Chapter 11: Macroeconomic framework, strategies and policies for poverty reduction

Articulation of the problem

In the early post-independence period, Zambia enjoyed one of the highest per capita incomes in Africa, advanced infrastructure and untapped potential for food production. The manufacturing sector had expanded to become a significant contributor to gross domestic product, and the country ranked fourth in the world's largest producers of copper, and first in cobalt. Zambia's economic status ranked it alongside South Korea as a potential economic "tiger" through the last quarter of the 20th Century.

Over the past generation, however, Zambia's people have endured a precipitous decline in living standards, ranging from falling real per capita incomes, contracting employment opportunities, deteriorating health and education facilities, rising crime, and the combination of a resurgence of poverty-related illnesses coupled with the onset of HIV and AIDS. The country has seen an economic contraction that has coincided with a rapid growth in population and the accumulation of an unserviceable external, and internal, debt burden. The adverse performance in the macroeconomic indicators, namely GDP growth, the rate of inflation, food self-sufficiency, foreign currency reserves, balance of payments, external debt, fiscal deficit, levels of employment, mortality rates, literacy rates and sectoral growth rates have all performed well below expectations and below the average for developing countries, for African countries, or SADC countries - with the possible exception of countries engaged in armed conflict or enduring natural disasters. The overwhelming majority of Zambians, 73%, live in poverty and currently face few prospects for an amelioration of their plight (UNICEF, 2000).

Causal factors

Several causal factors can be identified in defining Zambia's economic and social decline. A checklist of variables encompasses:

1. **Economic mismanagement** - inflationary deficit financing, unprioritised expenditure, implementation and co-ordination weaknesses.

2. **External shocks** - fuel price increases, escalation of foreign debts, the economic cost of supporting liberation movements, declining terms of trade.

3. **Policy somersaults** - inconsistent policy environment and conflicting positions within the administration, leading to an uneven investment climate characterised by discretionary concessions awarded on the basis of lobbying capability; thus the most financially able are also the ones who elicit the most comprehensive tax and duty concessions.

4. **Low investment** (private and public) in infrastructure, enterprise, public and social services.

Remedial action

Zambia is blessed with abundant physical, natural, mineral and human resources. The nation is endowed with vast tracts of arable land, 50% of the water resources of the Southern African region, a low population density, a basic infrastructure that is tailored towards international trade, a high urbanisation rate, and a trained human resource base that is above average on the continent. The country has undoubted potential for accelerated economic development, and can attain the growth targets of 6% to 8% per annum over the next 15 years to achieve comprehensive poverty reduction and an improvement in social development. Zambia's resuscitation can be achieved through a rescue programme that applies "Economics with a Human Face": an economic recovery scheme that couples macroeconomic stability with accelerated investment and the creation of a safety net that guarantees a minimum standard of public services to every Zambian.

Situation analysis

Structural adjustment

The adoption of the Structural Adjustment Programme involved the implementation of a series of policy measures designed to achieve, *inter alia*, the following objectives:

- Generation of economic growth through the efficient utilisation of scarce resources allocated by an efficient market mechanism, powered by the private sector. With the appropriate mix of policies, government's intention has been to stimulate a supply response led by the private sector.

- Macroeconomic stabilisation, encompassing price stability in commodities, currency, factor costs, and the general cost of living. This was viewed as a pre-requisite to economic growth and was a preliminary priority.

- Efficient resource management that would see a downsizing of government and timely debt servicing.

- Enhancement of foreign direct investment, coupled with increased domestic resource mobilisation to finance internal investment.

- The entrenchment of a legislative and administrative framework to facilitate the evolution of an enabling environment conducive to economic growth and development.

Policy Measures

A cocktail of policy measures was introduced with a view to achieving the objectives listed above. Below, the specific policy interventions, and their underlying rationale, are discussed and critiqued.

Economic liberalisation

Underpinning the reform programme was the principle of economic liberalisation, which was envisaged to unleash the wealth creating power of the private sector, by liberating the economy from administrative controls and allowing market forces to dictate the pace and direction of development. The liberalisation programme adopted by the Zambian Government encompassed:

- the removal of price controls on commodities, currency, factor prices, interest rates, and all other goods and services that were subject to administrative determination of prices;
- the withdrawal of subsidies on maize meal, fertiliser and social services;
- embracing competition regardless of country of origin of the products/services procured;
- transfer of ownership of the factors of production from the state to the private sector, indigenous or foreign;
- suspension of exchange control restrictions to allow for free, unhindered movement of capital across borders, including private acquisition of loan capital;
- deepening of financial markets with the introduction of active market participation by government through the Bank of Zambia.

The liberalisation programme was implemented on a "fast track" basis, without due regard for the consequences on a fragile private sector, and an even more vulnerable social sector, adjusting to free market economics after three decades of reliance on state largesse.

