CHAPTER TWO

MACROECONOMIC SITUATION

Background

Macroeconomic policy targets growth in real output, the balance of payments, inflation, and the exchange rate. Within the context of a poverty reduction strategy, consideration is also given to structural, employment and incomes policies. The authorities seek to influence these variables through fiscal, monetary and external sector policies.

Macroeconomic policies impact on growth in both direct and indirect channels. The former relate to measures that promote growth such as public investments in physical and social infrastructure and the associated incomes they generate and support, whilst the latter relate to measures that promote an enabling stable macroeconomic environment characterised by low inflation, a sustainable external sector balance and hence a stable and competitive exchange rate.

Sustained growth in real output is necessary, although not sufficient, to reduce poverty. Equity alongside growth is also important. The focus of Zambia's growth strategy in the PRSP is first the expansion of output and employment in the key sectors of agriculture, manufacturing, tourism and mining. The second focus is on improving and expanding the key social services in education and health. The third focus is on investment in infrastructure to support socio-economic development

The success of our macroeconomic policies in reducing poverty will depend on how well we have defined and balanced the trade off between competing demands in the light of severe resource constraints. Some of the key choices are as follows:-

- Spending resources in critical areas, and reducing on less important areas leading to a foundation upon which further advances can be made.
- Immediate investment in institutional reforms that may reduce, in the short term, the funds available for capital and social expenditures. This includes rationalisations of the public service, security apparatus, embassies, ministries and others.
- The balance between social sector investment and investment on economic infrastructure.
- Increased budget deficit and potentially higher interest rates in the short term, against higher growth rates in the medium to long term
- A slower build up of reserves, and perhaps a higher level of external sector vulnerability, over the short to medium term that lays the foundation for strong growth and the build up of international reserves in the medium to long term.
- A significant slow down in inflation, potentially leading to a real exchange rate appreciation in the short term, that allows for the financing of private sector growth in a low inflation, low interest rate environment

Economic Developments

Zambia inherited a strong economy at independence, which was primarily based on mining. It begun to deteriorate in the mid-1970s following a sharp decline in world copper prices and was compounded by the oil shock. Zambia delayed to make policy adjustments in response to the declining economic environment. Instead foreign borrowing was increased to minimize the decline in living standards.

At independence, Zambia recognised that her economy was over dependent on mining and needed diversification especially in exports. The Diversification has not succeeded much resulting in falling export volumes. The preferred strategy was import substitution industrialisation that was import dependant. This encouraged firms to produce for the domestic market but did little to build capacity to export. With little foreign exchange being earned, the industrialisation strategy largely failed. This accelerated in the 1990s when imported competing goods were allowed in leading to increasing unemployment.

The 1980's marked the first phases of implementing Structural Adjustment Programmes (SAP) amidst a rapid stagnating economy. The implementation was however often piecemeal and failed to fundamentally alter the economic structure. Also the design and implementation of SAP then often failed to sufficiently address issues of SAP related poverty.

The pace of reform accelerated in the 1990s after a new government took over. It was characterised by the closure of public enterprises that were fiscal drains, privatisation, removal of price controls and lifting of state monopoly in agriculture input and output markets. In foreign exchange, the rate was freed and capital controls were totally removed. Import controls were abolished except for a small number of dangerous materials.

Structurally, Zambia's economy has changed little and there has been no consistent high economic growth. Over the period 1980 to 1990, her economic growth was second lowest in SADC after Mozambique. Over the period 1990 to 1999, it had the least average annual growth rate in the SADC region at one percent. This was also below the Sub-Saharan Africa rate of 2.4 percent. In particular output in agriculture and tourism, have remained well below potential. The most serious structural challenge has been in the mining sector where a massive drop in output has complemented the negative impact of occasional price declines.

Currently, copper output is only a third of the highest level ever attained. The contraction in mining, especially in 1998-2000 strongly dragged the rest of the economy down as demand collapsed. Donors withholding balance of payments support while debt servicing continued made this worse.

