

The Impact of Wrong Policy Advice on Zambia



A Case Study



African Forum and Network
on Debt and Development

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About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

- 1 To enhance efficient and effective management and use of resources by African governments;
- 2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
- 3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

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Preface


AFRODAD has always believed that the causes of Africa's economic doldrums and debt crisis are both internal to the countries and external. External factors include the lack of responsibility on the part of the creditors resulting in loans not achieving their intended goals or loans being pushed. The establishment of a Debt Arbitration Tribunal will usher in more responsibility on the part of the Creditors and Debtors in the transactions on loans: in terms of loan contraction processes and use of the resources for enhancing the welfare of the masses of the people in Africa and elsewhere. More importantly presenting cases that show how loans miss their intended objectives before the tribunal is expected to result in changed behaviour on the part of both the Creditors and the Debtors. Cases of hurried privatization in Africa pushed in the 1980s are worth considering.

When countries in sub-Saharan Africa became independent, the state dominated the provision of utilities. However, in the 1980s the debt crisis and the ensuing contraction of budgets prompted a re-appraisal of public sector provision. Donors began lobbying for the restructuring of public services; by the 1990s, they were demanding full-scale privatization. The hopes for privatization were so high that donor spending on infrastructure fell in the expectation that the private sector would take up the slack. For example, World Bank lending for infrastructure investment declined by 50 per cent during 1993-2002- with much of this directed towards preparing firms for privatization.

Many African governments in the name of good governance, competition and deregulation were forced to comply in exchange of balance of payment support and under the guise that it was a way to lure private investors. However, implementation of such reforms has been disastrous as no investors came on board. The lessons were that the bank did not know which lessons to teach; it also showed that countries that had ignored bank dogma (China, Vietnam, India) were thriving, while those under bank tutelage did poorly. The World Bank is on record especially in Africa for failing to tailor projects to local conditions and for sometimes attempting to accomplish more than national governments can handle-failing to help cushion poor people against price and currency liberalizations, for focusing on the fiscal sustainability of pension systems to the detriment of the poor and for promoting the privatization of essential services.

This dossier for a Fair and Transparent Arbitration mechanism demonstrates that the International Financial institutions' insistence and experimentation with privatization did irreparable damage that still affects the country's ability to stand on its economic feet today-years after such programmes were abandoned. Poor families suffered from the reduction in subsidies and disconnection from services when they were unable to pay. To many it meant a denial of basic human rights and in most cases it carries irreversible life impacts. After years of inflicting pain and suffering on the poor and helpless masses, it is now clear to the advocates of privatization, especially the World Bank and the International Monetary Fund that the state remains the dominant provider of health, education, water and electricity. The International Financial institutions are still responsible for the development set back and its consequences. They owe the affected a form of recompense. Cancelling debts and mere policy shifts are not enough. Most of the public providers of utilities in sub-Saharan Africa need substantially more financing, especially for investment in extending service provision. They are trapped in a vicious circle of deteriorated infrastructure, high system losses, high costs and low revenue.

AFRODAD and its international partners in the civil society wishes to present this and many other cases as evidence for the need and cause for a fair and transparent arbitration process. Justice delayed is justice denied.



Charles Mutasa
Executive Director
AFRODAD
March 2007

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1.0 Executive Summary

In the mid-1970s, the British Government procured a loan of US\$ 3 billion from the International Monetary Fund [IMF] and the World Bank for the development of the North Sea oilfields. The credit carried the conditionalities that have become standard for the two Bretton Woods institutions, namely, currency devaluation, raising interest rates, tight monetary control and reduced expenditure to social services to control inflation, etc, all under the close supervision of the two institutions. By January 1976, the British Government and British society was seriously debating the options of refinancing the loan ostensibly because 'Britain cannot be subjected to the IMF and World Bank conditions because it is not a third world country'.

In 1985, responding to the same standard conditions, the late President Julius Nyerere of Tanzania stated emphatically that 'whereas the World Bank and the IMF are the experts on world and global economic conditions and financing, I am the expert on the Tanzanian economy'. He added that the devaluation of the Shilling would not result in increased exports of sisal because there was no sisal whose demand was frustrated by the exchange rate. Nor would the raising of interest rates attract any more savings because the majority of Tanzanians were peasants and subsistence agriculturalists who did not have any surplus cash holdings.

The foregoing illustrations point to the reality that the conditions often imposed on borrowers by the IMF and the World Bank are unfriendly and dangerous to the economic health of the borrowers. Whereas the U K, because of the size of its economy and political stature has options and alternatives for financing its projects, a poor third world and Sub Saharan country has no such privilege. This was because the prescribed standard conditions did not take full account of the political, economic and social conditions prevailing in the subject countries. There is evidence that the conditions imposed on a borrower country are more burdensome the more dire and desperate the country becomes. Expressed differently, the weaker the borrower government, the more stringent the conditions attached to the loans and other assistance from the two institutions, Zambia being a case in point.

In 1973, Zambia with a strong economy and government negotiated a Standby Credit Facility to cover the perceived short-term shortfalls in revenues due to the drop in copper prices on the international markets. The facility carried minimal conditions. However, as the Zambian economy collapsed, the IMF and World Bank conditions hardened.

In May 1987, the Zambian government attempted to extricate itself from the stranglehold of the conditionalities of the IMF and the World Bank by the unilateral repudiation of the 1986 facility agreement by which Zambia was required, among other things, to adopt a flexible exchange rate through the auctioning of the Kwacha. The auctioning regime resulted in a sharp and severe depreciation of the Kwacha from about U\$ 1 = K 2.2 to K 21 in a short space of time. [Swedish International Development Authority - Zambia Exchange Rate Policy]. No doubt, the rapid exchange rate depreciation created serious macro-economic instability and social and economic restiveness.

Although much economic growth was achieved during the two years of 'growth from our own resources', Zambia could not sustain the isolation as it discovered that alternative sources of financing were all tied to the IMF and the World Bank. [See Roger Young and John Loxley : Zambia An Assessment of Zambia's Structural Adjustment Experience].

Progressively, the conditionalities became more severe until 1992. The conditionalities accompanying the structural adjustment programme of 1992 were the most comprehensive and most severe. The Bank and the IMF took advantage of the dire economic conditions in the country and a weak and inexperienced government to impose and implement conditionalities that are now credited with the severe poverty that has spawned unprecedented corruption, malnutrition, disease, death and illiteracy.

During the general elections of October 1991, the Movement for Multi Party Democracy [MMD] party came into government on the platform of political and economic reorientation away from the socialist agenda that the country had pursued since 1964.

The MMD party itself was a loose coalition of people and organisations whose common thread was the distaste for the regime of Dr. K Kaunda who had been president of the country since independence in 1964. The party comprised labour organisations, businesspeople, the intelligentsia, political activists and politicians that had fallen out of favour of Kaunda's government. With such a diverse and divergent base, the MMD lacked a common ideology.

The government that was formed by the MMD lacked [government] experience: Of the first Cabinet of 15 people, only 5 had government experience at senior levels, inclusive of those from the military. In an effort to change the system of government quickly from the former regime, the government also replaced senior civil servants with people without experience. Yet, virtually within a short time of coming into government, the MMD was engaged in negotiations with the IMF and the World Bank for the 1992 structural adjustment programme.

Despite the 18 years of structural adjustment under the close supervision of the IMF, World Bank and the international community, by 1991, the Zambian economy had all but collapsed, leading to civil strife and political instability. To all intents and purposes, therefore, 1992 was a year of transition, with all the attendant uncertainties and even dangers that such change entailed.

This paper focuses on two aspects of the 1992 adjustment programme, namely, privatisation and education policy.

On privatisation, the study establishes that the overt and covert intervention of the IMF, World Bank and the donors in the Zambian privatisation project is responsible for the reversal of all the economic and social gains that Zambia had achieved since independence in 1964. The strong industrial base that had been created through the public sector was destroyed. At the same time, there was massive capital flight and disinvestments leading to loss of employment and poverty. The interference by the IMF, World Bank and donors in the management of the privatisation programme together with the fast-tracking of the programme had far reaching negative consequences on the economy of the country. The Zambian government was compelled to embark upon a radical privatisation programme when the conditions for privatisation were clearly absent.

As a result of the poor privatisation, the programme failed to achieve its objectives. In addition the country lost revenues due to [deliberate] under pricing of public assets and enterprises; poverty rose sharply due to losses of employment and lack of markets for local agricultural and industrial products while the country lost technologies, acquired at high cost, due to liquidations of industrial and service sectors enterprises [e.g liquidation of Zambia Airways].