Fiscal policies

The incoming government encountered galloping inflation and an unmanageable budget deficit and money supply overhang, a consequence of an expensive election campaign that, in retrospect, could not be bought. As an emergency remedial measure, the government imposed a cash budget system to compel fiscal discipline via expenditure compression. Whereas there was need to impose a draconian new discipline on government expenditure to redress perennial budget deficits, the imposition of the cash budget system had severe implications. The system, which was predicated upon adherence to the principle that government would only spend the money held in its revenue accounts at the Bank of Zambia, undoubtedly compressed expenditure and achieved its objectives in the first two years, but it served to justify wanton abandonment of social programmes, developmental and capital expenditure, and any expenditures on those sectors of society that lack an effective advocacy voice.

Recurrent expenditure, foreign debt servicing, and government consumption survived - investment, developmental and social programmes were the casualties. The social and developmental implications of the cash budget system were severe. As the system, which was envisaged to be transitory in nature, became a structural phenomenon, the civil service adapted to it, replacing discipline with the accumulation of arrears to carry over into the next fiscal year with impunity. A cash budget system is a temporary measure that should be implemented simultaneously with a reorientation of budgeting and prioritising of expenditures in a justifiable manner that ensures that development is not the casualty.

The Public Sector Reform Programme (PSRP), which planned to halve the number of civil servants and reduce the public sector establishment, should have been implemented simultaneously, but the programme failed in its objectives, resulting in the reduction of staff numbers at the low income scale of government, while encountering severe resistance to rationalisation at the higher echelons of government. The PSRP endured over five years and occurred at a pace that prevented the early improvement of conditions of service for civil servants, and proving the paucity of political will in implementation. Physical empowerment of civil servants did occur as government depleted the stock of residential assets, transferring these to civil servants or sitting tenants in the case of council-owned properties. Today the balance sheets of both government and the civic authorities are depleted, without a corresponding increase in alternative assets.

There has been a notable improvement in tax administration and collection, though, as a result of the creation and activation of the Zambia Revenue Authority (ZRA). With substantial donor assistance, financial and technical, the ZRA was established in 1994 with the express mandate to collect taxes and duties on behalf of the government. Backed by legislation and a well remunerated, closely monitored organisation, the ZRA significantly increased revenue collection and reduced both tax evasion and tax avoidance. The ZRA has managed to meet its revenue targets and has effectively transformed tax administration in the country. This evolution in tax collection has occurred at a time when government has simplified tax laws, broadening the tax bands and reducing the number and variety of taxes. The maximum rates have been reduced to encourage compliance and not discourage reporting, and the rates are more user-friendly than in the past. Without doubt, visionary efforts have been applied to tax collection. Sadly, the opposite has occurred in the utilisation of tax revenues.

Taxpayers are dissatisfied with the priorities of government expenditure, trends over the past decade, and the lapses in accountability that have consistently been highlighted by the Office of the Auditor-General and Parliamentary Sub-Committees. Lack of confidence in the authorities applying resources leads to resistance in payment of taxes as a taxpayer feels justified in retaining his/her resources for more efficient uses than the state.

There have been repeated debates relating to broadening the tax base and capturing the informal sector into the taxpaying formal economy. This has partially been achieved by the introduction of Value Added Tax (VAT), which captures those who are registered and unregistered, and which is a difficult tax to evade without investment in misleading the ZRA.

Monetary policies

The liberalisation of interest rates within months of the MMD assuming power was arguably the most devastating single economic misstep of the new administration. Rates surged from an average of 15% to over 120% in an atmosphere of uncontrolled money supply growth, triple digit inflation, and economic uncertainty. The policy shift, which should have been sequenced to involve constriction of money supply and phased liberalisation, resulted in a net shift of wealth from the agricultural and other productive sectors to the financial services sector, creating an era of debt distress and business decline that continues to plague the economy. It has been clearly found in Zambia that borrowers are not interest rate sensitive and will retain their overdrafts and loans even when rates are raised because they cannot afford to clear their debts or re-finance cheaply.

Conversely, depositors are also not interest rate sensitive until rates are in triple digits, and even at that point the fund flows are transitory and highly sensitive to speculative tendencies. This is not a formula for economic recovery or stabilisation. The Bank of Zambia has adopted the active use of liquidity ratios and statutory reserves as money supply control mechanisms, and more regularly becomes involved in open market operations to provide short-term stabilisation options in the financial markets. As issuer of Treasury Bills and Government Bonds, the Bank of Zambia further intervenes in the markets by offering a high yielding instrument that is, theoretically, risk-free and tax efficient. Treasury Bill yields tend to guide interest rates and Government Securities have proven to be a safe repository of surplus Kwacha, though this has been at the expense of credit creation to the productive sectors.