With the advantage of hindsight, the privatisation of the mining industry should have come earlier. Although macroeconomic measures were taken in the last decade to boost the economy, the declining mining industry's effect was to shrink the economy. With a stagnant economy and a population that had more than doubled to eight million from independence, Zambia found it difficult to maintain the social advances she had made since independence.

Now that the key painful reform measures have been undertaken Zambia has a great opportunity to expand her economy and reduce poverty. Late 2000, the country got another boost when it obtained debt relief through the HIPC initiative. The impact of the relief is to cut the country's external debt from [ ] in 2000 to [ ] in the year [ ] and this is expected to release resources for the country to help in poverty reduction. In 2000, the government concluded the privatisation of its largest asset, the Zambia Consolidated Copper Mines. This step is expected to play a key catalytic role in reviving the mining industry and assist to grow the economy and reduce poverty. This is however not enough and measures to induce growth in other sectors are necessary.

The Current Macroeconomic Framework (2000-2003)

Zambia's current macroeconomic framework covers the period 2000 to 2003 and is supported by the World Bank, other multi-lateral and bilateral cooperating partners and the IMF. Over this period Zambia is also expected to reached her HIPC completion point, allowing for the write off of US $3.8 billion in external debt - with the majority of this occurring at the completion point

The key macroeconomic indicators over the period are envisaged as follows:

- An annual average growth rate of 4.8 percent, compared to 2.5 percent between 1995 and 1999; and an average annual end year inflation rate of 17.4 percent compared to 33.5 percent over the period 1995 to 1999.
- The external current account and the overall balance of payments are expected to deteriorate to minus US $662 million and minus US $ 397, in 2003 from an estimated minus US $587 and minus US $ 337 million in 2000, respectively. A financing gap of US $188 million and US $276 million is forecast for the years 2002 and 2003, respectively and will have to be financed from external support or closed through demand management measures. Furthermore, external reserves (net of the annual IMF HIPC grants of US $150 million) are projected to rise to US $484 million or approximately 3 months of imports by 2003 from US $114 million or 1 month of imports in 2000.
- A market determined competitive exchange rate, that is consistent with low and stable inflation and a sustainable external balance in the medium to long term will be maintained.

Fiscal Policy

The focus of fiscal policy over the period 2000 - 2003 is to provide public services and infrastructure (both physical and institutional) in support of the targeted average real GDP growth target, of 4.8 percent. In this regard:

- Capital expenditures are projected to rise from 10.1 percent of GDP in 2000 to around 12 percent of GDP in 2003. However, much of this remains foreign financed representing a risk to the sustainability. In 2000 foreign financed capital expenditures accounted for 7.8 percent of GDP, whilst in 2003, this is projected to rise to 8.6 percent. The Government aims to at least double social sector outlays from roughly 4.5 percent of GDP (K450 billion in 2000), to around 6.7 percent of GDP in 2003.

- In terms of the overall budget, currently the Government projects to run a deficit over the period, but this falls from around 7.1 percent of GDP (or K708 billion) in 2000 to 4.5 percent of GDP in 2003. This is important for freeing credit to the private sector in support of economic growth.
- Raising the revenue performance is critical in putting expenditures (particularly capital) on a sustainable footing. At the minimum revenues and grants as a percentage of GDP, will have to be sustained around the level of 27 percent of GDP from 25.4 percent in 2000.

Monetary Policy

Monetary policy has two broad objectives, reducing inflation to 9.8 percent in 2003 and sustaining financial system stability. Inflation over the last 5 years has remained stubbornly high at around the 25 percent although it is falling now. High money supply growth, the depreciating Kwacha and occasional shocks like drought and rising oil prices have been the causes. Regarding monetary expansion government borrowing from BoZ has been important. In turn this is related to high external debt burden, inadequate donor budgetary support and financial problems related to the ZCCM and other ailing state enterprises. The amounts involved could not be countered by open market operations in a small financial market.

