufacturing work force. Progress in privatization since 1991 did not alter this picture significantly, at least not until 1995.

Capacity utilization is low in all industries—on average just below 50 percent. The major constraints as identified in a 1994 survey of firms are lack of credit, insufficient demand, competition from imports, and high interest rates. Infrastructure has been mentioned also as a constraint. As a consequence of the long-run, downward trend of investment in the Zambian economy, infrastructure is generally in very poor condition. Currently, infrastructure is highly inadequate for manufacturing companies that aim to conduct their business according to modern standards. The most serious problems are caused by inadequate electricity, roads, telephones, and security.

Investment has been very low for most firms in recent years. Generally, only the largest firms have made investments of any significance, but even for these companies figures are low.

As a result of the ongoing process of deregulation, many constraining and distorting regulations have been lifted or not enforced. For example, since the minimum wage has not been adjusted to take full account of inflation, it is now of no practical importance. Regulation of access to foreign exchange has been more or less completely removed and foreign exchange is now basically freely available at the going market rates. The general impression is that government regulations are not severe obstacles to firms’ operations or their plans for expanding their activities.

The Bank supported the removal of many of these regulations and restrictions through a series of industrial reform credits. These include the Industrial Reorientation Project approved in
October 1985, to which the manufacturing sector responded with real growth of over 8 percent during the ensuing year through fuller use of existing capacity. Later, through two privatization and industrial reform credits, the Bank supported further liberalization and the transformation of the government's major industrial parastatal—the Zambia Industry and Mining Company—into a holding company. However, the privatization program experienced initial inertia due to the learning curve, the public's pessimism, and the statutes concerning the sale of companies. Although Zambia enacted a new Investment Act in 1993 as required under the second privatization and industrial reform credit, the proposed Investment Center took longer than expected to become an effective one-stop clearinghouse for investors. Eventually, the center implemented the new system of incentives and investors are now responding well to it.

Lessons learned through this experience include that:

- Privatization, more politically controversial than expected, must overcome inertia and a slow learning curve; but it is a major priority and Bank assistance can eventually be effective.

- Valuation of assets of enterprises to be privatized has been misunderstood by politicians, civil servants, and the general public.

- Transparency in transactions is essential to successful privatization.

- The stimulation of investment, when stabilization considerations demand curtailment of credit and public spending, is an important problem in the strategy that the Zambians and the Bank have agreed. Yet a more viable strategy does not seem available.

- Undoubtedly, new opportunities for the private sector have been created, but entrepreneurs are in short supply. A system that has seen public sector domination of the economy for so many years tended to direct bright young talent into the public service rather than into private industry. It will take a few more years to change career preferences of young Zambians.

**Mining**

Copper. In 1984, as part of a $300 million Export Rehabilitation and Diversification Program, the Bank extended a loan of $75 million to rehabilitate copper mining. The Bank helped arrange cofinancing of approximately $90 million from the African Development Bank and the European Economic Community. Prior to that, the International Finance Corporation had approved two mining sector investments, one in 1979 to expand a cobalt plant ($28 million) and the other in 1981 to expand a metallurgical plant ($29 million).

In the course of the rehabilitation program, it became clear that the operations of Zambia Consolidated Copper Mines were suffering from a shortage of skills. Negotiations for a technical assistance project were completed in 1987, but further processing was discontinued when the Bank suspended lending to Zambia. Then in 1991, a $21 million Mining Sector Technical Assistance Project was finally approved. The project was broadened to include the entire mining sector. It focused on strategic and mining policy issues (including divestiture), as well as on improving the operations of ZCCM, Maamba Collieries, and gemstone mines.

Results achieved under the rehabilitation program were significant. ZCCM made significant progress in translating the agreed policy measures under its rehabilitation program into specific actions. In particular, the company closed the Kansanshi open pit mine, Konkola No. 3 shaft, and Chambishi mine. Two concentrators, a smelter and a refinery were placed on care.
and maintenance. Mining operations were rationalized by reducing mining divisions from eight to five. In addition, ZCCM made efforts to improve the performance standards and productivity levels of its mining and metallurgical operations.

Under the project, ZCCM reorganized its managerial structure in 1986. Authority in operational matters was transferred from Lusaka to the copper-belt in a more decentralized system, while corporate planning, financial aspects, and political functions were retained in Lusaka. The planning function was strengthened with the Corporate Planning Department.

Technical studies completed in 1984/85 focused on optimizing the totality of ZCCM’s operations (that is, mining, concentration, and metal extraction), and on developing appropriate management information and procurement systems, to enhance the effectiveness of the investment and operational decision-making process. Most of the consultants' recommendations were accepted by management and implemented, albeit with varying degrees of success.

The project supported ZCCM's adoption of a new manpower policy, and its effort to address some training deficiencies. Nevertheless, the anticipated throughput of engineers and technicians was not sufficient to cover technical needs, and shortage of well-trained personnel persisted.