Trade policies

Government has subscribed to the basic theories of International Trade Economics, anticipating economic growth as a result of the reallocation of resources towards international trade and export led development. Measures implemented included the reduction of tariffs (by a minimum of 60%) and the rapid removal of non-tariff barriers to international trade. Simultaneously, liberalisation of the exchange rate regime, encompassing price de-control, free movement of currency and legalisation of nationals holding foreign currency accounts in the country, formed an important part of the new, liberal regime. The government embarked on a rapid programme of tariff reduction that exposed Zambian industry to regional and international competition, at a time when access to foreign currency was being improved.

It can be noted that the combination of the upheavals and uncertainty attendant to privatisation, coupled with rapidly rising interest rates, the re-entry of South Africa into the community of nations, the absence of long-term capital, and the neglect of a transition period to allow companies to retool, disabled the productive sectors in a manner that continues to manifest itself in job losses, company closures, and a shrinking manufacturing base. To illustrate this point relating to Zambia's de-industrialisation, note that the share of manufacturing value added to Gross Domestic Product fell from 32% in 1990 to 11% by 1999 (Southern African Development Community, 2001). A similar decline, from 45% to 26%, was recorded in other industries.

Government was a pioneering signatory to the COMESA Free Trade Area treaty and allows duty-free access of goods imported from participating COMESA countries. In the first quarter of 2001, government has signed and ratified the SADC Trade Protocol, thus more closely integrating the Zambian economy into the SADC brotherhood of nations. Zambia has yet to adequately analyse the benefits that could accrue to the country as a result of the signing of the ACP-EU Cotonou Agreement and the Africa Growth and Opportunities Act.

The suspension of the Exchange Control Act and the adoption of a free, unregulated foreign exchange market attracted transitory fund flows and made Zambia an attractive entrepot for funds in transit from more strict currency regimes, including South Africa.

Debt management

The Zambian Government has religiously serviced its foreign debt obligations, with a view to qualifying for debt relief, and with the assistance of co-operating partners to meet these obligations. The World Bank provided the equivalent of US$700 million for a commercial debt buy-back scheme that offered US$0.11cents for each dollar owed. This scheme was well received and reduced commercial debt arrears. With the assistance of the multi-lateral and bilateral financing institutions, government was able to resume servicing of its international debt service obligations, eventually arriving at the HIPC Decision Point. The fanfare accompanying the ascent of Zambia to the community of Highly Indebted Poor Countries occurred in December 2000, and there have been acres of trees that have surrendered their lives to explain the implications of the HIPC initiative. Suffice to state that the alternative to attainment of the HIPC Decision Point would likely have been economic crisis and the complete cessation of aid flows. Further, the PRSP would not have assumed the urgency or importance it has attained by virtue of it being a pre-condition for qualification for wide ranging debt relief should we reach the HIPC Completion Point within the next three years.

Government has a domestic debt problem, which it is unable to rationalise. This encompasses a virtual pyramid scheme under the revolving Treasury Bill and Government Bond auctions, which offer high yields to investors but have, generally, short tenors that do not allow for productive investment of the attendant resources. Similarly, government is unable to bring under control its obligations to domestic trade creditors, some of whom endure arrears of more than one year. With the privatisation of the copper mines in the year 2000, government committed itself to taking over debts that were previously the responsibility of ZCCM and, over the past year, government has paid out nearly K500 billion to domestic creditors - injecting urgently required liquidity into the Zambian Copperbelt (Budget Address, 2001). Whereas record keeping relating to debt has been improved dramatically, domestic commercial debt servicing remains unsatisfactory, and an impending crisis. Government continues to "crowd out" the private sector and fuel inflation by engaging in inflationary borrowing, which increased money supply by nearly 60% in 2000 (*Times of Zambia*, 2001). It is not coincidental that the Kwacha depreciated against the United States Dollar by a similar quantum.

Institutional and legislative framework

Over the past ten years of reform, government has enacted several pieces of legislation to create or reform enabling institutions under the principle of market friendliness, accountability, transparency, and cost effectiveness. Institutions that have been restructured or created under the new dispensation include:

- the Bank of Zambia
- the Companies Registry
- the Zambia Investment Centre
- the Securities and Exchange Commission
- the Zambia Privatisation Agency
- the Zambia Privatisation Trust Fund
- the Zambia Revenue Authority
- the Zambia Competition Commission
- the Pensions and Insurance Authority
- the Energy Regulation Board
- the National Roads Board
- the Technical Education Vocational and Entrepreneurship Training Authority.

The performance of these institutions cannot be generalised, and it should be noted that the legislative and institutional framework within which these institutions operate is market-driven and performance oriented.