As regards policy advice on education, the paper highlights the fact that the reduction of subsidies to education at the same time that the country was attempting to meet the World Education for All targets resulted in a serious dilution in the quality of education at all levels. Attempts at increased enrolments without any infrastructural developments resulted in overcrowded classrooms without adequate teaching aids with demoralised and de-motivated staff due to low salaries when prices of goods and services, including accommodation had been deregulated. The high costs in government schools forced poor parents to seek alternative facilities in community schools. Community schools provide only basic literacy lessons.

Overcrowding, inadequate infrastructure and poor conditions of service for lecturers and staff resulting in frequent closures of the institutions also affected high tertiary education. There has also been an exodus of highly qualified staff to colleges and universities in the region. These factors also resulted in low standards of education and scholarship in Zambian colleges and universities.

The Case for Arbitration:

There is empirical evidence that poverty and poor standards of life in many third world countries are directly attributable to the interventions and policy advice from the multilateral and bilateral aid agencies.

Currently, the third and moral worlds are up in arms against the two institutions for the negative impact of the structural adjustment programmes and the conditionalities that are associated with them.

The conclusions suggested by this paper indicate clearly that countries such as Zambia have legitimate cases against the IMF and World Bank for reparations. The reparations are to compensate for the wrong wrought upon Zambia for following the adjustment programmes.

2.0 Introduction

There is an open admission that the standards of living in many countries in Sub Sahara Africa have deteriorated during the past 50 years. This position is informed by the fall in almost all of the human development indices in the sub region.

The decline in the standards of living and the quality of life has happened despite the close tutelage and direction of the economies of these countries by the Western governments and the World Bank and the IMF through stabilisation and adjustment programmes, policy advice and loans.

At Independence in 1964, Zambia was a middle-income country with a per capita gross domestic product [GDP] of US\$ 650. In the early years after independence, Zambia was self-sufficient and could finance its budgets. The combination of the collapse of copper prices on the international markets, together with increased security expenditure in support of liberation wars in Zimbabwe, Namibia, Mozambique, Angola and South Africa, affected adversely the economy of the country. The resultant deficits on both the current and capital accounts compelled the country to resort to credit financing from both bilateral and multilateral agencies.

Assistance from bilateral and multilateral sources was accompanied by conditions that were ostensibly intended to cure the structural weaknesses that were identified as responsible for the poor performance and decline of the economy over the years. The economy and social conditions in Zambia declined continuously throughout the 1970s and 1980s. For instance, in real terms, the price of copper declined by 60% between 1974 and 1984 [John Clark: For Richer for Poorer - An Oxfam Report on Western Connection with World Hunger, 1986]. Thus the Zambian economy became dependent on credit financing. As the record of conditions attached to the loans [Section 5 below] shows, Zambia graduated from modest to more stringent and onerous conditions, culminating into the adjustment programme of 1992 which carried condition that included the liberalisation of the economy and privatisation of all state-owned enterprises.

2.1 The Scope of the Study

This study was commissioned by the African Forum and Network on Debt and Development [AFRODAD], as part of its advocacy for equity in the debt and development debate. After successfully spearheading the debt cancellation and repudiation campaign, which culminated into the Jubilee 2000 Movement, AFRODAD is now desirous of seeking equity for the victims of adjustment programmes which are associated with these debts.

The IMF and the World Bank have been the principal actors in the debt debate through the instruments of conditionality. The IMF and the World Bank often imposed ill-considered conditions on poor countries as prerequisites for accessing desperately needed financial and material resources, such as for meeting food or health needs of poor small countries.

Protests and discontentment by poor countries concerning the harmful consequences of the conditionalities have hitherto gone unheeded by the two institutions. However, sustained campaigns by coalitions of civil society organisations from the poor developing countries and their counterparts from developed countries, assailed the infallibility of the two institutions which have since accepted debt cancellation and repudiation in their vocabularies.

This short study is in the stream to expose the complicity of the IMF and World Bank in the creation of poverty and the desperate human conditions in third world countries, in general, and Zambia, in particular through their structural adjustment programmes and policy advice over the years. The study looks specifically at conditionalities associated with privatisation and education reforms in Zambia.

2.2 Methodology

The study was undertaken mostly by review of the literature available on the impact on the Zambian polity and social life of the policies of privatisation and cost sharing in education.

Because of the relative currency of the records on the matters of study, together with the debate and controversy that these matters have raised in light of the serious shortcomings that have beset the Zambian economy since the implementation of the programmes, the records are still classified and, therefore, not available in the public domains. Furthermore, although civil society has persistently indicated that the structural adjustment programmes in Zambia have exacerbated the state of underdevelopment and poverty, with its offshoots of hunger, illiteracy, unemployment, disease and death, there is little documentary evidence that has been presented.

Extensive use was made of personal records and insights into the privatisation programme particularly at the commencement of the programme.

It is noteworthy, however, that many people, including those directly affected by privatisation are only able to express strong opinion about the conduct of privatisation without backing their sentiments with documentary evidence. There is almost a general consensus that overall, privatisation has had a negative impact on the Zambian economy. The Minister of Commerce Trade and Industry, speaking at the UNCTAD and Ministry of Commerce Trade and Industry Investment Review Workshop in Lusaka, on 22 August 2005, admitted that privatisation in Zambia was responsible for the de-industrialisation of the economy, among other negative consequences.

On the other hand, however, official reviews and selective statistics indicate that privatisation has had only positive impact on the economy.

2.3 Statement Of The Research Problem

The independence struggles of nearly all former third world colonial countries were based on the quest by nationalists to participate in the governance of their countries and to accelerate social and economic development in order to raise the standards of living of the people. At independence, the former colonies resorted to credit to finance the ambitious infrastructure, social and economic development projects.

At independence, Zambia had a fairly robust financial base from the proceeds of copper exports. However, the economy was undeveloped and lacked the infrastructure to sustain an independent and sovereign state. Access to most parts of the country was difficult due to poor road network coverage; there were insufficient education and health facilities throughout the country, but particularly in the rural areas. Zambia had no university. It is recorded that at independence in 1964, Zambia had only 100 university graduates, most of whom were graduates in social sciences and yet the country required the entire spectrum of professions and skills, including, engineers, scientists, lawyers, economists, administrators, educators, planners and doctors, to mention a few.

The need to expand infrastructure and social services to meet the expectations of the people was one of the major challenges of the nationalist government soon after independence. The government embarked upon an ambitious development programme. Financing was identified as one of the critical constraints to the envisaged rapid investment in both the social and economic areas. The government resorted to the standard source of investment capital, namely, borrowing from both bilateral and multilateral lenders.

The collapse of copper prices on the international markets following the energy crisis of 1973 resulted in the government becoming more dependent on borrowings to meet both recurrent and capital investment requirements.

Records indicate that borrowings from the multilateral lenders, mainly from the International Monetary Fund [IMF] and the International Bank for Reconstruction and Development [IBRD or World Bank], had conditions attached to them. Records also indicate that the conditions or conditionalities became bolder and onerous as the social and economic situation in Zambia deteriorated. Stated differently, the conditionalities became bolder as the position of the government weakened, culminating in the comprehensive set of conditionalities of 1992.

There is a general acknowledgement and realisation in the third world countries that the assistance interventions of bilateral and multilateral development agencies in the economic management and affairs of poor countries have, in fact, worsened the poverty conditions of these countries.

The conditionalities of the IMF and World Bank have been criticised mainly for promoting neo-liberalism without taking into serious account of the prevailing circumstances in the recipient countries - the so called 'one size fits them all'. Thus, the preferred IMF and World Bank package invariably carried both stabilisation and adjustment measures. The standard stabilisation measures included currency devaluation, cut-backs in government spending and removal of trade barriers. The complementary structural adjustment programmes highlighted promotion of agricultural exports, liberalisation to increase the role of the private sector, introduction of fees for basic services and downsizing of civil service jobs. [John Clark: Zambia Debt and Poverty, 1989].

Prof. Adebayo Adedeji observes that "The designers and proponents of SAPS (most of them from the Western industrialised market economies and distinguished senior executives of international financial institutions) are primarily the victims of their lack of proper understanding of the nature of underdevelopment in general and African political economy in particular. This superficial understanding has led them to the error of extrapolating, globalising and universalising the experiences of their own societies and economies. SAP is a disjointed combination of IMF and World Bank programmes, with consequential disjointed character". [Prof. Adebayo Adedeji: Africa and Orthodox Structural Adjustment Programmes: Perception, Policy and Politics].