The rehabilitation program helped to halt ZCCM’s declining trend of copper production, which stabilized at around 470,000 tons in 1986–88, largely as a result of new equipment and spares purchased, and of improvements in management and planning. However, the level of production was far below the level anticipated (about 600,000 tons on average in 1986–88, which was very optimistic) due to continuing depletion of existing reserves with no new discoveries, middle-management weakness, and certain skills shortages. A shortage of operating funds due to lack of foreign exchange and relatively low copper prices also affected production levels.

In spite of the lower than anticipated level of production, Zambia Consolidated Copper Mines managed to reduce unit costs. Production costs in US ¢/lb. fell from 55.2 in 1983 to 52.3 in 1988. ZCCM succeeded in reducing the workforce from 57,676 in 1983 to 54,130 in 1988, that is, by about 6 percent. Output per staff-year, however, declined from 10 tons in 1983 to 8.7 tons in 1988.

Bank support for ZCCM’s rationalization of mining and metallurgical facilities and improvement of operating efficiency was fully justified, given the vital importance of the sector for the country’s economy. Without the project approved in 1984 and closed by end 1988 (on schedule), copper production would have continued to decline. The re-estimated financial rate of return was 11 percent, which is satisfactory. The recalculated economic rate of return was 18 percent, which is also satisfactory.

Although copper production was stabilized at around 470,000 tons in 1986–88, largely as a result of equipment and spares financed by the Bank loan, production declined again in 1984–93 and for the first time fell below 400,000 tons in 1994. The Bank-financed project had thus a limited “shot in the arm” impact.

The project had an appropriate technical design, but the need for new ore reserves did not receive the emphasis it deserved. Although steps have been taken to rationalize production, mining and processing operations have only been partially optimized. Despite commitments under the 1984 Bank-financed operation and the 1991 Technical Assistance Project, ore reserve and resource development have been neglected. The reorganized corporate structure, although improved, did not fully achieve the expected
increase in divisional managerial authority and accountability for production, productivity, and financial results. Among other things, this was because of the de facto centralized management of the company.

Capacity utilization and labor productivity have been declining. ZCCM’s training requirements, even at the present much lower production levels, remain unsatisfied.

Sustainability is uncertain because of ZCCM’s financial weakness. ZCCM’s financial performance has been materially affected by the declining production levels and world prices, the fiscal regime, excessive external debt, and operating inefficiencies. The mining company’s direct production costs are internationally competitive, but after including interest charges, high debt repayment, and taxes, ZCCM is in a much less competitive situation. ZCCM’s precarious financial position and illiquidity, and its pervasive organizational and operational shortcomings, imply that its sustainability is uncertain.

Privatization of Zambia Consolidated Copper Mines is a difficult but important decision. The Bank’s strategy in dealing with ZCCM has changed since 1990, moving from attempts to improve the company’s efficiency through “restructuring” to efforts to privatize the company partly or wholly. In 1992, the new government embarked on a restructuring program of ZCCM. All non-mining activities were to be privatized. However, the government felt that the issues were far more complex than for other privatizations because of the company’s size and importance and because of its impact on employment in particular areas. The 1993 Privatization and Industrial Reform Credit II therefore requested that IDA be provided with a report on privatization options for Zambia Consolidated Copper Mines. This report was submitted in June 1994; the government is still studying the options for privatizing the company.

Lessons. The first lesson is that when a firm dominates an economy, like ZCCM does, the decision to privatize becomes complex and difficult. ZCCM’s foreign exchange revenues overwhelmingly constitute the country’s main source of foreign exchange, and its tax payments are a substantial part of the government’s tax receipts. Furthermore, some of the major subsectors of the economy (power, railroads, coal, and so on) are to a large degree suppliers to ZCCM. This creates complex tradeoffs between ZCCM on the one hand and the government and the rest of the economy on the other, and makes decisionmaking difficult.

The second lesson is that it is a very slow process to get large, inbred organizations with strong corporate cultures to accept and adopt the technical assistance provided (for example, through the 1991 Bank-supported Technical Assistance Project). Recapitalization of a public enterprise without solid progress in revamping the corporate culture, as reflected in management practices and operational procedures, is unlikely to promote sound industrial mining entities.

Intrusive state intervention in the decision-making process and policy-induced distortions (for example, poor fiscal, monetary, and foreign exchange policies) not only tend to undercut the contribution of public enterprises to sectoral development and economic growth, but also have a detrimental effect on the financial viability and sustainability of the enterprises.

Coal. In March 1983, the Maamba Coal Engineering Project received an IDA credit of $4.3 million. The project was identified by a Bank energy assessment mission that visited Zambia in January-February 1982. The objective of the project was to foster substitution for expensive oil products and to provide low-cost energy to meet the growing demand from industrial and other consumers. The project had three basic components: (a) a feasibility study for the
assessment of coal demand and rehabilitation of the service complex; (b) procurement of critical spare parts needed to keep the mine complex operating during the study period; and (c) training of key technical persons.