With regards to financial system supervision, the amendments to the Banking and Financial Services Act of 1996 in 2000 strengthened the ability of BoZ to respond quickly and comprehensively to any adverse developments in the financial sector. The key features of the amendments to the legislation were as follows:

- Enhancing the supervisory and regulatory powers of the Bank of Zambia in relation to banking and financial services
- Bringing existing law in line with best practice and internationally accepted standards for licensing, prudential regulation and supervision; and
- Establishing higher standards of responsibility, accountability and professional competence and integrity on the part of directors and senior officers of banks

External Sector Policies

Trade and Development

Over the past decade extensive reform of the trade regime in Zambia has included lowering trade taxes, narrowing their dispersion and collapsing the trade tax bands to three. Furthermore, most non-tariff barriers have been removed and import licences have been abolished. In October 2000 the COMESA free trade area was launched and Zambia also signed up during the year to the SADC trade protocol that provides duty free access to the SADC market for specified Zambian products.

Whilst these agreements expand the potential market for Zambian products they also increased competition for the local industry. There have been complaints about unfair competition from imports leading in some cases to companies closing or relocating to neighbouring countries. This is in addition to the rapid decontrolling of imports at a time when the local industry suffered from high domestic interest rates and had little time to acquire competitive production technology.

Debt

Zambia's external debt at US $6.5 million is unsustainable. In recognition of this and Zambia's economic reform efforts, she accessed the enhanced HIPC in December 2000, under which some US $3.8 million (in nominal terms) will be written off, the majority of this at completion point tentatively scheduled for 2003. Over the period 2001 - 2003 annual debt service payments are projected at US $160 million per annum.

Domestic debt is also a source of concern especially arrears to suppliers. The existence of firms in the food and hospitality sectors is threatened by government indebtedness.

Employment and Incomes Policies

A limited number of programs, such as training and job search programs associated with the privatisation program and poverty alleviation have been implemented in order to enhance employment and incomes. However, the thrust of employment and incomes policies has been through the implied benefits of economic growth - induced by privatisation. Many formal sector jobs were lost as described above and although some new jobs have been created, they have not been enough.

Formal sector employment (which has not exceeded 20 percent in a long time) went down from 12 percent to 11 percent between 1996 and 1999. But unemployment also came down from 18.2 percent to 9.5 percent of the labour force, implying an increase in informal sector employment. This growth, however, has not contributed to a reduction in poverty for, between 1996 and 1998 while unemployment came down, poverty increased. The reason is that most informal sector jobs did not provide adequate means of livelihood.

Cross cutting issues

There are several issues relevant to growth and poverty reduction that cut across economic and social boundaries such as the HIV/AIDS pandemic, environmental degradation, and governance. These issues are considered to cross cutting, not because they are the only ones with wide multi-sectoral linkages, but because their effective implementation requires simultaneous interventions across a wide range of sectors. The HIV/AIDS pandemic poses a particularly grave challenge to economic development because it undermines development on several critical fronts

Environmental protection and care is also important as the exploitation of our natural resources in a sustainable manner provides great potential for economic growth and poverty reduction e.g. through the development of the tourism and wood and wood products industries.

The PRSP Macroeconomic Policy Framework

The Basic PRSP Strategy

Zambia's socio-economic indicators have deteriorated after independence. To reverse this trend, carefully balanced interventions in various sectors are necessary so that over time they will interact and harmoniously bring about positive changes in different areas like the economy, the social sector, governance and others.

Although the problems are many, the interventions will be limited because neither financial nor management resources permit many interventions. The key is to focus initially on a few doable things that can have maximum impact. Also, the PRSP must be conceptually simple because this helps in facilitating easy implementation. In subsequent PRSPs, the sphere of interventions will be re-examined and modified according to prevailing circumstances.

With the understanding above, Zambia's first PRSP has identified three broad themes for interventions: the economic theme, the social theme and the critical cross cutting issues. In the economic theme, we propose a number of interventions aimed at bringing about sustained, broad and strong economic growth. In the social theme, we propose areas of intervention to improve various social conditions in the country. And, finally, we identify important cross cutting issues requiring attention in the third theme.