The relationship between the poor third world countries and the lenders became increasingly defined by the power balance in which the latter enjoyed considerable leverage because, in many instances, the borrowers were in such desperate conditions that they could not negotiate better loan terms than those that were imposed on them by the lenders.

3.0 Roles Played by The IMF and The World Bank

The IMF and the World Bank, commonly called the Bretton Woods institutions were created after the Second World War at Bretton Woods, New Hampshire, USA, in 1944, by the victor nations. The Fund's function was to lay a foundation for an open and stable monetary system for the industrialised economies. On the other hand, the Bank was created to raise financing for the reconstruction of the infrastructure and industries of Europe that had been laid to waste by the war. France, the Netherlands, Denmark and Luxembourg were the first beneficiaries of the Bank's largesse. However, in 1948, Chile received the Bank's loans followed in 1949 by Mexico and Brazil.

From the 1950s, the activities of the Fund and the Bank expanded to take into their strides the economies and the development needs of more new states that were emerging from the former colonies. The economic superintendence and financing demands on the two institutions expanded continuously throughout the '60s, '70s and the '80s as more former colonies and dependencies attained independence and nationhood.

The expansion of the portfolio and coverage by the two institutions took place without a review of their ideologies and even architecture to adjust to their new global roles.

The World Bank was not the only source of development financing for the underdeveloped third world countries. The developed countries themselves through bilateral relations with the new states extended credits and grants to these countries, initially, on negotiated bilateral terms and conditions.

However, in the interest of the lender-developed countries and for the sake [perhaps] of global order, the creditor countries agreed tacitly to harmonise their appraisal systems by adopting the standards set by the Fund and the World Bank. Hence the Fund and Bank assumed the leadership of all lenders, whether multilateral or bilateral, in appraising the borrowers and issuing clean bills of health. In other words, a good relationship with the Bank and Fund was a prerequisite for relationships with all creditors particularly the rich western nations, namely, US, UK, France, Germany, Italy, Japan, Australia and Canada.

3.1 Zambia's Conditionality Experience

Zambia's stabilisation and structural adjustment records with the IMF and the World Bank date back to 1973, nine years after independence in 1964. That year, Zambia negotiated a stand-by credit of 19 million Special Drawing Rights units [SDRs] to cushion the fall in revenues from copper following the fall in copper prices and reduced production volumes. In 1976, another stand-by facility was arranged in the same amount. The facility carried three conditions: a reduction of subsidies; freezing the wages of public service employees and diversification of the economy from dependency on copper. [See Roger Young and John Loxley: *Zambia - An Assessment of Zambia's Structural Adjustment Experience: 1990*].

In 1978, a two-year stand-by credit facility for SDRs 250 million was concluded with conditions that included the devaluation of the Kwacha by 10% and raising of producer prices of agricultural products. Due to continued deterioration in the economic conditions in the country, an extended fund facility of SDRs 800 million was obtained in 1980 with more comprehensive conditionalities aimed at fiscal and monetary reforms. The 1983 facility for SDRs 211 million carried conditions which included the devaluation of the Kwacha by 20%.

During 1984 to 1986, the Government obtained SDRs 226 million, which carried conditions including the introduction of a flexible exchange rate through auctioning. The difficult conditions attached to the facility, particularly the auctioning of the Kwacha, led to general discontent and restiveness. This prompted the Government to repudiate the agreements with the IMF and World Bank. The Government unilaterally restricted debt servicing to 10 % of the due annual debt servicing amounts in 1987. It is notable that during this period of 'growth from our own resources' the Zambian economy actually recorded growth for the first time in over a decade. However, the period of estrangement from the IMF and World Bank was short-lived and Zambia was soon back in the stranglehold.

Continued deterioration of the economy and social discontent resulted in political agitation that led to a change of Government in 1992. The MMD came into government riding the popular tide of plural party democracy and a liberal open market economy.

No sooner was the MMD party in government than it entered into negotiations with the IMF and the World Bank for a new comprehensive stabilisation and structural adjustment programme [SAP].

The 1992 SAP

The MMD that came into government in 1991 negotiated a comprehensive and radical stabilisation and structural adjustment package. The MMD government was keen to change the political and economic direction of the country from the socialist orientation that had been in place since independence and was perceived to have been responsible for the collapse of the economy. The main conditionalities for the 1992 SAP can be summarised as follows:

- Privatisation of state enterprises;
- Liberalisation of the economy;
- Removal of subsidies;
- Restructuring [downsizing] of the civil service;
- Decontrol of prices and the introduction of cost sharing for social services [education, health];
- Macro-economic reforms;
- Monetary and fiscal reforms [free exchange rate and interest rates, tightening money supply to curb inflation, creation of an autonomous revenue authority, etc].

The government implemented the foregoing conditionalities completely, sometimes without regard to the prevailing social and economic conditions. President Chiluba often claimed that there was no alternative to these neo-liberal economic policies sponsored by the IMF and World Bank.

Representations to the government by several sections of the Zambian society at the adverse effects of adjustment fell on deaf ears.

3.2 The Making Of State Owned Enterprises

In 1964, Zambia inherited a typical colonial economy that was integrated with that of the colonial power, England. Zambia's position was further complicated by the fact that it was, in the immediate past, part of the central African federation - the Federation of Rhodesia and Nyasaland [1953 to 1960]. In the federal configuration, the then Southern Rhodesia, now Zimbabwe, was the dominant economic force that attracted most of the economic and social investments. Northern Rhodesia, as Zambia was then known, played the role of financier from its rich copper resources. Earlier still, Zambia had been governed as part of the British Southern African empire [1890 to 1924]. In this set up, South Africa was the dominant economic and industrial power that provided most of the skilled mining manpower and was the source of the supplies and spare parts to the copper mining industry.

Zambia's economy was dominated by copper mining. Outside the Copperbelt, there were few significant investments until the 1950s when a flourmill in Lusaka [1950], a brewery in Ndola [1951] and a cement plant at Chilanga, were established. The cement plant was established to supply Portland cement to the Kariba hydro-electricity project and to the mining industry. It is said that the colonial policy on Zambia was not to create a viable, self sufficient state, but one that was an integral component of the colonial plan.

Hence, at Independence, Zambia had a weak economic base. The little industrial infrastructure that existed in Zambia were mere 'local offices of Rhodesian branches of South African parent companies' [Prof. D. Anglin: *Zambian Disengagement from Southern Africa and Integration with East Africa, 1964 - 1972: A Transaction Analysis in Cooperation and Conflict in Southern Africa* by Timothy Shaw and Kenneth Head, Editors. 1976]. Most of such enterprises were distributors of spare parts and supplies to the copper mining industry.

The nationalist government that came to power in 1964 in Zambia wished to consolidate the political independence with economic independence: Firstly, because the nationalists had campaigned on the platform of economic and social development and the creation of employment and, secondly, because economic independence was a critical strategy for the survival of the young nation against the negative forces of colonialism and more importantly, the security threats posed by the minority and racist governments in the then Rhodesia, Mozambique, Angola, Namibia and South Africa.

The Government adopted a multi-pronged development strategy that embraced all sectors of the economy. The vehicle chosen for the state's investments in industry was the Industrial Development Corporation [INDECO].

INDECO had been created as the Northern Rhodesia Development Corporation in 1960 as a public corporation with a share capital of Sterling 2.5 million. In May 1963, the corporation was transferred to the private sector with the Anglo American Corporation [AAC], Rhodesia Selection Trust [RST], the British South African Company [BSA] and the Commonwealth Development Corporation [CDC], as principal shareholders. Just before Independence in August 1964, the corporation was transferred back to public ownership.

Under INDECO as a holding company, a number of enterprises were established. Most of such enterprises were in import substitution or processing locally produced raw materials. Due to increased security risks, following the Unilateral Declaration of Independence [UDI] by Rhodesia in 1965, President Kaunda, in the landmark Mulungushi Reforms of April, 1968 announced [partial] nationalisation of about 27 enterprises of a predetermined threshold and deemed strategic to the security of the economy. By these measures, the Zambian government took controlling, or 51% interest, in those companies. The Matero Declaration of August 1969 witnessed the partial nationalisation of the mining companies by which the government took 51 % interest in the two mining companies, namely Anglo American Corporation of South Africa [AAC] and Rhodesia Selection Trust [RST], owned by Amax Inc. of the USA. In 1981, the two mining companies were merged and renamed Zambia Consolidated Copper Mines Limited [ZCCM].

The portfolio of industrial, manufacturing and commercial enterprises under INDECO grew rapidly from both green-field investments and nationalisations. Soon the government created the Mining Industry Development Corporation [MINDECO], as a holding company for mining industry interests and the Finance Development Corporation [FINDECO] as a holding company for the public enterprises in the financial sector. MINDECO and FINDECO were abolished in favour of the Zambia Mining and Industrial Corporation [ZIMCO], which became the holding company for all public sector enterprises.