However, production never reached the expected level of 700,000 tons. It amounted to 524,000 tons in 1988, 395,000 tons in 1989, and 330,000 tons in 1990. Owing to lower economic activities in Zambia, and major customers (such as ZCCM) having revised their coal demand to a lower level, the overall demand declined. The other important factor was the inability of the railways to provide an adequate number of rail cars and locomotives for the transport of coal.

The project was rated satisfactory since it achieved its physical objective to rehabilitate the mine, improve the quality of coal, and put in place, after extensive training and three years of expatriate technical assistance, effective Zambian managers. However, sustainability was uncertain due to declining demand and lack of transport. Moreover, operating difficulties occurred again in 1990/91. Problems included the long-term breakdown of a dragline (the main stripping tool) and the unavailability of dump trucks and spare parts. Maamba Coal was again in need of investments for major rehabilitation in order to remain operational.

Thus, despite more than ten years of efforts by the Bank (through two projects) and the African Development Bank, the coal industry’s structural problems have not been solved. Bank involvement started under the wrong assumption that the high petroleum prices of 1982 would persist and thus facilitate substitution by coal. However, oil prices declined drastically, and coal is now much more expensive. The lesson is that one should not hesitate to adjust to reality even at the cost of “reviewing” project costs and objectives. A second lesson is that mining projects should pay utmost attention to infrastructure requirements (for example, railways) and major consumers plans (copper mining).

**Gemstone mining.** The Mining Sector Technical Assistance Project provided $0.8 million to study the operational, financial, and marketing problems of gemstone mining, which had suffered under past restrictive government policies. The aim was to develop measures to strengthen artisan mining in Zambia. The project was also to provide assistance in setting up a gemstone auction system and in monitoring the functioning of a new private gemstone marketing system. IDA funds ($150,000) have been provided recently to the Export Promotion Bureau to improve miners’ technical skills and assist them in obtaining better prices for gemstones.

The gemstone mining sector is at present in a state of stagnation. There are production and marketing problems.

Four main constraints to production include (1) lack of mechanical mining equipment; (2) insufficient credit financing; (3) inadequate training of small-scale miners; and (4) insufficient geological information about the mining areas.

Resolving the inadequacies of the marketing system could be the single biggest step toward formalizing the unrecorded gemstone sales. Legal sales channels do not offer the flexibility and convenience of illegal traders who continue to capture most of the sales. Liberalizing the trade—for instance, by selling trading licenses to foreign as well as local buyers—would greatly increase the number of buyers to whom small mines could sell their products legally and thus create a competitive buying environment and a legal alternative to the current system.

**Recent Bank assistance.** For a number of years, Bank staff were concerned with the prospects for gemstones exports, with a potential for diversifying and increasing trade revenues. However, in 1991 Bank assistance was for the
first time offered through the Mining Sector Technical Assistance Project. A study of small-scale gemstone mining was undertaken to assist with better defining marketing and needed technical measures. The Export Promotion Board now aims to improve marketing practices and provide technical assistance to potential exporters. The Bank has recently provided the promotion board with $0.25 million, precisely to support such assistance to the gemstone sector. Results achieved through this program are not yet available.

The social sectors—health and education

Bank assistance for education has had a minimal impact. After making four loans for education before 1980, the Bank has since made only two. A fifth education loan in 1982 to support the expansion of junior secondary schools was a casualty of the suspended disbursements in 1987. The credit was closed in 1988, with $15 million undisbursed out of the $25 million. A 1992 project supported the rehabilitation and expansion of primary schools and the provision of learning materials.

Little progress is attributable to these projects. OED’s evaluation classified the fifth loan, along with the third and fourth, as lacking in focus and spread too thinly over a wide range of activities. The 1992 Education Rehabilitation Project has helped to build some schools, helped education services, and had a modest impact on skills training.

Health. The Bank provided assistance to the health sector in Zambia under the Lusaka Sites and Services Project in 1974, and financed nurse training under the Fourth Education Project in 1976. A 1983 Bank survey of population, health, and nutrition led to the appraisal in 1988 of a First Family Health Project, which was shelved because disbursements were suspended at the time. It was not until November 1994 that the Bank approved a Health Sector Support Project designed to address the problems of broken down health infrastructure and the shortages of trained medical personnel, drugs, and equipment in the primary health care system. The project is an ambitious sector investment program, built around a plan by the Ministry of Health and supported by many donors. Like the Agricultural Sector Investment Program, the health project emphasizes effective participation by donors and beneficiaries in project identification and design.

Conclusions and recommendations

On key strategic issues

Privatization and diversification need more attention. Liberalization, privatization, and diversification are the three prongs of the strategy for renewed growth. But only in the first has substantial progress been made. Recent progress (in 1995) in privatization is a good step forward but much more is needed. And diversification requires a substantial increase in private investment, which has not yet taken place. A careful review of the remaining obstacles to the development of the private sector should be a major element of the Bank’s strategy.

Growth requires investment in physical and social infrastructure. Achieving positive GDP growth in Zambia and checking the worsening poverty requires continued investment in physical and social infrastructure. These investments will rely on Bank, and other donors’, support. The issue is that the mix of instruments and also the total of Bank/IDA financing, given the level of support from other donors, must be consistent with the debt service requirement and the investment implications of the growth target.