Privatisation

The nationalisation programme, which was implemented in earnest between 1968 and 1975, and which gave way to a State Corporate Development Programme the following decade, consumed resources in the acquisition of private assets and in the erection of new projects, often in locations, or with technology, which hampered the business viability of the project. In addition to human consumption and politically motivated expenditure, the state also became burdened by the cost of sustaining its business experiments. The incoming government subscribed to the new economic trend, that of privatisation, to return economic activity to the control of the private sector. Over an eight-year period, over 220 business entities (ZPA Status Report, 2000) had been sold to private owners and the state today remains with fewer than 50 entities, though these include significant entities such as the Zambia National Commercial Bank, Zambia Telecommunications Corporation, ZESCO, Zambia National Oil Company and Indeni Petroleum Refinery.

In excess of US$200 million has been collected in sale proceeds under the privatisation programme (ZPA Status Report, 2000), but these resources have not been applied towards poverty reduction, entrepreneurship development or any social safety net.

Sectoral scan

Mining

The most drawn out and emotive element of the adjustment programme was the relinquishing of control of the copper mining industry, an industry that continues to account for 85% of foreign currency earnings, 30% of GDP and 40% of formal sector employment (MoFED, 2001c). The copper mines have been unbundled and sold as 9 separate units, with units sold to competing bidders though government, through ZCCM Investment Holdings, retains a meaningful shareholding interest in all of the privatised mines. This strategy has attracted senior and junior mining companies and investors from as broad a diaspora as China, the United Kingdom, the United States, South Africa, Switzerland, Australia and India. The collective investment pledges of US$3.1 billion could revive the fortunes of the Copperbelt Province and also impact positively upon growth in the Northwestern Province, assuming the investment materialises (Presidential Address to Parliament, 2001).

In acknowledging its lack of capital to maintain, retool or develop mining concessions, government has surrendered economic control to the international private sector, in the hope that the private mining companies will draw in foreign direct investment to create wealth and employment in Zambia. The revision of the Mines and Minerals Act was biased towards providing additional incentives to the copper mining sector to the detriment of other mining activities, such as gemstone mining, industrial minerals development, and dimension stone mining. The mining sector in Zambia is untapped and characterised by poverty in the periphery around enclaves of substantial wealth.

Agriculture

Wholesale liberalisation was pursued as a development strategy, with the National Agricultural Marketing Board (NAMBOARD), Co-operative Unions, Lima Bank, Nitrogen Chemicals of Zambia and the Co-operative Bank being disabled under the assumption that the private sector would act as an effective substitute. This strategy ignored the infancy of the private sector and the prohibitive cost of capital, which handicapped development of the sector. Non-traditional exports were encouraged and the European Union, through an Export Development Programme and its Investment Bank, significantly contributed towards the upsurge in non-traditional export earnings, particularly in horticultural and floricultural production. Food security is no longer a given, and the agricultural sector, peasant, emergent and commercial, is in transition as new niche positions are sought in an environment of uncertainty.

Statistics indicate that of the 1 million farming households in Zambia, 75% are peasant farming households, 20% are emergent farmers, and the balance, 5%, are commercial farmers. This amalgamation of agricultural producers utilises a mere 16% of arable land available for productive endeavour in Zambia.

Industry/manufacturing

The manufacturing sector was recognised to be inefficient and underdeveloped. The strategy adopted by government was to expose the companies to foreign competition, and to sell to private sector investors, those manufacturing concerns that were owned by the state. The sector has experienced a mixed fate over the past decade, with food processing and engineering related activities enjoying a positive upswing, but the bulk of manufacturing activity, particularly of consumer goods and simple manufactures, yielded poor results. The manufacturing sector has been effectively dismantled as a result of heavy competition, rapidly rising factor costs, softening domestic demand, the absence of credit and obsolescence of equipment.

Tourism

An end to repressive practices, such as criminalising photography at several installations, imposition of road blocks throughout the country, and treatment of tourists with suspicion, has given way to a tourist-friendly environment, although road blocks have resumed their earlier prevalence.

The Zambian tourism sector is expanding at a rate in excess of 6% per annum, but it remains a contributor of less than 2% of GDP. The sector enjoys significant short-term growth prospects, and can become a major contributor to foreign currency earnings in the country, should tourism enterprises appropriately market the country as a desirable destination for the discerning tourist visiting the SADC region in particular.

Commerce/trade

As alluded to earlier, tariffs have been reduced substantially, and non-tariff barriers have been abolished in compliance with World Trade Organisation recommendations. Trade documentation has been simplified, and banking and payment procedures have been eased. Pre-shipment inspection (under SGS) was introduced as a mechanism of verifying import procedures, and facilitating direct importation.

The state-owned trading sector, which largely comprised ZCBC, NIEC, and Mwaiseni Stores, collapsed.