The rate of expansion of the public sector which had been rapid in the 1970, had slowed down by the middle of the 1980s, reflecting the accumulation of economic and social difficulties that Zambia had been experiencing during its life resulting mainly from the collapse of the copper prices on the international markets and the intensifications of the wars of liberation in the neighbouring countries. However, by 1989, ZIMCO had a portfolio of over 200 subsidiaries in all the sectors of the economy - mining, industry, agriculture, energy, transport, finance, trading, communications, hotels, real estate and services. That year, ZIMCO had a turnover of K 29.8 [nearly US\$ 3.0] billion and employed 136 000 people. Collectively, the public sector companies accounted for over 80 % of all economic activity. The individual subsidiaries ranged in size from the mining company with 50 000 employees to small enterprises with no more than 10 employees. ZIMCO was a Forbes 500 company

By the 1980s, although most of the companies returned net profits and even declared dividends to the Government, profitability was adversely affected by shortages of foreign currency for procurement of raw materials. In 1986, the Government started to plan for return of selected state owned enterprises to private ownership and management through privatisation.

3.3 Privatisation of State Enterprises

The concept of privatisation was enshrined in the reforms that created the state enterprises when it was declared that the government would participate in ownership, investment and management of commercial, industrial and service enterprises until there was capacity among the Zambians to take these companies over.

In 1986, under the Department of Industrial Participatory Democracy, the Government appointed an ad hoc committee to investigate the transfer of ownership and management of selected enterprises to employees and managements of the enterprises. Two of the enterprises earmarked for pilot privatisation were Choma Milling Company Limited and Zambia Pork Products Limited [Discussion with Dr. Kamoyo Mwale, Chairman of the Ad hoc Committee on Privatisation]. The committee was subsequently formalised in 1990 and renamed the ZIMCO Committee on Privatisation. In the short time of its life, the ZIMCO Committee identified nineteen small companies that would form the first batch of companies for privatisation. The rationale being that the small companies would be used to pilot the privatisation project.

The experience of handling these small enterprises would be invaluable for the subsequent privatisation of larger ones.

Soon upon coming into government in 1991, the MMD moved the privatisation unit from ZIMCO and placed it under the Ministry of Commerce, Trade and Industry, rationalising that "a pond cannot drain itself". It was generally held in the MMD government and political circles that state enterprises were inefficient, over-manned, loss making and were sustained only by government subsidies.

At the same time the Government proceeded to incorporate a statutory organisation to undertake privatisation. It was a remarkable feat that within 9 months of coming into Government, the MMD passed a comprehensive legislation, the Privatisation Act, in July 1992.

The main purpose of the Privatisation Act of July 1992 was to establish the Zambia Privatisation Agency [ZPA] as a statutory body with responsibility for planning, managing and implementing the privatisation of state owned enterprises. The Act also provided guidelines for the processes of privatisation.

The Privatisation Act, 1992, was described as good law. Amendments were subsequently made to strengthen some provisions and to clarify others that appeared ambiguous.

3.3.1 Objectives of Privatisation:

The objectives of privatisation in Zambia were stated out in a government memorandum of 7 March 1992 as being to:

- i). scale down the Government's direct initiative in economic activities and correspondingly its administrative load;
- ii). reduce government budgetary costs arising from subsidies and capital expenditure;
- iii). promote competition and improve the efficiency of enterprise operations;
- iv). encourage wide ownership of shares;
- v). minimise the involvement of government bureaucracy in enterprise operations;
- vi). stimulate both local and foreign investment;
- vii). promote new capital investment, and
- viii). derive capital income for the treasury.

3.4 [Absent] Conditions Precedent to Privatisation

Privatisation, as mechanism for transferring public enterprises to the private sector, is a political programme with economic and social ends. Therefore, a conducive socio-political environment is a prerequisite to the execution of a successful privatisation programme.

As indicated in Section 5, the state sector was the largest in the Zambian economy with enterprises in all the sectors of the economy - agriculture and agro-processing industries; manufacturing; mining and mineral processing; energy, including hydro-electricity generation and petroleum processing and retailing; rail, road and air transportation; finance, including banking, insurance and fund management; trading, including retail and wholesale; communications; hotels; real estate and service enterprises. The state sector accounted for over 80% of domestic production and the largest portion of formal employment.

The private sector was small and accounted for only 20% of domestic production of goods and services. The private sector was dominant in the retail trade, agro-processing and in fabrication, assembly and distribution of items, mainly to the mining industry. The following conditions considered to be pre-requisites for privatisation were absent in the case of Zambia:

3.4.1 Political Environment

The general elections of October 1991 ushered into government the MMD following the defeat of the United National Independence Party [UNIP] which had been in power since independence in 1964. The MMD party campaigned to change the country away from the socialist orientation that UNIP had pursued over the past 27 years. Privatisation of the public enterprises was one of the strategies for achieving this objective.

Although the political transition itself was smooth, there was uncertainty and anxiety about the new government leadership under the MMD because UNIP and the losing President Kaunda had dominated government administration for such a long time that very little was known of the capacity of the individuals that now came into government. Therefore, the overall public confidence and stability was absent at the time when the government embarked upon the privatisation programme.

3.4.2 Political Capacity and Will

The MMD government that came into power in 1991 was a populist alliance composed of factions drawn from labour movements, business, academia, political and civil society activists. The first Cabinet from this alliance had 15 Cabinet members of whom only 5 had senior government experience. Furthermore, the MMD alliance of the several factions had been put together quickly. Little time had been spent in forging an alliance with a common vision and ideology. Perhaps only the business faction of the alliance was ideologically inclined to privatisation. The intelligentsia, labour, and political activists were either dubious or more sympathetic to public ownership of enterprises. Political will and support to privatisation was, therefore, measurable.

3.4.3 Public Support

The Zambian society was largely peasant with a small middle class of executives in government and the state-owned enterprises. Furthermore, the average Zambian had grown up in an economic environment dominated by the public sector. The fact that the significant enterprises in the private sector that existed were in the hands of non-indigenous Zambians did not endear the concept of privatisation to the public. Zambians were apprehensive that foreigners and non-Zambians would again dominate and control the economy, as had been the case prior to independence.

Furthermore, the general public was sceptical about the transparency of the privatisation transactions. There was concern that enterprises would be sold corruptly to those with connections in government and business.

3.4.4 Economic Environment

The macro economic environment in Zambia became unstable following the adoption of neo-liberal market economic ideology in 1991. The Kwacha depreciated rapidly from US\$ 1 to K 50 at the end 1991 to US\$ 1 to K 750 by 1993 / 1994 while inflation rose to 200 % at the same time. Budgetary deficits rose significantly.

These were hardly the conditions suitable for an economic adjustment of the magnitude envisaged by the privatisation programme.

3.4.5 Labour

Management and employees of the state-owned enterprises were apprehensive about privatisation. There was fear that privatisation would place workers at risk of displacement and joblessness. After all, the state enterprises accounted for the majority of the workers in formal employment and it was not envisaged that the private sector would assume that role in the short term. The absence of social safety nets and retraining programmes increased the insecurity of workers and diminished their support for privatisation.

Disgruntled managements and workers could undermine the programme by their negative disposition and lack of cooperation. At worst, insecurity among managers and workers could lead to sabotage of the privatisation programme and to vandalism and asset stripping.

3.4.6 Financing

It was recognised from the onset that the Zambian middle class that was expected to take advantage of the privatisation programme had no access to financing for purchases of the enterprises. There is evidence that at the commencement of the privatisation programme, attempts were made to create a fund from which Zambians could borrow money. On account of the lack of appropriate financing, it was feared that Zambian participation in the acquisition of state enterprises would be minimal. Lack of sizeable and meaningful local participation in the privatisation programme would put the programme at high political risk in the long term.

However, an indicative assessment of the size of the fund made the donors to abandon the funding idea. Instead, it was decided that a trust fund would be created as a warehouse for shares of some companies for sale in tranches to Zambians.

3.4.7 Absorptive Capacity

The state sector was four times the size of the private sector. Yet it was this small private sector that was expected to drive the privatisation programme. There was a pervasive misconception that foreign investors with capital would purchase all the state companies on offer. Such foreign investors were interested only in the large enterprise with secure local or export markets.

The size of the private sector coupled with the lack of financing for acquisitions of companies reduced the capacity for absorption of the state owned enterprises.