Coordination and consistency of loan conditions at the macro and micro levels are essential. The coordination between the macroeconomic conditions of structural adjustment operations and
sectoral adjustment/investment projects should concern not only the content but also the pace and sequence of measures. This applies especially to measures affecting pricing policies of outputs and inputs and the removal of subsidies. All three affect the profitability of activities and hence the response of entrepreneurs to opportunities for diversification.

There is a need to develop entrepreneurs for a vibrant private sector. Another serious constraint to private sector development in Zambia is, increasingly, the entrepreneurship, managerial abilities, and skills of the Zambian people. Where are the entrepreneurs? Among the many factors that impede the development of entrepreneurship and skills in people are the following: declining life expectancy; the burden of work women are already bearing; the traditional barriers to women’s access to credit and land ownership; the low level of personal savings due to poverty; the inability of the poor to risk their income sources (the low-risk route out of the ghetto, notably the public service, does not lead to entrepreneurship); the high percentage of youths as heads of households due to early deaths of parents; and a lack of knowledge of alternative lines of production. The Bank’s country assistance strategy should address this set of issues and propose specific measures.

Institutions to serve the private sector must be developed. Institutional development in the public sector is a necessary complement to private sector development. There is a need to specify the role of the public sector, to identify the required complement of private sector service and support institutions, and to provide for meeting this requirement. Institutional development has had limited attention during the last 15 years, with the result that the usual assessment in Zambia is that most government ministries and agencies are simply not adequately staffed and supplied with the inputs to discharge their responsibilities effectively. Institutional development is a slow process and should now be given higher priority than hitherto. While privatization is proceeding, the government can retain suitable officials in the public service and retrain them for work in areas where institutional capacity is weak.

Bilateral donors must be kept engaged in Zambia’s development. Bilateral donors have been an important source of support to Zambia’s development, and they will be indispensable to Zambia’s future, especially as commercial lending sources have dried up. The issue is how to keep donors engaged now that the geopolitical reasons that justified their help in the past are no longer valid and may not be valid in the future. The answer seems to lie in fully involving donors in decisions on objectives and in the design of arrangements for the most effective use of the assistance they will provide. It may also lie partly in being mindful that the political/public relations benefits may be important to politicians in donor countries, hence the need to allow bilateral donors to play the lead donor role in as many sectors as possible.

The political implications of reform must be anticipated. The political reaction to reform should be carefully studied and anticipated when planning the Bank’s assistance strategy. The Bank’s approach has often been to focus on the removal of distortions without much thought to the fact that behind each distortion lies a group of beneficiaries who may be expected to oppose the reform. In Zambia, a wide range of subsidies (for example, on maize meal, fertilizer) benefit the poor, who comprise the majority of the population. The effect of a reform that affects such a large group of people has made the adjustment program politically difficult. In order to avoid a backlash, some compensatory benefit with less distortionary impact should be considered. This approach would also favor the sustainability of reforms and investment programs. The reforms should also be accompanied by a suitable dia-
logue to foster understanding of the rationale behind them. In the absence of these and other means of assuaging those affected, there is increasing risk of reversal, particularly in an election year.

Careful assessment of options and risks is crucial in formulating strategy. In laying out a country and Bank strategy, a "one option" approach is inadvisable. The Bank must be prepared to contemplate worst case and best case scenarios. The assumption that donors will always close the financing gap is not only dangerous, it shuts off the search for alternatives.

Take measures to mitigate the negative impact of prolonged suspensions of disbursement. Prolonged suspensions of disbursements significantly compromise the efficacy of operations. The Zambian experience shows that arrangements can be devised to reduce the negative impact and even, at times, to reduce the duration of suspension.

More effective instruments

Economic and sector work. The recommendations for ESW are the following:

- ESW should be cognizant of, and sensitive to, the political implications of its economic and social policy recommendations.

- Economic and sector work should avoid excessive optimism in its assumptions and projections. Optimistic assumptions regarding copper prices led to a delay in adjustment efforts in the 1980s. There is probably too much optimism in the 1990s regarding growth and aid flows.

- More attention needs to be paid to the design of strategies for reducing the public sector deficit within the context of adjustment operations, both as regards timing of actions and the monitoring of implementation.

- The Bank should continue its economic and sector work, even when arrears require the suspension of lending. Many ESW tasks were dropped after the suspension in May 1987, and the ESW agenda remained sparse for the next three years. This caused long lapses between updating memoranda on strategic sectors (for example, agriculture and delayed restart of operations).

- Economic and sector work for privatization needs to be strengthened. The lack of prior studies very likely has contributed to the slow pace of progress. Concerns about divestiture were not anticipated.

- Greater attention to sequencing of actions will also help to ensure the efficacy of advice and assistance (for example, liberalization and infrastructure development should go hand in hand; cost recovery solutions to the fiscal problems should be consistent with social concerns; and the public investment plan should be fitted within an agreed medium-term development plan).