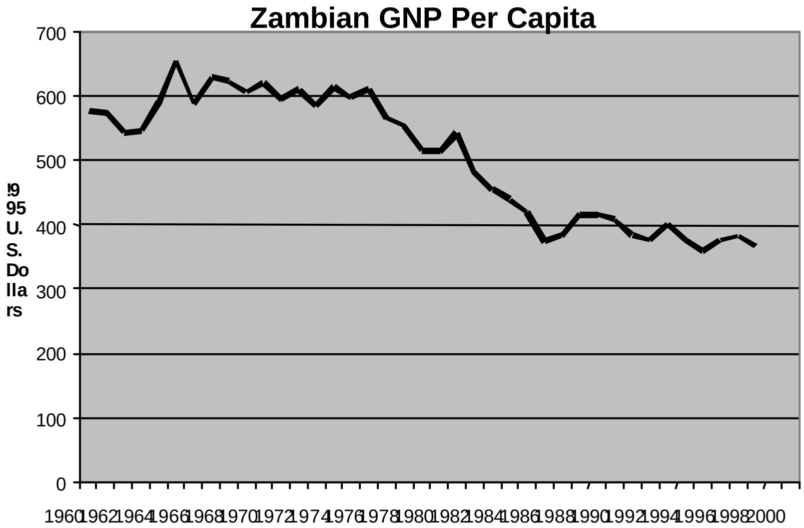
Economic Growth and Poverty Reduction

Each country must examine its circumstances and decide how best to reduce poverty. For Zambia, the country is well endowed with resources: Between 1995 and 1997, arable land per capita in Zambia at 0.57 hectares was the highest in SADC and was more than double that of Zimbabwe. It has abundant water, mineral, energy, tourist, human and other resources. Being rich in resources, she must exploit them, generate wealth and reduce poverty while ensuring that this exploitation is sustainable from aspects such as environment, however resource poor countries may adopt a different strategy.

Poverty is wide spread in Zambia and covers about 80 percent of the population. By and large therefore, suggested poverty reduction measures will primarily have a general focus of uplifting the country. This general approach is preferable because you cannot target the entire country. However, this does not preclude targeting in specific circumstances such as the core poor, orphans and other vulnerable groups.

Because Zambia is dangerously dependant on aid poverty levels could rise sharply if donors withheld or reduced it as has happened sometimes. The 2001 fiscal budget expected more than 50 percent of its resources from aid. It follows that the country needs capacity to generate its own resources and be free of the dangerous high rate of dependency.

This PRSP recognises that not all aspects of poverty can be resolved by income generation alone because deprivation goes beyond money. Reducing deprivation includes having a voice, having access to key services such as education, health, and transport. It also includes others like having security, being in a safe environment, having good governance and paying attention to the concerns of particular groups like females, the youth, the vulnerable and many others.



Macroeconomic Targets And The Macroeconomic Framework

To achieve the poverty reduction targets set for 2015, it is estimated that Zambia needs to grow by 6 percent – 8 percent on an annual basis over the intervening period. Viewed in this light, the projected growth rates of 5 percent, 5 percent, and 5.5 percent for 2001, 2002, and 2003, respectively seem too modest. However, there are risks of being more ambitious.

First, institutional and structural reforms like better pay, better accountability, and improved financial management in the public sector need to be accomplished. Related to this is the needed expense to revamp local Government so that it can deliver. Also, the government budget cannot overnight be oriented towards supporting growth and poverty reduction before an orderly disengagement out of existing commitments occurs.

Second, these reforms carry a significant financial cost and a heavy administrative burden in the short term, and their full benefits are likely to be felt only after two to three years of implementation. These efforts will initially compete with the capital and social expenditures that is needed to attack poverty. Third, many of the proposed interventions in the key growth sectors, such as tourism, mining, industry, and agriculture related to infrastructure development require time before they fully contribute to increased growth.

Key Issues to Revive Growth

Investment

Both the level and quality of investment are important for economic growth. During the 1970s and 1980s, the quality of investment was undermined by factors like over-involvement by the state in commercial operations, unfavourable economic policies and, in certain cases, misconceived projects. This failure partly explains Zambia's economic stagnation.