3.4.8 Weak Executive Supervision

Privatisation is recognised as a radical reform programme that requires strong political management and supervision. For this reason, it is often observed that such radical projects are preferably located in the President's or Prime Minister's offices. Such positioning gives the project authority above the rivalries of Ministries and departments.

The Zambia Privatisation Agency fell under the Ministry of Commerce, Trade and Industry which was weak.

However, the Ministry of Finance assumed more control of the privatisation programme on account of the persona of the then Minister and because it was the shareholder in all the state enterprises on behalf of the government. The Ministry of Finance was also responsible for the economic reform programme and negotiated all financing and conditionality protocols with the bilateral and multilateral lenders.

3.4.9 Novelty of Programme

Since the period of nationalisation of strategic enterprises in the early 1970s, Zambia had no experience of corporate acquisitions on the scale envisaged by the privatisation programme.

Without the requisite experience both locally and even globally, the programme should have been prosecuted cautiously.

3.4.10 Funding of Privatisation Agency

The principal source of funds for privatisation tasks was the government budget. However, the budget was inadequate to fund such an ambitious programme. At the same time, government was under pressure to balance the budget as a way of containing money supply and the then runaway inflation. Later in the programme, several bilateral and multilateral agencies extended generous financial, technical and other assistance to the privatisation programme, albeit with some additional conditionalities.

3.4.11 High Levels of Corruption

With the revision or abolition of many administrative controls established by the UNIP government, together with the ascendancy to government of several business interests, the level of corruption in government administration became visible and significant.

Such high levels of corruption undermined the confidence of the public in the privatisation programme and heightened fears that those in leadership would take advantage of the programme to share and distribute public assets among themselves.

3.4.12 Preparedness of Enterprises

There was no preparation of enterprises ahead of privatisation. Furthermore, no time was allowed for adjustment of the operations of the companies from the sheltered environment under which they operated to the liberalised regime with regional and international competition. Hence, without allowing the companies to adjust their pricing and production systems, several state owned enterprises actually collapsed even before privatisation, as they could not compete against imports, mainly from South Africa. The failure of several enterprises prior to privatisation compromised the final values realised at sale.

3.4.13 Structure of Economy

The small size of the Zambian economy meant that most of the medium to large scale enterprises were monopolies. Privatisation of such enterprises would have transferred the monopoly power from the public to the private sector. The debate on the whether state monopoly was preferable to private monopoly was on-going.

3.4.14 Legal and Regulatory Frameworks

The legal and regulatory framework in existence was less rigorous because it had been developed to govern an economy dominated by the state sector. The laws and regulations were, therefore, inadequate and inappropriate to oversee a private sector-led economy

4.0 The Privatisation Process

The process of the privatisation of state owned enterprises was guided largely by the provisions of the Privatisation Act of 1992.

In the first instance, the government declared a total of 158 out of a total portfolio 172 enterprises and assets as available for privatisation. These enterprises were then arranged into a sequence plan of 7 tranches. The sequence plan merely provided an indicative guideline concerning the timing for privatisation. On account of demand or government policy or some other considerations, an enterprise could be moved forward or back on the sequence plan.

The first tranche comprised 19 small enterprises. These were meant to pilot the programme by testing feasibility in all areas including processes, technical and administrative capacities, public responses, etc. The second tranche comprised mostly milling companies. Early privatisation of the milling companies was expected to 'depoliticise' the maize industry. The remaining four tranches had enterprises drawn from all the other sectors. The timing for some large enterprises, including ZCCM, ZESCO, Zambia Railways, Indeni Petroleum, Tazama Pipeline and ZIMOIL awaited further government decision. Enterprises falling under the Ministry of Defence and four banks, namely, ZANACO, Indo Zambia Bank, Export and Import Bank, Development Bank of Zambia and the National Savings and Credit Bank [the Post Office Bank] were placed in a 'negative list' and were not scheduled for privatisation.

Once Cabinet approved the sequence plan, it remained for the Privatisation Agency, as the implementing agency, to execute the privatisation tasks. These included the preparation of documents such as the sale prospectuses, undertaking valuations, soliciting for investors in the enterprises, negotiating with qualified bidders, closing deals and preparing sales agreements.

Apart from approval of the sequence plan, Cabinet was also required to approve the sales terms as well as signature of the sales agreements by the Minister of Finance.

4.1 Role of Donor Agencies in Privatisation

The bilateral and multilateral agencies were conscious of the sensitiveness of privatisation to several classes of stakeholders: to labour, privatisation threatened employment; to business, it created opportunities for acquisition of already established businesses, assets and markets, cheaply; to bureaucrats, privatisation meant loss of employment opportunities and economic leverage whilst to nationalists, privatisation represented loss of economic independence, one of the cornerstones of the independence movement.

The donors were aware and familiar with the divergent positions that were not wholly supportive of privatisation. Any strong overt intrusion into the privatisation programme by donors and indeed outsiders could have been held with suspicion by many classes of the Zambian public and could have been fatal to the programme.

A donors' meeting convened in August 1992, several donor agencies restricted their pledges of support to privatisation to financial and technical assistance in the form of personnel with the various skills required in privatisation tasks. There is evidence, however, that donors, particularly the World Bank and the IMF started to exert pressure on the privatisation programme. There were three major areas in which the donors exerted subtle but decisive directional pressure. These were, namely:

1. dictation of the pace of privatisation,
2. intrusion into the sequencing of enterprises for privatisation, and
3. intrusion into the governance of the privatisation agency.

4.1.1 Dictation of the Pace of Privatisation:

Although the local Zambian constituency was ambivalent about privatisation, the donor community was clear about the need for the privatisation programme to proceed with all speed:

Firstly, because following the collapse of the Soviet Union in 1988 and the unification of Germany in 1989, neo-liberalism was triumphant and keen to consolidate the gains among the small third world countries that were perceived to have been under socialist influence.

Secondly, because the philosophy of state control of the economy was in conflict with the predominant open market economic models of the western countries;

Thirdly, because of the 'revolutionary' nature of the accession of the MMD to government, there was concern that the euphoria would soon wear off ['most revolutions have a short shelf-life': Anonymous] and that the privatisation programme could be reversed unless it was pushed through robustly, particularly in the beginning, and,

Fourthly, because there was expectation that some of the objectives of privatisation [see page 7] could be achieved.

The earliest evidence of the donors' agitation for rapid privatisation was the condition contained in "the letter of development" of June 1992 [perused by the author in his capacity as Director of the Zambia Privatisation Agency] in which the Minister of Finance committed to have privatised 14 companies in Tranche 1 by 30 December 1992 and to undertake a privatisation study ZCCM by early 1993.

This condition did not take into account the fact that at the date of the 'letter of development', the Privatisation Act which created the Zambia Privatisation Agency as a statutory agency to manage the privatisation programme and elaborated the privatisation policies and processes, had not been passed by Parliament [July, 1992]. Nor had the Agency or Board that had executive authority under the Privatisation Act for the supervision of the processes, been appointed [August 1992].

In order to meet the conditionality, ZPA made hasty preparations to offer the enterprises in Tranche 1. The attempt to compress the time necessary to accomplish all the privatisation procedures resulted in complaints and petitions concerning the inadequacy of time allowed to bidders to prepare their proposals, taking into account that this was the first time that the systems were being used.

The accelerated pace of privatisation that was adopted by the privatisation programme from 1995 alarmed many citizens and some sympathetic foreign agencies. However, these anxieties and concerns fell on deaf ears.

The second case in this category related to the requirement to commission a privatisation study of ZCCM by the beginning of 1993. It is noteworthy that the condition to undertake a privatisation study of ZCCM at the beginning of 1993 was in spite of the fact that, on the divestiture sequence plan approved by Cabinet, ZCCM had not yet been tranching for privatisation.

The third case related to the condition in 1994 to privatise enterprises that aggregated to 10% of total turnover of the ZIMCO group of companies, excluding the mining industry. The enterprises that were targeted to constitute this group were Chilanga Cement, Zambia Breweries, Zambia Sugar and Metal Fabricators of Zambia [ZAMEFA].

Although these four companies were in Tranche 2 on the privatisation sequence plan, the conditionality precipitated their consideration for privatisation well ahead of all the other 30 enterprises in the tranche.

The choice of these blue chip enterprises in the ZIMCO portfolio for early divestiture was also intended to communicate a clear message to ZIMCO management and the public about the irreversibility of the privatisation programme.

The linking of the pace of privatisation to budgetary and project support was one way by which donors influenced the privatisation programme, without regard to the capacity of the economy nor of the Agency for an accelerated rate of divestiture.