Lending. The recommendations for lending are as follows:

- Adjustment lending should not be relied on to persuade an indecisive client to undertake a drawn-out reform agenda.

- In the Zambian context, project success is likely to be favored by small size, appropriate, and relatively unsophisticated technology, the inclusion of training assistance, the linking of implementation authority and responsibility, and attention to the improvement of complementary services (such as extension).
- In agriculture and the social sectors, pilot projects should be tried whenever there is uncertainty regarding the information and experience basis for project design.

- The cost of suspending disbursements is very high; few projects survive long interruptions in implementation. The Bank should examine the feasibility of shut-down strategies (such as timing, moth-balling, interim financing) that may minimize the extent to which a project is impaired by the suspension of disbursement.

- In aid coordination and debt management, the Bank should continue to provide assistance, even when a suspension in lending is unavoidable.

- The new lending instrument—sectoral investment project—holds good promise but should be monitored carefully. Further attention should be given to full participation by donors and to avoid the impression of the Bank as a dominant player.

**Resident Mission**

The Resident Mission's role should be further expanded, not only to reflect the general trend in the Bank's greater attention to results in the field, but also in the particular context of a program that relies on expanded aid coordination and sectoral investment programs. In the past, the Resident Mission has been understaffed and decisions have had to rely too heavily on missions from headquarters.

**Note**

1. This section was updated on the basis of information received from Zambia's Ministry of Finance in March 1996.
References


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Introductory note

Feedback of evaluation results within the World Bank

Each study by the Bank’s independent Operations Evaluation Department is reviewed by the Bank’s management before being discussed by a committee of the board of executive directors. Management provides a detailed response to the recommendations outlined in the study. This response is discussed by the committee and, together with a record of actions promised and taken, is recorded in a “policy ledger” accessible to all Bank staff. The Bank’s executive directors have requested that all published studies by the Operations Evaluation Department include a synopsis of the management response and the committee’s findings.
Management response

This is a timely report, the findings of which have been thoroughly reviewed as the Zambia Country Assistance Strategy (CAS) has been updated. The Bank has already learned and absorbed most of the lessons that the report draws from the experience of the 1980s. Earlier drafts of the report have helped sharpened our thinking about the Bank’s assistance strategy and, even where we continue to differ, have influenced the recommendations in the forthcoming CAS.

We agree with most of the reports assessments and recommendations. In particular, we accept the central premise that economic performance and poverty reduction must be the criteria by which Zambian policy and the Bank’s assistance strategy are judged. Falling per capita income and growing poverty are unacceptable outcomes. That said, the outlook for a quick or dramatic economic turnaround is bleak, owing to poor prospects for copper, the inevitability of periodic drought, the extent of Zambia’s debt burden, and the enormous investment requirements in infrastructure and human capital.

We do, however, differ with some of the report’s analysis and recommendations on the Bank’s assistance strategy. Our detailed response the recommendations is given in the attached matrix, but it is worth highlighting some of the most important differences.

First, there is the matter of privatization. We agree that privatization is essential for growth and diversification, and the report agrees that recent efforts and progress have been adequate. The question is whether the Bank could or should have forced the pace of privatization earlier as is suggested in the report. We think not. The government undertook radical reforms to liberalize trade, the exchange rate, and priced (including the highly sensitive maize price). All of these measures enjoyed widespread public support. But time was required to develop consensus on the need for the privatization (and, in some cases, the closure) of public enterprises and to develop the appropriate local capacity to carry out a program of privatization in a transparent way. had we pressed for faster action, we might have forced compliance, but we would not have had ownership and we might have forfeited sustainability. In the end, we accelerated the pace but only after a consensus had been largely achieved. Since 1994, we have seen a significant increase in the pace and depth of the program, including closure of Zambia Airways and SSMC (the parastatal holding company), offering half of Zambia’s parastatals for sale by end-1995, and agreement to privatize ZCCM (the copper company).
The second issue on which we differ is whether the Bank has relied too heavily on an “all-or-nothing” approach, and the related issue of whether we can do more to mitigate the effects of suspension. An all-or-nothing approach is undesirable, but the Bank’s room for maneuver is limited, in view of Zambia’s continued high balance of payments financing needs. With debt service obligations (including IMF repayments) on the order of $35 per capita (1993-94 range), a major cut in Zambia’s very high balance of payments support quickly leads to an overall unsustainable situation. High levels of balance of payments support are essential for Zambia’s viability and, given the country’s solid performance, appropriate. Without that support, Zambia would lack the resources it needs to sustain its vigorous reform program, which now includes fiscal and trade reforms, a sound poverty reduction effort and, with ZCCM, progress toward one of the largest and most difficult privatization operations being pursued in sub-Saharan Africa. Our CAS outlines a strategy for dealing with a “low-case” scenario of policy reversal with continued debt servicing to the Bank, but we would not expect that scenario to be sustainable for long. If Zambia fails to meet debt service obligations to the Bank and disbursements are suspended, we would certainly, to the extent feasible and welcomed by the Zambian authorities, continue an active program of economic and sector work, aid coordination, and other nonlending services. But we are skeptical about the feasibility or desirability of trying to sustain projects during a prolonged suspension. Projects often deteriorate or become irrelevant without continued supervision and adaptation, particularly in a deteriorating macroeconomic environment.