In turn national savings have fallen to levels that are inadequate to fund desirable investment. The real gross fixed capital formation averaged 12 percent to real GDP and portrayed a steady but marginal increase from 8 percent in 1990 to 15 percent in 1999. While this is encouraging, the level is well below the 20 percent associated with sustainable growth. If the country were to depend entirely on its savings, investment would be low, resulting in a slow rate of capital formation, income generation and employment creation.

Zambia will therefore strive hard to attract credible foreign investments so as to augment her savings. Foreign investments, when carefully selected, can also assist to open doors in the export markets and transfer skills and technology. This is crucial early on as the bulk of Zambians – save for mining industry – must learn to do more export based business.

Our experience with some poor quality foreign investment in the post-privatisation period is a reminder that it is the quality of the investor, foreign or local, that is critical. Lots of attention will therefore be paid to this aspect – evidence of the success of other investments they have made elsewhere, experience in the relevant field they wish to enter, evidence on previous ability to work harmoniously with local investors more especially the surrounding communities.

Local investment will be strongly encouraged in general but also through smart partnership with foreign investors where possible. In this respect, the key role that local pension schemes have played in capital formation in some countries in the region will be emulated. However, many such schemes in Zambia are owed money by government or they face other financial problems. The government will repay what it owes and thereafter privatise the management so as to depoliticise their operations.

The government will be on the look out for business opportunities including those arising from the presence of large scale foreign investments (such as in mining and tourism) and it will assist Zambians to tap into them. She will use tax and other incentives including favourable credit packages such as those provided by both bilateral and multilateral bodies.

Investors, particularly foreigners, are averse to bad governance, perceived or real. Zambia in this respect starts from the disadvantage of the negative perception about Africa. She will therefore strive hard to attain a good reputation, appreciating fully that without investment, this PRSP will achieve little now and in future. The good governance program for PRSP is contained in this paper.

Because of the centrality of investment, the highest authorities in the country will make it their business to ensure that reputable investors are facilitated in their intentions promptly while remaining within the law. In particular, performance standards will be established for all institutions involved in facilitating investments (Investment Center, Lusaka Stock Exchange, Ministry of Lands, Ministry of Tourism, local councils, etc.) and this will be monitored publicly. They will be accorded appropriate resources to enable them facilitate.

The Role of Different Economic Actors

Related to investors is the role of the different sizes of economic actors. They all have important roles in increasing growth and reducing poverty. Small-scale producers, where successful, have powerful impact in reducing poverty because many people benefit. The risk in focusing exclusively on them is that they may not be efficient in terms of management and application of technology resulting in delayed response at a time when fast response is needed due to high poverty and high dependence on donors. Large-scale producers can have the disadvantage of capital-intensive operations, resulting in reduced employment opportunities. But they can be efficient and have better market access especially in exports.

All scales of producers will be encouraged and we shall promote synergy between them. As an example, large-scale producers will be encouraged in agriculture, tourism, and mining and in industry and synergies will be established for small-scale and medium producers to feed off the large-scale operators. Where appropriate, the reverse will be encouraged for example in agricultural processing.

The External Sector

Worldwide experience indicates that success in economic expansion in small countries hinges on export growth. This is important for Zambia with a small population, most of which is impoverished and therefore cannot absorb all expanded domestic output. The implication is that production for exports must receive greater emphasis. Whether in agriculture, tourism, mining and manufacturing etc. trade issues must be mainstreamed. If this succeeds, the domestic market for local goods will also expand. That aside, an appropriate tariff regime and strong institutional and technical support from the Government will be adopted. Closer cooperation between the Government and the private sector will be encouraged.

The relevant sector ministries and trade promotion institutions must be given appropriate financial and technical support with greater demand for results, which will be monitored jointly with stakeholders. As export expansion is a fundamental assumption behind the planned economic growth under the PRSP it is imperative that this happens without fail. Trade promotion institutions include bodies such as the Zambia National Tourist Board (ZNTB), the Export Board of Zambia (EBZ), the Zambia Investment Centre (ZIC), the Zambia Bureau of Standards (ZABS), the Zambia Competition Commission (ZCC), and trade associations. With respect to the sector ministries, these must be supported within the context of the implementation of the public sector reform program.