The revision of the Banking and Financial Services Act, and the removal of restrictions on the establishment of banks and financial institutions led to a rapid proliferation of banks, culminating in the licensing of 30 commercial banks (15 survive today). The sector has been weak and unstable, and has failed to perform its role as a catalyst to development, through the provision of credit to the productive sectors, and as a mobiliser of resources for reallocation from net savers to net borrowers.

Transport and communications

Duty on passenger-carrying vehicles was suspended for two years, leading to an influx of second hand minibuses and transferring control of the sector from the public to private sector. This occurred against the backdrop of the liquidation of the United Bus Company of Zambia, Contract Haulage and Zambia Airways, the national airline.

The social sectors

Social services were classified as a cost centre, and the conventional wisdom dictated that users of social services should bear at least part of the cost of the provision of those services.

Education

- School fees were reintroduced at all levels. At the dawn of 2001, the Minister of Education announced the abolition of examination fees for primary school students. The text of the announcement suggested that there would be further concessions to allow students obtain education even if they could not afford to pay for it.

- Education Boards were established with the mandate to manage educational institutions under their ambit.

Health care

- User fees were introduced in both urban and rural health facilities.

- The Central Board of Health was created, as a senior organisation that would co-ordinate and support the activities of semi-autonomous Health Boards of Management.

Governance

Political, economic, corporate and social governance received detailed attention during the latter half of the 1990's, and the Zambian Government, in consultation with various stakeholders, undertook a nation-wide consultative programme to address political governance, producing a strong document that still awaits implementation. Consistent with proclamations of improved political governance, the protection of human rights and respect of the perspectives of others, government, civil society and the co-operating partners have discussed the issue of transparency, and the importance of transparency in policing good governance.

The scourge of corruption, which has a real economic and social cost by way of misallocation of scarce resources, inflation of project costs to accommodate windfall gains to decision-makers or facilitators, and the diversion of energies and creativity towards non-productive endeavours, costs the people of a country, and the tax payers of the co-operating partners, millions of dollars, which could be better applied towards development needs.

No appraisal of economic, social or political reforms could be complete without reference to changes in local government, particularly the dismantling of the economic base of councils via the transfer of residential assets from councils to sitting tenants and the hiving off of water and sanitation units into semi-autonomous utility boards. Local government administration has been incapacitated and councils across the nation fail to provide basic services or meet their payroll obligations.

Outcomes

Table 11.1: Selected economic indicators, 1991-2000

	1991	1992	1993	1994	1995	1996	1997	19 98	1999	2000
Real GDP	-0.4	-1.7	6.8	-8.6	-4.3	6.4	3.5	-2	2	3.5
Inflation	93	197.4	189	55.6	34.9	43.5	24.8	27	20.6	30.1
Deficit/ GDP	6.1	3.5	2.5			-1	-1.2			2.5
Current A/C US$	- 447.7	- 154.6	-96.8	- 118.2	-140.6	- 200.1	-437	-514	-578	-483
Exchange Rate	64.63	172.2 1	452.7	670	864.6	1,213 .6	1,321. 3	2,111 .2	2,595. 3	4,108. 8

Source: Seshamani (2000a); MoFED, *Economic Report 2000*.

Extent and depth of poverty

The extent, severity and depth of poverty over the past decade have worsened significantly in Zambia, a trend that is not consistent with developments in other countries. Income inequality has also worsened over the past ten years, with Zambia continuing to hold the distinction of having a highly skewed income distribution. The *World Development Report 2000/2001* reveals that the poorest 20% of the population control 8% of national income, in contrast to the top 20% who control 52% of national income.

Macroeconomic stabilisation has not been achieved throughout ten years of trying, and the record is equally unimpressive with regard to economic growth, which has seen a continuing real decline in per capital incomes over the past ten years. Debt servicing, however, has yielded more positive results. After the rationalisation of the debt portfolio, Zambia has consistently met its debt service obligations with the direct financial assistance of donors, led by the International Monetary Fund. This record of resource transfers has enabled Zambia attain the HIPC Decision Point, the precursor to the HIPC Completion Point, which would herald an unprecedented US$3.1 billion debt cancellation and relief windfall. The downside of the euphoria surrounding possible HIPC implementation is that the US$3.1 billion over time translates to less than US$100 million in relief this year or next year, and the relief arising from HIPC

Completion Point remains unserviceable without funding being provided by the co-operating partners. Further, the conditionalities surrounding the HIPC Completion Point are not, in our opinion, achievable within the stipulated time frame and could result in the misapplication of optimism.