This leads directly to the question of what more the Bank can do to help accelerate growth, reduce poverty, and create an environment for sustainable growth. We believe that further reducing the debt burden is central. Not only will it make external financing easier, it will enhance the credibility and sustainability of the reform programs, which, in turn, is critical to securing long-term investment to generate growth and diversification. It will also increase the Bank’s flexibility because high debt servicing requirements virtually force the Bank to choose between a huge program of balance of payments support and no program at all. No government, however committed to reform, can credibly maintain a policy stance that both secures continuous massive donor support for an extended period and withstands the threat of policy reversal under a populist opposition. For all these reasons it is hard to imagine Zambia being able to generate rapid growth with its current debt overhang. The Bank has put in enormous effort over the past five years to help secure exceptional levels of support to fund debt service and to reduce Zambia’s debt stock as much as possible within the existing rules of the game. Much has been achieved, but more is needed. Zambia is an obvious candidate for a comprehensive debt reduction proposal such as those currently under discussion in the Bretton Woods institutions and elsewhere. Nothing would do more to improve the prospects for Zambian growth and poverty reduction.

Finally, we regret that the report did not evaluate recent Bank assistance in health and education. A restructuring of health services, leading to better quality care (confirmed by beneficiary monitoring), increases in coverage and greater outreach have been accomplished by leveraging IDA funds with other donor resources. There is similar experience in education, where IDA financed essential educational inputs and rehabilitation of about 10 percent of primary schools. While clearly more needs to happen, comprehensive reviews of these operations (including by independent agencies) are sufficiently positive and encouraging that the approaches, including social funds and sector investment programs, are being replicated in five other countries in Africa.

This is the second CAR produced by OED both have been stimulating documents and overall management believes they are a useful addition to OED’s product line, certainly for the country teams working on specific countries. Dissemination of the wider lessons of the reports, and, indeed, defining lessons that are generalizable has been under discussion between OED and OPR.
A key challenge will be to identify the priority generic issues arising from a sample of CARs and that have genuine applicability across countries. Not all findings are, or should be, consistent across the CARs. For instance, some potential generic issues identified in the Ghana CAR are not central to the Zambia CAR, but other additional potential generic issues appear here. With the forthcoming Argentina, Morocco, and Poland CARs, the sample would be sufficiently widened and diversified by country type to define priority generic issues. In the interim, however, the review of the Zambia CAR provides an opportunity to discuss how to go about winnowing down all potential generic issues to the central priority ones.

Note

1. Response of June 20, 1996.
This policy ledger does not attempt to list all the conclusions and recommendations of this country assistance review. Instead, it focuses on ten important points (the "bullet points" below) that deserve attention in country assistance strategies for Zambia and other countries.

Zambia's economic decline has led to a concomitant decline in human resource indicators, and a return to growth has not yet been achieved. As a result, not only has poverty increased to the point where, in 1994, some 70 percent of the population lived in households where basic needs are not met, but life expectancy decreased from 53 years in 1987 to 48 years in 1993. Therefore,

- **The overarching priority of poverty alleviation takes a special meaning in the case of Zambia.** The Bank's country assistance strategy should focus on all three aspects of poverty alleviation (i.e., labor-creating growth, improved public expenditure, and efficient safety nets) both through its lending and nonlending instruments.

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<td>Our approach to poverty alleviation, as outlined in the forthcoming country assistance strategy (CAS), is based on the 1994 poverty assessment, which was cited as a best practice participatory study in an external review. To ensure adequate funding for social sectors, adjustment operations include agreements to protect expenditures on core services to the poor. Sector investment programs (SIPs) now under way in health and agriculture (the most labor-intensive sector) will bring tangible benefits to the poor, and planned SIPs in education, roads, and urban development will provide policy frameworks that will benefit the poor disproportionately, in part by decentralizing delivery of services to local government and NGOs. Two Bank-supported social recovery programs are financing initiatives specifically targeted to the poor. Finally, de-</td>
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<td>Through the participatory poverty monitoring system, established to follow up the poverty assessment, we will track social welfare indicators, such as poverty rates, nutrition, mortality and education enrollment. We will also monitor the performance indicators outlined in the CAS, including increased spending on social sectors and improvement of coverage and quality (including targeting of women) of basic education and health services.</td>
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regulation and reforms in trade, labor, and land markets are all designed to promote more labor-absorbing growth.

Bank assistance to Zambia during the 1980s and 1990s was characterized by the predominance of adjustment lending that accounted for over 60 percent of commitments and nearly 80 percent of disbursements. Yet Zambia’s adjustment performance was poor until very recently. There are at least five lessons of Zambia’s past experience with economic reform and adjustment lending that deserve attention in the formulation of the Bank’s assistance strategy to Zambia and, possibly, to all other countries.