Other steps to be taken are as follows:

- Re-orient the Zambian diplomatic service to playing a greater role in identifying and negotiating market preference for Zambia.
- Build greater capacity in government for expeditiously handling cases of unfair disadvantage against local businesses.
- Eliminate barriers to trade & fair competition
- Resist discretionary tariff/duty concessions
- Duty paid by local suppliers, especially exporters, does not disadvantage them in relation to foreign competitors.

External Debt

Currently the Government is developing debt strategies aimed at maximising the potential benefits available under the existing debt relief initiatives. The Government is also pursuing and supporting efforts to push forward the agenda for greater debt relief. This is particularly pertinent as developed countries are yet to fulfil their commitment to spend at least 0.7 percent of the their GDP on Official Development Assistance - which includes debt relief / cancellation. Having accessed the enhanced HIPC Initiative, it is critical that Zambia is able to reach completion point in the shortest possible time frame i.e. in 2003.

Infrastructure and Economic Growth

Strong economic growth is difficult without functional supporting infrastructure such as roads, railways, energy, water and telecommunications. In many instances a lot already exists but lacks maintenance due to economic decline. Also, it tends to be expensive to users and is inefficient.

Infrastructure will need to be rehabilitated as a matter of priority to promote growth. In turn, however, strong growth is needed to generate sustainable resources required for future infrastructure rehabilitation. Further, growth enables economies of scale in infrastructure utilisation and this leads to unit costs in areas like transport and telecommunications falling. This is important for economic competitiveness in land locked Zambia.

Zambia has had reasonable economic infrastructure by African standards and the economic failure of the past cannot entirely be blamed for lack of it. Even today, there are many areas, which are unproductive while having good infrastructure. This being the case, our concentration will be on rehabilitation of existing infrastructure and new one will to a large extent only be justifiable where it becomes a component of an overall plan to increase output in an area, say in the opening of a new mine.

Fiscal Policy and Public Sector Management

Fiscal management is an important mechanism for influencing both the level of economic growth and resource allocation by economic agents through the effect of government spending, taxation and borrowing (domestic and foreign).

Fiscal policy impacts economic growth in several ways. Firstly recurrent spending on repairs and maintenance on the existing social-economic infrastructure provides impetus to growth, income and employment creation. Secondly, capital spending in productive labour-intensive projects leads to direct employment and income generation with multiplier effects. Thirdly, debt operations impact on growth and poverty: when utilised diligently debt can help the country to grow but it can be a source of poverty, when the money does not expand the country’s ability horizon.

The key thrust of improvements in public spending and public sector management hinges on making good choices on where to spend. This has not always happened in the past due to discrepancies between authorised and actual line ministry allocations. The governance chapter of this paper makes specific commitments on how this aspect of fiscal management will be improved.

The key measures that will be taken to improve the impact of public spending on economic growth and poverty reduction are as follows:

- Merge government departments to tighten operations
- Public service pay must be improved while employee allowances that are not related to responsibility or competence must stop. Currently, the government is addressing the issue of civil service pay and structures through the following programmes: the Public Sector Reform Programme (PSRP); the Public Sector Capacity Building Project (PSCAP); the development of a medium term expenditure framework and the move to a system of activity based budgeting; and the implementation of an Integrated Financial Management and Information System (IFMIS).
- Extending activity based budgeting to more ministries as a rational mechanism for linking public expenditure with clear objective goals.
- Strengthening the legislature to hold the executive to account for discrepancies between authorised expenditures and the actual.
- The cash budget instituted to help fight inflation has in the past reduced certainty between authorised expenditure and actual releases, making planning difficult. Over the PRSP period, this uncertainty will be removed as suggested in the Public Expenditure Review.
- Capital funds will be released timely to enable earlier execution of projects
- As part of meaningful decentralisation, provinces and local government will directly receive from the central government funds to execute their programs and be made accountable to their communities. There will be capacity building to enable this.
- Resolving local Government debts on wages and salaries, and transparently reflecting the true cost of local Government operations on the Treasury.
- Guarantee social spending and capital expenditure against expenditure compression
- Expunge District Administrators from budget or else depoliticise the office