Zambia has yet to attract the levels of investment anticipated, given concerted efforts to create an enabling environment for investors. Neither foreign nor domestic investors had taken up the challenge as envisaged, though it is encouraging that the privatisation of copper mining assets has yielded pledges in excess of US$3 billion over the next decade. The revival of the copper mining sector should draw attendant co-investment in mining support activities that should create employment and result in a higher quantum of resource allocation. This optimism should be considered against the backdrop of a ten-year period of under-achievement despite heavy investment promotion.

Objectives and strategies

Poverty reduction strategic objectives: Sustainable economic and social development, underpinned by equitable distribution of resources. Having comprehensively reviewed the policies, outcomes and causality over the past decade of Structural Adjustment, the primary task is to develop a forward-looking strategy that draws lessons from the post-mortem of past events and sets attainable performance targets for the Zambian economy, specifying the interventions required to achieve the said targets.

Strategies to reduce poverty

The strategies formulated to reduce poverty must, for the sake of sustainability, ensure that there is:

a) wealth creation that will generate the surplus that can be redistributed;

b) direct positive impact on the most vulnerable, deprived and disadvantaged;

c) environmentally sound, responsible development with emphasis on renewable resource use and guarantees of community participation in reaping the rewards of the exploitation of resources in their surrounding areas.

Overall, the Poverty Reduction Strategy has involved identifying areas and characteristics of deprivation, with detailed review of gender bias, geographical spread, and distinct severity of poverty in different communities and households. The long-term sustainability of the programme involves the identification of growth drivers in various economic sectors, and the formulation of schemes to stimulate accelerated growth in those sub-sectors, not financed but facilitated by government. However, in order to ensure political acceptability and ownership of a recovery programme, it will also be necessary for the state to intervene directly in social development activities, particularly relating to health care, preventive and curative, education, household food security (via extension services, guarantee of basic inputs, and improved market access and information), political and economic governance and transparency.

The Poverty Reduction Strategy requires a measurable macroeconomic framework within which to operate, and that is set out below, and is tabulated in the logical framework, which lists:

a) measurable targets/objectives;
b) strategies;
c) specific actions/interventions;
d) implementing agencies;
e) estimated time frame for implementation;
f) projected costs.

Key to logical framework:

Implementation time frame

Immediate/short-term (i. e. 0 to 12 months) = IST
Medium-term (i. e. 13 to 36 months) = MT
Long-term (i. e. 37 to 120 months) = LT.

The logical framework is presented below for ease of reference. However, in an effort to provide additional textual clarification of recommendations presented in this document, a list of proposals is also presented below.

Table 11.2: Poverty Reduction Strategy macroeconomic logical framework

Overall targets

Objectives: *** Poverty Reduction** *** Economic Development** *** Equity**

Targets	Strategies	Interventions	Agents	Timing	Budget/costs (US$)
30% poverty by 2010, with 50% reduction in gender gap[1]	Stimulate economic growth via enhanced direct investment (foreign&loc		GRZ	LT	
5% poverty by 2015, with total reduction in gender gap			GRZ	LT	
GDP growth rate of 8% per annum	Increase investment to 25% of GDP		GRZ/ZIC	MT	500,000
Per Capita real GDP growth of 4.6%	Stimulate investment and economic growth		GRZ/ZIC	MT	
Per Capita GDP to rise to US$750 by 2015					
Increase Net International Reserves to three months' import cover			BoZ	MT	350,000,000
Creation of 200,000 formal sector jobs	Stimulate new investment via privatisation & direct promotion		Zambia Privatisation Agency		
			Export Board of Zambia/ZIC	LT	
Gini Coefficient to fall to 0.4 by 2005	Redistribute income & reduce disparities		MoFED	MT/LT	
Gini Coefficient to fall to 0.3 by 2010					
Kuznets Ratio to fall to 2.5 by 2005, 1.5 by 2010 and 1.2 by 2015			MoFED	MT/LT	
Food security & elimination of chronic hunger		Enhance extension, input supply and supp	MAFF	LT	
Household food expenditure not to exceed 40% of budget, with particular emphasis on female headed-households			MAFF	MT	
Household food expenditure not to exceed 25%, with particular emphasis on female headed-households			MAFF	LT	
Universal access to basic facilities	Should be within 10 km radius		MoE/MoH/MCDSS	LT	150,000,000

[1] The gender gap here refers to the difference arising from the percentage of poverty stricken women compared to the percentage of poverty stricken men.