* Selectivity in adjustment as well as total lending. The development compact between the Bank and its client country is to be based on a partnership on which both sides respond to each other’s actions. Thus, the Bank should modulate its lending response to actions of the country. In particular, adjustment lending to countries with unclear political will for adjustment and weak ownership of the reforms can be counterproductive by allowing a postponement of the reform measures while increasing the country’s external debt. This was one of the problems in Zambia during the early and mid-1980s.

* Balance between stabilization measures and structural reform measures. The Zambia adjustment operations put more emphasis on stabilization (undoubtedly important) than on structural reforms (equally important). Most important among the needed struc-

The government’s commitment to adjustment has been strong in the 1990s. Disillusionment with the failed policies of the 1980s generated public support for reforms as evidenced by election results in 1991 and afterwards. The Bank has tried to develop and extend the new consensus through policy dialogue and involvement with civil society. The new Bank CAS specifies the proposed response to a weakening of the Zambian adjustment effort.

In the 1990s, equal emphasis has been placed on stabilization—which conventional wisdom holds to be a prerequisite for successful adjustment—and structural reforms, such as price deregulation, which could be enacted at the “stroke of a pen.” What has lagged until

As outlined in the CAS, if the Zambian program suffers significant policy reversals (these are well-defined in the CAS) or delays, Bank lending would be cut back to focus on basic human needs. Provided Zambia continues to meet its debt service obligations to the Bank, we would continue to disburse on existing investment operations and would provide nonlending services. Should Zambia fail to meet its obligations to the Bank, we would extend no new lending and would suspend disbursements under existing operations. Nonlending services would continue to the extent feasible.

Upcoming adjustment operations will emphasize reform of labor and land markets and other constraints to private investment and diversification. Macroeconomic agreements will focus on maintenance and consolidation of previous reforms. Sector invest-
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<td>recently have been reforms such as privatization, which requires not only greater institutional capacity to implement, but time to analyze defects and to develop a consensus for reform. We have taken the extra time needed to enable committed reformers in Zambia to develop a consensus for change. Recent adjustment operations have focused on privatization, and progress has accelerated markedly during 1995.</td>
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<td>The Bank will continue to substitute sector investment and project lending for adjustment lending as debt service requirements are further reduced. Assuming Naples terms for all bilateral debt, Bank adjustment lending is scheduled to decline from 40 percent of the current portfolio to 25 percent by the end of FY99. Equally important, the Bank will continue to pursue the joint Bank-Fund proposal for further debt reduction, including multilateral debt. With regard to sector investment operations, supervision of these operations will be intensified in the early years to ensure adequate monitoring and strengthening of aid coordination.</td>
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| Balance between adjustment lending and other lending instruments. The increasing share of adjustment lending in total lending, as well as the growing external indebtedness of Zambia, made the process a self-reinforcing one, requiring ever increasing amounts, and shares, of adjustment lending. As a result, other lending instruments to deal with agriculture, human resources and infrastructure were neglected until very recently. The recent use of sectoral investment lending is a welcome new direction in the strategy that may produce good results. But it is still at an early stage and needs careful monitoring and continued improvements in aid coordination. |

| Improved risk and sustainability analysis. Overoptimistic assessments of risk factors were behind the failure of past support for reforms. While government commitment to reform has been higher since 1991, risks of reversal and slowdown are still high and the fragility of the process needs to be recognized. Sustainability is a particularly important issue in this election year. Therefore, a careful analysis of risks, and ways to contain its debt service burden and reduce its debt stock through support for Paris Club debt reduction and by organizing a commercial debt buyback. We agree that the risks of reversal and a slowdown are still high, and we recognize the fragility of the process. At the same time, there is also a downside risk of underfinancing the existing program and thereby undermining economic growth and public support. This is why we have devoted much effort to aid coordination and continued bilateral support. Ultimately, risk will only be reduced by further debt reduction, as fragility is linked to the overhang. |