Fiscal policy also affects the economy through the revenue side of the budget, via the impact of taxation. The key issues that will be dealt with are the following:

- Continued effort to improve tax compliance so that the tax to GDP ratio reaches 20 percent.
- Discretion in the reduction of tax rates and on taxes will continue to be reduced.
- Removing unfair disadvantage to local industry through local taxation and through subsidies by foreign governments to their firms exporting to Zambia.
  number of Deputy Ministers & Permanent Secretaries
- Attack leakages in customs duty collections.
- Transform collection & utilisation system governing Levies
- Regularly raise minimum monthly taxable income to levels that are in line with the cost of living
- Broaden tax bands to ensure taxation is progressive
- Create a Poverty Action Fund for direct support to the poorest and most vulnerable in society.

Regarding public debt, there will be guard against creation of a new debt crisis after debt relief. The authority to borrow is provided by the Loans and Guarantees (Authorisation) Act 366, section 3. This provision has not been seriously taken in the past. Zambia is now bound by IMF conditionality on how much she can borrow and on what terms. Nevertheless, she will over the next three years tighten regulations governing public borrowing to bring about greater openness and greater accountability. Following this move, proposed new public debt will have to be formally justified and checks and balances instituted.

Domestically government will implement a time specific program to clear its payment arrears to domestic suppliers. These payments directly reach the low-income earners and will improve domestic liquidity, while restoring government as a credible debtor.

Monetary and Financial Policy

The key challenge in the next three years is to bring inflation down to single digit level. Inflation has been high because of inability to rein monetary growth primarily due to public borrowing from the Bank of Zambia as was explained above.

On top of this the Bank of Zambia, has faced some operational problems. Given the large magnitude of the monetary shocks and the small size of the money market, the open market operations that the Bank has relied upon for monetary control could not cope hence the increasing use of the statutory reserve ratios. Reliance on the ratio however has the undesirable effects of raising interest rates and widening the interest rates on deposits and lending.

To address these issues, the following will be undertaken:

- The government will ensure that debt relief and pledged donor support will be accessed hence reducing the need to borrow from the Bank.
- The government will ensure that state enterprise losses are plugged and that in any case Bank of Zambia's financial integrity will be preserved.
- With the two issues above under control monetary control will be established by government refraining from borrowing from the Bank of Zambia (printing money). It will borrow from commercial banks or the non-bank public when this is required.
- Making Open Market Operations more transparent, efficient and better understood by commercial banks, and other stakeholders.
- The use of other money market instruments, such as commercial paper (e.g. company bonds and debentures) and certificates of deposit will be encouraged - particularly those that unlock long term credit. This can be done by allowing them as liquid assets for the purpose of satisfying prescribed liquidity ratio's as well as investigating the possibility of providing tax incentives to encourage financial institutions to develop these products.
- Granting BoZ greater legal and operational autonomy from Government including the review of the Bank of Zambia Act with the objective of enhancing the security of tenure of the Governors and their accountability to the people as public officers.

Regarding financial policy in general, interest rates must come down in order to support economic growth. This requires the inflation rate coming down since negative real interest rates lead to decline in demand for Kwacha, depreciation and inflationary pressures.

In the next three years, the following issues regarding credit and financial arrangements will be pursued:

- A viable medium and long-term capital market especially in growth areas is required. Government will therefore facilitate the re-capitalisation of DBZ together with private investors.
- Encouragement and creation of an enabling environment for the establishment of merchant banks, investment funds and other long-term sources of capital.
- BoZ will address other structural constraints by, for example, promoting competition in the banking system and encouraging competition between non-bank financial institutions and commercial banks in the credit market.
- As was stated earlier, government will repay its huge debts to some pension schemes and thereafter privatise the management.
- A credit institution for organised small-scale farmers and businesses will be established since banks have refocused mainly towards corporate clients.
- Institutional capacities of the Securities and Exchange Commission (SEC) and the Lusaka Stock Exchange (LUSE) are strengthened.
- The supervisory autonomy of the Bank of Zambia will be strengthened. Unless financial institutions appreciate that breaches are costly, the integrity of the industry will be compromised and their contribution to poverty reduction will be low.
- Minimise government borrowing to unlock credit for the private sector.
- Strengthen legislation relating to commercial debt management and recovery. Slowness in the past has jeopardised the existence of some financial institutions.
- The Depositors Insurance Scheme is implemented.
- Building on to the success of the Zambia Electronic Clearing House and the recently introduced direct debit and credit facilities at banks in payments systems, online approvals for credit card based payments and automated teller machines will be encouraged. This will better support the planned expansion in tourism.
- Re-base the Kwacha and make it more user friendly.
- In rural areas improving post office based savings and payments systems will be priority.

Resource Envelope And Resource Allocation

Zambia's debt servicing was high ,before qualifying to HIPC, the total debt was USD 606 million for the year 2001, USD599 million for the year 2002,USD 588 million for the year 2003 and USD554 million for the year 2004. Upon submitting the I-PRSP about USD 1204 Million will be the total HIPC debt relief between the year 2002 to 2004.

Identification of Roles and Responsibilities for Stakeholders

Government

Many of the measures proposed in the PRSP are to be effected through the government budget. As such the principal responsibility of Government will be:

- To ensure that the budget presented to Parliament reflects the priorities enunciated in the PRSP;
- That this budget is implemented in accordance with the approved estimates of revenues and expenditures.
- To improve the level and effectiveness of debate in the house, Government should provide concise summaries / pamphlets that outline the key aims of the proposed legislation to be introduced as well as some sense of its bearing on poverty reduction where relevant and practical. These pamphlets should be distributed to all members of Parliament prior to the relevant debates.

An important innovation proposed to facilitate this process is the publication of a green paper (or pre budget report) by the government, which allows Government's medium term fiscal projections to be adequately discussed by parliament and civil society at large. This is to be done on an annual basis and prior to the presentation of the budget and it is envisaged that this report would be introduced in 2003.

Legislature

The legislature has a crucial role to play in ensuring that the aspirations and needs of citizens are effectively articulated to the executive. It is equally critical that the executive is held to account for the commitments and programs that are sanctioned by Parliament. To ensure that these objectives are achieved the following is proposed:

- A permanent research staff should be established funded by Government that services the Parliamentary committee's. Initially this staff would focus on the committee's that deal with revenues and expenditures (Committee of estimates and Supply?), and oversight of public sector institutions e.g. BoZ, EBZ, IC, ZCC, ZABS, and ZANACO.

Civil Society

Although there is general unanimity of purpose in the broad concerns pursued by civil society organizations – particularly the NGO's (e.g. better education, health facilities, enhancing the rights of citizens and the encouragement of civic duty, social and economic exclusion) – these objectives are currently pursued in a fragmented manner. This has not only reduced the effectiveness of civil society, but also militated against the effective capacity building within civil society organizations themselves. The following is thus proposed:

- Civil society organizations commit themselves to working together through an appropriate umbrella organization.
- Technical support should be given to umbrella civil society organizations such as the CSPR, which should in fact be established as a permanent forum for civil society to address poverty reduction issues. Such support should focus on building the technical capacity and organizational structures for civil society to effectively monitor and debate the implementation of the PRSP

- Civil society should complement the role of the legistilature in monitoring whether government including at the local level is doing what it has promised to do.

Cooperating partners

The successful implementation of the PRSP is predicated on the fact that cooperating partners will adopt it as the framework for cooperation with Zambia, with multilateral and bilateral partners focusing on specified areas of interest. In this regard:

- Zambia's cooperating partners must formerly sign on to the PRSP once it is adopted by the Boards of the IMF and World Bank as the overall framework for their assistance to Zambia.
- They should commit themselves to better co-ordination so that their resources assist Zambia to pull in one agreed direction and in a balanced way where no one sector is overly supported while others are not.
- The conditionality attached to the release of pledged support must be simplified and be clearly spelt out and understood.