Dictation of the pace created a stampede effect that did not only distort the direction of the privatisation programme but also led to loss of value as many enterprises were forced into liquidation or disposed of at less than their economic values. Furthermore, to achieve accelerated divestitures in accordance with the demands of donors and a semblance of Zambian participation in privatisations, a political decision was made to offer a select number of enterprises to management and employee buy out [MBO] schemes.

4.1.2 Interference With the Sequencing of Enterprises for Privatisation

Apart from the selection of four large enterprises, namely, ZAMEFA, Zambia Breweries, Zambia Sugar and Chilanga Cement for privatisation ahead of their scheduled timings on the sequence plan, in 1995, the Government appointed the GRZ/ZCCM Privatisation Negotiating Team. The team to negotiate the privatisation of ZCCM had been appointed in response to the ultimatums contained in the conditionalities to dispose of ZCCM ostensibly to avert the continuous deterioration of the company due to poor management, corruption and lack of reinvestment over a long period of time.

ZCCM was unbundled into units and hastily privatised to meet the conditionalties of donors.

There has been no comprehensive independent evaluation of the privatisation of the mining industry. There is, however, a general feeling by many individuals that the task was poorly accomplished resulting in loss to the country.

The sale of ZCCM's Luanshya Division to Binani is a case in point. The mine was sold to Binani Industries of India in preference to First Quantum and Sterlite Industries. Of the three bidders, First Quantum was considered to have been the preferred bidder because of its considerable experience and capacity in mining, not only in Canada, but also in Zambia. No sooner was Luanshya divested than operations ran into serious financial difficulties. The new owners were unable to mobilise sufficient resources to meet outlays for working capital. Binani resorted to borrowings from the ZANACO and suppliers. Subsequent failure by Binani to liquidate its indebtedness to the local banks and suppliers had serious repercussions on the economy of Zambia not to mention that of Luanshya town where the mine constituted the main stay of the economy.

Operations of the mine were saved by Government intervention at great cost to the Zambian tax payer!

4.1.3 Interference With the Governance and Administration of the ZPA

The Agency was an autonomous statutory organisation that was created 'to plan, manage, implement and control the privatisation of state owned enterprises in Zambia'. The Agency comprised the Members of the Agency or Board of Directors and the Secretariat. The authority to exercise the envisaged autonomy was vested in the Members of the Agency which comprised 12 representative nominees drawn from the Government [3] and one each from the Zambia Federation of Employers [ZFE], Zambia Congress of Trade Unions [ZCTU], the Zambia Confederation of Chambers of Commerce and Industry [ZACCI], the Zambia Institute of Certified Accountants, the Bankers Union, the Law Association of Zambia [LAZ], Dean of the School of Business Studies at the Copperbelt University, Zambia National Union of Farmers [ZNUF] and a representative of the Churches.

The Members of the Agency were not only drawn from a broad spectrum of critical stakeholders but also represented a broad mix of skills and professions that would ensure that the programme was undertaken and accomplished with due consideration to all Zambians.

It is generally acknowledged that privatisation programmes throughout the world were political projects and as such had to be handled by people sensitive to and familiar with the national ethic and agenda. Foreign experts were expected to provide back-up consultancy and technical services in the various tasks of privatisation. Such experts were not expected to assume management and decision-making positions in the Agency as these were reserved for Zambians with capacity to make political decisions.

There is evidence, however, which suggests strongly that some donors sought to control and influence the course of the privatisation programme in Zambia by interfering with the membership of the Agency and staff at the secretariat.

In December 1993, the first Chairman of the Agency, a well-respected Zambian with a long impeccable record of public service, who insisted upon 'doing a sterling job for posterity', was enticed away from ZPA. Following the removal of the Agency's Chairman, changes were also effected at the Secretariat with the connivance of donors who made commitments to fund privatisation operations, including payment of salaries and allowances to selected members of staff of the Secretariat as well as Board members and local consultants, subject to the displacement of some management officials.

At the same time donors increased the numbers of foreign consultants. Consultants and advisors also assumed executive decision making positions in administration and operations.

The indirect control of the privatisation programme in Zambia is evidenced by the fast-tracking of the processes, despite the clear lack of capacity in the economy. To achieve the fast pace that the donors desired, local consultants who included valuers, negotiators and lawyers were given tight time targets within which to accomplish tasks, for which bonuses were payable. The donors also preferred to contract less experienced local professionals in such critical areas as legal, accounting, valuations and negotiations.

The combination of financial incentives and lack of experience was taken full advantage of by the investors, both local and foreign, resulting in, among other things, under-valuations of the enterprises and under-negotiated sales contracts not to mention numerous liquidations of enterprises.

The accelerated pace of privatisation resulted in the completion of the enterprises on the sequence plan in a record time. The Agency and the persons involved with the privatisation programme in Zambia were highly feted by the donor community for what was rated as the best privatisation programme and a model for Africa! [Fortune Magazine, July 24, 1995].

5.0 Performance Of Privatisation Programme Against Objectives

5.1 Creation of A Competitive Economic Investment Environment

The predominance of the state in all the sectors of the economy had a crowding out effect. It was forecast that the removal of government participation in the economy would attract more investors in sectors that were dominated by state enterprises. Increased competition among many players was expected to have positive effects such as improvements in the quality of goods and services and a reduction in prices.

The volatile macro-economic environment for a prolonged period of time since 1992 has deterred serious investment considerations. Inflation, bank interest rates and exchange rates remained high and unstable. Instead, there has been an upsurge in trading activities mainly by South African trading houses. Nor has there been much fresh injection of capital by those who acquired privatised enterprises. In fact the period of reform and privatisation was followed by disinvestments as some enterprises such as Dunlop, Colgate Palmolive, Chloride Zambia and Reckit & Colman relocated their production operations to take advantage of more favourable environments. The relocation of some enterprises was also rationalised by the fact that government policy at the time appeared to favour imports because taxes and bureaucratic controls made domestic production uncompetitive.

In many cases, the private sector had replaced the state monopolies but without the restraints that the public sector exercised. Furthermore, without real competition, price levels have in fact remained high.

More recently, however, there has been a noticeable upsurge in investments particularly in mining [following the unprecedented rise in copper prices from less than US\$ 1 / Kg to US\$ 8/ Kg], tourism, agriculture [following the relocation of farmers from Zimbabwe], agro-processing and telecommunications [mobile telephony].

5.2 Creation of Employment

It was envisaged that privatisation would spur private sector investment resulting in the creation of more jobs. The restructuring of enterprises following privatisation together with the liquidation and closures of many companies actually resulted in loss of employment. In the former ZCCM mines alone, employment was reported by the Mineworkers Union in 1999 to have fallen from about 50 000 to 29 000 and was projected to decline further. The loss of employment in most of the mining towns on the Copperbelt is marked by increased poverty and collapse of social services in the townships.

There was an overall decline in formal employment. This was followed by a sharp rise in informal employment including casual labour in tourism [waiters and waitresses], trading [shop assistants and till operators] and transport [minibus drivers and conductors].

5.3 Cost Sharing and Price Escalations

State owned enterprises fixed their prices in line with the general price levels, including wages and salaries in the economy. Liberalisation and cost sharing raised the cost of goods and services without regard to wages and salaries, largely determined by the remuneration levels in the public service.

Notable increases were recorded in the cost of food and services such as education and health. The high cost of food items resulted in a multiple of complex related health problems such as malnutrition, compromised immunity in people, stuntedness, mental retardation and death! At the same time, access to health care for ordinary people was reduced due to the introduction of cost sharing.

The commercialisation of water and sewerage services in urban centres resulted in reduced availability of these essential commodities. Outbreaks of diseases and such as cholera became more frequent due to restricted access to water. The high cost of electricity energy and resulted in increased utilisation of wood and charcoal for fuel and, therefore, environment degradation.

5.4 Access to Housing

Whereas state owned enterprises were obliged to provide some housing to its employees, the privatised and newly established private companies were absolved of such obligations. In fact, most of the houses of the former state enterprises were hived off and sold separately because, under the new social order, houses were reclassified as 'non performing assets'. The result has been a general decline in the quality of housing and the phenomenal growth in unplanned housing settlements, particularly in the urban areas.

5.5 Encouragement of Wider Share and Asset Ownership [Among Zambians]

The flotation of some shares in eligible enterprises resulted in the acquisition of shares by some Zambians. For instance, in Zambia Sugar, 3167 individuals are listed as shareholders as of June 2006. These individuals hold only 1.92 % of the capital. Illovo Sugar Ireland, the principal shareholder, holds 89.71 %. In Chilanga Cement, Pan African cement Limited and Financiere Larfage hold 84.05 % whilst 3 312 individuals, the Lusaka Stock Exchange and public institutions hold the balance.