- school, health centre, market and income-generating opportunity, etc.				
Universal Primary Education		MoE	MT	45,000,000
Creation of 60,000 additional tertiary education places, with 50% of these reserved for women	Allocate resources to technical education	MoE/MSTVT	MT	5,000,000
Improvement of Literacy Rate to 95%		MoE	MT/ LT	4,000,000
Reduction in Infant Mortality Rate by 70%		MoH/CBoH	LT	6,000,000
Reduction in Maternal Mortality Rate by 60%		MoH/CBoH	LT	4,000,000
Devolve/decentralise government spend	Pursue federal planning & spending structure with the majority of resources being expended in the poorest Districts	MoFED/MoDev	MT	
Improve domestic resource mobilisation	Increase Savings as a proportion of GDP from 6% to 20%	GRZ/Private Sector	MT	
	Increase foreign direct investment to US$1 billion per annum at the least	Private Sector/ZIC	MT	
Improve credit availability to the private sector	Eliminate GRZ Crowding Out and encourage lending	GRZ/Private Sector	MT	

Fiscal policy

Targets	Strategies/interventions	Agents	Timing	Budget/costs (US$)
Limit budget deficits to 2.5% of GDP	Contract Expenditure Task Force to trim GRZ spending	Cabinet Office	IST	300,000
by imposing fiscal discipline	Reduce number of Ministries to 16 from 29	President's Office	MT	3,000,000
	Expunge District Administrators from budget	Cabinet Office	MT	
	Reduce number of Deputy Ministers & Permanent Secretaries	President's Office	MT	
	Merge Departments to tighten Govt operations	Cabinet Office	MT	
	Increase tax revenue to 12.5% of GDP	MoFED/ZRA	MT	
	Attack leakages in Customs Duty collections at borders	ZRA	IST	
	Prosecute domestic Debtors to GRZ (corporate/individual) or appoint debt collectors to manage recoveries on ACMP etc	MoFED	IST	
	Transform collection & utilisation system governing Levies	MoFED	IST	

	Limit net bank claims on government to 0.5% of GDP	MoFED/BoZ		
Reform Taxation to improve Equity	Raise minimum monthly taxable income to K250,000	MoFED	MT	
	Introduce Urban Poll Tax to capture informal sector	MLGH	MT	
	Discontinue practice of granting discretionary tax breaks	MoFED	IST	
	Broaden tax bands to ensure taxation is progressive	MoFED	MT	
	Create a Poverty Action Fund for direct support to the poorest and most vulnerable in society	MoDev	IST	
Introduce Responsible Expenditure Programmes				
	Guarantee Social Spending and Capital Expenditure against Expenditure Compression	MoFED/MoDev		
	Reduce Recurrent Expenditure to a maximum of 30% of total GRZ budgetary expenditure	MoFED	MT	
	Complete the PSRP, reducing the number of GRZ employees to 40,000 and improving conditions of service for the staff	Cabinet Office	MT	7,000,000
	Revisit the imposition of zero-based budgeting government-wide		MT	500,000

Monetary policy

Targets	Strategies/interventions	Agency	Timing	Budget/costs (US$)
Stability in inflation, interest and exchange rates				
	Limit annual Money Supply Growth to 15%	BoZ	MT	
	Allow interest rates to be positive in real terms by 2 - 6%	BoZ	MT	
	Control Liquidity by Statutory Reserves & limited GRZ borrowing (not high rates)	BoZ	MT	
	Manage exchange rate to allow depreciation at differential of Zambian inflation rate vs. US inflation rate	BoZ	IST/MT	
	Limit spread between bank deposit & lending rates	BoZ	IST	
	Ensure consistent supply of foreign currency through dealing window to allow equal access	BoZ	IST	
	Reject any unsecured lending by the Bank of Zambia	BoZ	IST	
	Reject new guarantees by BoZ or MoFED	BoZ/MoFED	IST	
	Introduce Depositor's Insurance Scheme	BoZ	MT	
	Continue with unified, market - based exchange rate	BoZ	IST	
	Relax non-performing loan classification	BoZ	IST	
	Compel NAPSA, CSPF, Mukuba etc. to place at least 7.5% of their portfolios in venture capital, SME or Micro-finance institutions	MoFED/PIA	MT	
	Compel banks & financial institutions to place at least 5% of their portfolios in VC, SME & Micro-finance credit	BoZ	MT	

Trade				
Government to act as Trade Advocate for Zambian exporter penetration	Guarantee access to markets for Zambian products	MCTI/EBZ	MT	
	Expeditiously introduce Countervailing Duties where necessary	MCTI/ZRA	IST/MT	
	Eliminate barriers to trade & fair competition	MCTI	MT	
	Use Missions abroad as marketing offices	MoFA/MCTI	MT	2,000,000
	Resist discretionary Tariff/Duty concessions	MoFED	IST	
Debt				
Obtain 100% debt forgiveness(Jubilee 2000)	Comply with HIPC Conditionalities to reach Completion Point	MoFED	MT	
	Lobby for additional debt concessions (Multi-lateral/Bilateral)	MoFED	MT	
Clear domestic commercial debt arrears	Bring domestic debts to 90-day status	MoFED	IST	80,000,000
Unwind Treasury Bills & GRZ Bonds system	Lower yields coupled with rising Liquidity requirements	BoZ	MT	50,000,000
Dismantle ZCCM debt obligations	Confirm debts and pay Suppliers/Creditors	MoFED	MT	250,000,000
Audit domestic debts and specify position	Utilise independent audit verification of debts	MoFED	IST	300,000
Stabilise exchange rate	Establish Currency Stabilisation Fund	IMF/BoZ	IST	#######