The CAS gives a frank assessment of the risks. The strategy is to reduce risk and improve sustainability by promoting continued reform and sufficient investment to accelerate growth, by protecting the poor, and by reducing the debt overhang. |
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<td>deal with such risks, should be included in the Bank’s assistance strategy.</td>
<td>perception that no government, however committed to reform, could continuously fulfill all the conditions for IMF, Bank and other aid partners for the indefinite future. In a democratic environment a government on a short leash of conditionality will always be susceptible to populist opposition.</td>
<td>The CAS outlines alternative scenarios and the Bank’s response. These were summarized above.</td>
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<td>* Careful definition of alternatives should be part of the strategy. A corollary of the risks and fragility of the reform process is that the Bank should explore alternative scenarios in detail as part of its strategy formulation. In the past, Bank strategy has been based too strongly on an “all-or-nothing” approach that may no longer be desirable (if it ever was) to deal with the increasing complexities of Zambia’s reform process.</td>
<td>An “all-or-nothing” approach is undesirable, but the Bank’s ability to modulate its response in a high-debt environment is highly constrained. There is a legal requirement of suspension in the event of failure to meet debt service obligations to the Bank.</td>
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<td>Three recommendations on instruments:</td>
<td>We agree that past projections have been too optimistic, even after making due allowance for drought and policy slippage. The projections in the 1995 growth prospects paper and the CAS recognize that, given the continuing poor prospects for copper and the large backlog of infrastructure maintenance and investment, the highest possible medium-term growth rate will be 4 to 5 percent per annum, and the likely outcome is below that.</td>
<td>Recognizing that we have been too optimistic in the past, projections should be realistic and even err, if anything, on the conservative side.</td>
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<td>* ESW should be realistic in the assessment of the short- and medium-term impact of the reform measures proposed. The use of excessively optimistic assumptions and projections in an attempt to make these reforms look more appealing is bound to backfire as the expected benefits do not materialize immediately. In Zambia, where economic performance was allowed to deteriorate so severely and for such a long period of time, the recovery is likely to be slow; economic projections should be clear about the sobering prospects.</td>
<td>We agree. Zambia has an active aid community that doesn’t always reach consensus, either among donors or between field and head-</td>
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<td>* The Bank’s role in aid coordination has been of high importance in recent years and should be continued and strengthened. In the 1970s and</td>
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<td>The Bank will continue its role of activist chairman of the Paris Consultative Group meetings (often more than one per year) and</td>
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<td>1980s, poor aid coordination (and different donors working at cross purposes) reduced the effectiveness of aid to Zambia. In recent years, the Bank and other donors have made major improvements in aid coordination. This is an area in which continuing high returns are to be expected and should be a priority in the Bank’s country assistance strategy.</td>
<td>will devote increasing attention to cooperation with other donors within the context of sector investment programs. Effective coordination in SIPs requires interacting in the field, which implies greater field presence through more Resident Mission staff or longer or more frequent missions. It is the government, however, who must play the lead role in coordinating all SIPs.</td>
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- **The role of the Resident Mission should be strengthened.** The Bank’s Resident Mission has recently begun to play an important part in facilitating the delivery of Bank assistance through the lending program, aid coordination and other instruments. But its role in the past has not always been sufficiently large, and the mission has long been understaffed. Particularly with the Bank’s new approach to country management, and the expected role of sector investment lending, the mission will need to be strengthened so that the process is not as critically dependent on missions from Washington to maintain momentum as it has been in the past.

A special issue:

The experience of the three suspensions of disbursements to Zambia, between 1983 and 1991, produced many lessons that may help reduce the long-term negative impacts of suspensions on ongoing projects, maintain the Bank’s familiarity with economic and political developments in the country, and facilitate the long-term Bank-country relationship. Therefore,

- **Efforts to deal with the impact of suspension of disbursements should be explicitly considered in**

We have widened the sectoral coverage of the Resident Mission by adding a local higher-level person specialized in the social sectors and a senior infrastructure person from headquarters.

We are skeptical about the feasibility or desirability of trying to sustain projects during a breakdown in macroeconomic performance.

To the extent we think a project will remain sustainable during and after a breakdown in
<table>
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<th>Major monitorable OED recommendations requiring a response</th>
<th>Management response</th>
<th>Action promised</th>
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<td>country assistance strategies when suspensions occur, and should include portfolio-related recommendations (e.g., project mothballing—to ensure financing of critical maintenance activities from other sources—continuing supervision, agreements with other donors, etc.) as well as ESW programs to maintain the Bank's familiarity with the country, among others.</td>
<td>prolonged suspension. Some of our worst performing projects have been those that we tried to revive without major restructuring after 1991. In many cases, it would have been better to have canceled the project and begun again.</td>
<td>the macro framework, we should try to keep it going. It may be possible for other donors to rearrange their assistance to fill the gap caused by Bank suspension, albeit within a reduced resource envelope. Otherwise, we should cancel and begin afresh after relations resume. We should maintain Bank familiarity with conditions through continued economic and sector work and other nonlending services, within the constraints of overall budget allocations and the needs of more active countries.</td>
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Summary of Committee on Development Effectiveness findings

The Committee on Development Effectiveness of the Bank, in discussing the study, highlighted the following: the need for sector and country strategies to reflect clearly the lessons of past experience and to avoid formulaic responses in articulating goals and objectives; the critical importance of borrower ownership and commitment to reforms; and, in that context, the need for more expert monitoring and analysis of political realities and sensitivity to the political dynamics and concerns of those likely to be affected by reform; the importance of capacity building and participation by government officials and donors in Bank economic and sector work; the need for an active Bank role in aid coordination and strengthening of the resident mission for that purpose; and finally, the need to redress the balance between finance for debt servicing and finance for investment projects.

As to the appropriate sequencing of reforms in Zambia, some members support management’s view that privatization should not have been forced earlier, while others agreed with OED that liberalization required privatization, and still others noted that reform of the public sector was key. Where disbursements are to be suspended, the committee noted that policy dialogue, economic and sector studies, and supervision should normally be continued, though in special cases, such as civil war, even those activities may have to cease.