It can be stated that the shareholdings by individual Zambians in the privatised enterprises has remained insignificant.

There have been no studies to indicate whether the returns realisable by small shareholders in privatised enterprises are higher than in alternative investments such as risk free bank accounts or trading.

The major enterprises and businesses are now largely in hands of resident expatriates, and foreigners. In a recent article in the Post Newspaper [May 2006], a loose survey of perceptions indicated that most Zambians felt that the economy was being run by foreigners, local Indians and 'plunderers'. Frequent outbursts of discontent by sections of the population against the dominance of such foreigners and expatriates, Indians, Lebanese and even Africans from neighbouring countries, might be an indication of future political strife and restiveness.

5.6 Introduction of New Technologies and Better Management Systems

It was expected that private investment in former state owned enterprises would introduce more modern technologies and better management practices.

Most of the former parastatal enterprises have continued to operate with the equipment and technologies that existed prior to privatisation. It could be said, however, that new modern equipment has been introduced in expansion and replacement projects. But it could be stated that the displacement of Zambian personnel in technical and management positions has resulted in the loss of critical skills and technologies. The liquidation of Zambia Airways in 1994 is responsible for loss of a significant stock of indigenous civil aviation technology.

On average, Zambian managers of parastatal enterprises held high academic and professional qualifications. There is no evidence that the managers of privatised enterprises hold better qualifications than the former chief executives under state ownership. Management standards and practices have not shown any improvement. Indeed as reported in the "Her Majesty's Treasury Guide to the UK Privatisation Programme" June 1992, the poor returns on capital employed, low productivity, high manpower costs and poor customer satisfaction lay in a complex set of reasons: ... "In many cases, the fault lay not with management and workers, but with the system that was open to political and bureaucratic involvement."

5.7 Conservation of Public Finances and Redirection from Subsidising Loss Making Enterprises

There was a general misconception that state enterprises were loss making and therefore dependent upon subsidies from treasury for both capitalisation and operations.

The ZIMCO report of 1989 indicates that, with the exception of the real estates sector, all sectors were actually returned profits. That year, ZIMCO declared dividends of K 505 million to the treasury.

The profitability and return per capital employed were lower than that obtained in the private sector. This is explained by the fact that prices of goods and services supplied by the public sector were restricted in accordance with the price control regimes in operation.

The removal of support and subsidies to state enterprises in 1992/3 is not evidenced by any redistribution of resources to the improvement of education, health and infrastructure, for instance. In fact, during the period, education, health and infrastructure services deteriorated. Salaries of civil servants could not be paid on time. In some instances, employees in local authorities did not receive their salaries for up to 36 months. The backlogs in payment arrears to sectors of the civil service still persist.

5.8 Utilisation of Proceeds of Privatisation

Section 39 of the Privatisation Act identifies ten areas to which funds realised from sale of state enterprises and assets could be applied. These included expansion of existing productive capacity, financing credit expansion, rehabilitating existing plants, supporting new capital investments, supporting alternative income generation projects, etc.

Rapid privatisation combined with lack of financing resulted in low realisation of values for the state enterprises and assets.

Official statements by the Government and the Agency indicate that the proceeds from sale of state enterprises and assets were used wholly to finance the privatisation programme only without any surpluses!

5.9 Realisation of Returns from Sale of Assets

It was expected that the sale and privatisation of the enterprises, assets and services under the ownership of the state would have yielded considerable amounts of money that could be ploughed back into the economy. To the contrary, the privatisation and sale of companies and assets is officially said to have yielded no returns.

6.0 Impact of SAPS on Education

Zambia's education history is marked by the arrival of missionaries in various parts of the country towards the end of the 19th century. The missionaries were keen to promote basic literacy primarily as a vehicle for Christian evangelisation.

Thus, various faiths and denominations carved for themselves areas of influence and dominance. The White Fathers of the Catholic Church established churches and schools firstly on Lake Tanganyika in Mbala before moving into Bembaland. The Paris Evangelical Missionary Society concentrated its activities in the Western Province of Zambia. The Southern Province received the Methodists [Namwala], Jesuits [Chikuni, Monze], Seventh Day Adventists [Rusangu, Monze], Salvation Army [Chabbobboma, Gwembe/ Chikakanta, Mazabuka] Brethren in Christ [Macha, Choma] and the Church of England, the Anglicans [Mapanza, Choma]. Christian Missions in Many Lands established stations in NorthWestern Province and in Luapula Province. Other faiths and denominations set stations in many parts of Zambia so that by the 1920s, the entire country had come under the influence of one of the main Christian faiths.

The stations that were set up by missionaries were for the purpose of Christian evangelisation but also played a critical role in the colonisation of the country. The schools set up by missionaries also had limited remits to train evangelists and clerks for colonial administration.

Until the takeover of administration by the British Colonial Government in 1924, education was provided mainly by religious organisations and missionaries. After 1924, the colonial government became active in education. It is recorded in history, however, that from an education point of view, Northern Rhodesia was the most neglected of all British colonial possessions. At Independence in 1964, Zambia inherited only a handful of education institutions and a negligible cadre of educated people. At Independence, Zambia had a total of 100-degree holders and 1 000 others that had completed secondary school.

It was on this poor education base in 1964 that Zambia commenced its crusade for economic, social and political development in accordance with the pledges of the nationalist movements and the expectations of the people.

The post-independence nationalist government embarked upon an aggressive and ambitious programme to provide universal free education and to raise the education standards in the country. Hundreds of primary and secondary schools and craft and technical colleges were established throughout the country. In 1965, barely a year after Independence, a university was established in makeshift temporary premises, indicating both the importance which the government attached to higher education and the need to plug the gap for high level manpower.

Within ten years of Independence the University of Zambia had graduated over 1 000 students compared to the 100 graduated over the 70 years of colonial administration! The growth in education at all levels was one of the most successful enterprises of the post- Independence Zambian government. Hence, Zambia rapidly moved from deficit to near surplus in high level educated manpower and was soon a net exporter of educated labour to neighbouring countries and to the world at large.

However, the economic difficulties experienced by Zambia since the mid 1970s and throughout the 1980s impacted negatively on the social sector. Although the Government's policy on free universal education had not been revised, the ability of the government to provide adequate education services, commensurate with the population increases was compromised by the poor economic conditions. Structural adjustment programmes of the 1970s and 1980s carried conditions for cost sharing. However, there was no political will to introduce fees in schools; most of the nationalist freedom fighters, who now formed government, recollected that their own education had been curtailed or frustrated by lack of ability to pay school fees. They were most uncomfortable that inability to pay school fees should again determine the future of youths.

6.1 Education for All 1990

The World Conference on Education for All was held in Thailand in March 1990. The Conference, attended by 155 governments and 150 organisations, adopted the World Declaration of Education for All and the Framework of Action to Meet Basic Learning Needs. The principal goal of the declaration was to universalise primary education for all children.

In 1991, the Zambian Government adopted the World Declaration on Education for All by confirming the vision of universal primary education. However, in 1991 also, there was a change in the political direction and orientation of Zambia following the election to government of the MMD. The MMD came into government on the platform of democratic governance and liberal open market economy. It can therefore be stated that the adoption of the Declaration of Education for All in Zambia in 1991 coincided with the implementation of a comprehensive and severe structural adjustment programme under the strict supervision of the World Bank and the IMF.

6.2 Impact Of The 1992 SAP On Education

The main features of the 1992 structural adjustment programme were the liberalisation of the economy, privatisation of state enterprises and cost sharing in the provision of services.

· Willingness to Pay and Ability to Pay:

A study by Prof. G Lungwangwa [The Impact of Cost- Sharing in Education: A Study in Financing and Delivery of Education in Zambia] indicated that although the concept of paying for education was acceptable by the majority of parents, many such parents indicated that their ability to pay was compromised by low incomes, joblessness, retrenchments, lack of retirement benefits or the general uncertainty about the future following the closure of many enterprises.

As regards, universal primary education, enrolments tottered without falling during the period 1992 to 1996. However, after 1998, enrolments rose. Despite high enrolments however, it was evident that the quality of education had declined noticeably due to low standards of tuition in the [formal] government schools, the private schools and the community schools.

· In order to meet the targets of Education for All, the formal Government schools were compelled to enrol more pupils without a commensurate expansion of the available resources and infrastructure. Some of the observable results of this policy were overcrowding whereby class sizes ranged from the ideal 35 pupils per class to up to 60. Furthermore, in order to cater for more pupils, class periods were shortened. In some instances, class periods were cut to two hours per day, particularly for lower primary school classes. Congestion and large numbers meant that the teacher/pupil ratio was high and that supervision by teachers was low.

· Due to cost sharing in the formal schools, community schools emerged as alternative education and training institutions. The number of community schools increased phenomenally from 55 in 1996 to 373 in 1999. During the same time, enrolments rose by 600% from 6 600 in 1996 to 47 276 in 1999.

It can be stated that community schools became popular during the early years of a severe adjustment programme followed by massive job losses. Community schools became popular because they were less demanding and less expensive to run. The school infrastructure could be simple basic buildings with rudimentary furnishings with volunteer teachers. The curriculum is simple with emphasis on basic literacy in an informal setting without demanding uniforms or regular class attendances. With such informality in community schools, their academic standards are low.

· Private schools catered for the middle class who wanted a differentiated education for their children due to the apparent fall in the standards of tuition in government schools. But were private schools any better?

Although a few private schools are associated with academic excellence, the majority of them are mere business enterprises that emphasise and prioritise the payment of school fees above qualifications. Often also, private schools recruit pupils and students that drop out of Government schools.

The overall outcome of the implementation of reforms in the education sector as part of the economic and social adjustments under the structural adjustment programmes is a severe decline in the quality of education in Zambia. This result has been confirmed by the Southern African Consortium for the Measurement of Education Quality which in its regional study found that only 25.8% of the Grade 6 pupils had minimum reading mastery.

6.3 Overall Impact On Education

After a very encouraging start in education following independence in 1964, standards and the quality of education in Zambia declined.

Although a spirited effort was made to sustain enrolments to meet the goals of the Education for All declaration, the severe adjustment programme that Zambia adopted from 1992 resulted in the deterioration in the quality of education. High poverty levels in Zambia during the 1990s were directly linked to the structural adjustment programmes that was responsible for massive joblessness as a result of privatisation, downsizing of public services and liquidations of enterprises; high cost of goods and services due to liberalisation and cost-sharing and lack of markets and poor prices for agricultural produce of small scale farmers due to trade liberalisation. These factors were in turn responsible for the poor quality of education. The specific factors that were directly responsible for low school standards were:

6.3.1 Poverty

Poverty is the condition that pervaded all aspects of the life of Zambians. It was estimated that by 1998, up to 85% of the population was classified as poor. Of these, over 45% of the people were acutely poor and, therefore, unable to meet the most basic of social needs including food, clothing and shelter. The acceleration of poverty in the 1990s is directly attributable to the structural adjustment programme implemented by the Government of Zambia to meet the conditionalities of the IMF, World Bank and the donors.

The liquidations and privatisation of state enterprises worsened the unemployment situation in a country without any social security. The decontrol of prices raised the prices of goods and services beyond the reach of most people while the unilateral liberalisation of trade resulted in the closure of many enterprises that could not compete with imported goods, some of which enjoyed subsidies from their countries of origin.

Rural poverty deepened due to lack of markets for the produce of peasant farmers. The private buyers of some of the crops of rural farmers took full advantage of their desperate conditions by offering extremely low prices. In several instances, products were procured from peasant farmers on promises that the value would be paid in due course. Many such debts to farmers were never liquidated!

Deep and widespread poverty inhibited the capacities of almost all economic and social activities. Poverty was more acute in rural areas. Poverty affected education in many ways. Hungry poor children were unable to attend classes due to weakness or used class time to forage for food. Poor parents were unable to meet the school needs of their children for uniforms and other requisites.

6.3.2 Preponderance of Informal and Substandard Education Institution

Cost sharing, in the midst of high poverty due to unemployment, resulted in the upsurge of community and private schools. Community schools meet the most minimal of school standards. Private schools on the other hand may boast of superior premises and may possess school aids. However, the quality of tuition offered in such schools is poor. Many such schools are regarded by the owners as investments from which they expected to get returns and profits.

6.3.3 Low Instructional Time

In a poor attempt to meet the Education for All targets with minimal additional investments, the government expanded enrolments in existing schools by increasing the number of pupils per classroom and simultaneously cut the number of hours of instructional time.

The net result of this strategy was a lowering in the quality of education.

6.3.4 Poor Staff Conditions of Service

Emoluments of teachers are poor. In addition, as part of the adjustment and reform programmes, review of conditions of service of public service workers, including teachers, was frozen for many years in order that the total emoluments budget may not exceed a predetermined percentage of the total annual budget of the government! All this was taking place in the environment of liberalisation when costs of goods and services, including accommodation, rose substantially.

The result was poor morale and exodus of teachers both from Zambia and from the teaching service to other occupations.

Poor morale and poor motivation resulted in a lowering of quality of education.

A related issue to conditions of service was the shortage of staff in schools particularly in the rural areas. The condition to restrict expenditure on emoluments entailed both the freezing of salary increments as well as the freezing of recruitment of teachers. The freeze in salary increments took place at the time of trade liberalisation and decontrol of consumer prices. The freeze in recruitments was imposed despite attrition through retirements and deaths from HIV/ Aids. The freeze also ignored the fact that colleges continued to train teachers. The result was that over 5 000 newly trained teachers could not be employed.

6.3.5 Poor School Attendance

The poverty generated by adjustments adversely affected school attendance. According to Lungwangwa economic reasons were cited as the principal reason for truancy and poor school attendance: students and pupils often missed classes for income generation and survival activities; other times, pupils missed classes for non-payment of fees or levies during that month or term or even a year!

Again the net result was poor quality of education manifested by poor pass rates.

6.3.6 Frequent Closures of Universities and Colleges

Universities and colleges in Zambia have been subject to frequent and prolonged closures. The closures have been associated with poor funding to students, lecturers or workers. Lack of funding for institutional and infrastructure development at universities and colleges during the years of adjustment has resulted in the dilapidation of infrastructure and overcrowding in lecture rooms and residences. Low morale among staff has also resulted in exodus of qualified and experienced people to neighbouring countries and to other higher paying occupations.

Poor conditions of service in colleges and universities have led to a preference for consultancies for academic staff in preference to research and teaching.

The net result of frequent closures and poor funding of institutions of higher learning has been a severe decline in the standards of tertiary education in Zambia.

7.0 Conclusion

After a promising start in 1964, Zambia has suffered reversals in its quest for development. Zambia is today is to be found at the bottom of every measure of social and economic development. It can be said that degeneration in the social conditions in Zambia has taken place despite the assistance and expert supervision of the IMF, World Bank and the international community. Accelerated decline in the conditions was recorded during the 1990s when Zambia was under a comprehensive structural adjustment programme supervised closely by the IMF and the World Bank.

During this period of severe adjustment, poverty levels rose to 85% while life expectancy dropped from 57 years to 38 years. Nearly all indices of human condition declined. The privatisation programme and the reforms in education which were sponsored and supervised by the IMF and the World Bank as part of their conditionalities for assistance to Zambia are directly responsible for the following negative consequences on Zambia and the Zambian people:

- Extreme poverty
- Disinvestment and capital flight
- Illiteracy
- Substandard quality of education
- Brain drain
- Loss of public properties including finances
- Corruption
- Loss of technologies
- Unemployment
- Destabilisation of the economies of small-scale agriculturalists and producers through the abolition of the marketing chains
- Death due to poverty, destitution, depression and poor health services.

The foregoing analyses indicate the culpability of the IMF, World Bank and the international community to the very serious growth and development reversals that Zambia has suffered particularly during the 1990s as a result of its faithful adherence to their programmes and conditionalities.

The challenge remains that of bringing the IMF and the World Bank and indeed some donors to account for their roles in the Zambian economic and social crisis. This paper is part of the collection of evidence that could be presented for arbitration and prosecution. However, it will be necessary to collect more materials and to strengthen the evidential presentations.

It is expected that the IMF, World Bank and lenders will invoke the standard disclaimer that the policies, programmes and projects that are the subject of contention were generated by the Zambian Government. However, there is circumstantial evidence that most of such policies and projects were evolved around the [understood and known] conditionalities of the lenders. Furthermore, un-collaborated stories abound about the roles of the IMF, World Bank and lenders in the preparation of the policy and project documents and protocols for the Zambian Government. It can also be argued that the IMF, World Bank and donors were aware or ought to have been aware the Zambian Government since October 1991 has had severely reduced capacities due to the desperate economic situation, lack of experience among the senior political and administrative officials and, more importantly, high levels of corruption.

The second challenge will be the creation of an international institutional framework to provide arbitration and trial. There are already in existence certain global, regional and bilateral structures that could act as hosts for such an arbitral court.

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