Institutional framework/reforms

Targets	Strategies/interventions	Agency	Timing	Budget/costs (US$)
Improve institutional co-ordination within GRZ	Upgrade VP Office to Ministry of Development	VP Office	MT	3,000,000
	Empower Cabinet Office to host fortnightly PS meetings	Cabinet Office	IST	500,000
	Transfer recreated Planning Unit to Ministry of Development	VP Office	MT	750,000
	Create Poverty Monitoring Unit in MoDev	VP Office	MT	2,500,000
	All Permanent Secretaries for each Ministry should be Gender Focal Point Persons	GIDD, Cabinet		
Empower indigenous business entities	Compel ZNTB to ensure Zambian involvement in Tenders	ZNTB	MT	
	ZNTB to publish results of all tenders, giving reasons for award	ZNTB	IST	200,000
	Institute a government procurement mantra "Buy Zambian"	ZNTB	IST	
	Provide duty incentive to local suppliers vs foreign suppliers	ZNTB	IST	
Improve Economic Governance	Transfer reporting function of Anti-corruption Commission to a panel of three Judges (not Executive)	Supreme Court	MT	300,000
	Direct linkage between ACC and Auditor-General Office	Parliament	MT	150,000
	Sequester Fuel Levy, Electricity Levy, ADMADE Levy to specific accounts for intended purpose	MoFED	IST	50,000
	Reconstitute Directorate of State Enterprises	MoFED/MCTI	IST	500,000
Devolution of Resource Utilisation	Strengthen Provincial Management Units to allow for adequate distribution of resources to communities and projects with maximal positive impact	VP Office	MT	2,000,000
Strengthen Enabling Institutions	Convert the ZIC into a One-Stop Shop for investors *Incorporating Investment Promotion, Export Development, Post Privatisation Monitoring, Finance-raising, Licensing etc*			

Improve Human Resource utilisation	Appoint majority of Cabinet Ministers from outside Parliament	President	MT	500,000

Sectoral scan

Overall Programme: identify growth drivers; stimulate investment in high growth areas; ensure distribution of resources to communities

Target	Strategies/interventions	Agency	Timing	Budget/costs (US$)
Creation of 200,000 formal sector jobs	Stimulate/promote investment in growth sectors	Private Sector	LT	25,000,000
Mining				
Growth of Base Metal mining by 10% per annum	Facilitate investment of US$3.1 billion	Private Sector/MoMMD	MT	3,100,000,000
Expansion of Industrial Mineral & Dimension Stone production	License and authorise mineral developments	Private Sector/MoMMD	MT	25,000,000
Development of Hydrocarbon deposits	Award exploration/prospecting licenses	MoMMD/ Private Sector	MT/LT	500,000,000
Agriculture				
Actualisation of food security	Ensure availability of inputs & strategic reserve, with emphasis on women farmers	MAFF/FRA	MT	100,000,000
Expansion of non-traditional exports	Guarantee credit & technical support to producer assoc.	EU/EIB/EDP	MT	50,000,000
Yield improvements via research & extension	Strengthen Agricultural Extension & research activity	MAFF	MT	30,000,000
Increase land acreage owned and accessed by women farmers	Reserve 30% of land for women	Ministry of Lands		
Tourism				
Increase number of tourists to 750,000	Integrate Zambia into the SADC Tourism circuit	ZNTB	MT	500,000
Increase revenue per tourist to US$515	Target high value, low volume tourism	ZNTB/Private Sector	MT	1,500,000
Share benefits of tourism with surrounding Community	Replicate ADMADE model	MoT/ZAWA	MT	1,000,000
Utilities				
Reduce the user cost of utilities	Reduce charges by 10%	ERB/CA/NWASCO	MT	
Expand outreach of utilities nation-wide	Ensure utilities are extended to all parts of Zambia	ZESCO/ZAMTEL	LT	100,000,000

Improve efficiency of supply & services	Increase productivity & efficiency according to regional standards		MT	
Commerce/Trade				
Expand the quantum and velocity of trade/commerce		Private Sector/MCTI		
Increase Zambian supplies to trading sector	Strongly encourage retailers & wholesalers to buy Zambian	MCTI	IST	
Manufacturing/Industry				
Expand value addition in agriculture		Private Sector	MT	
Develop value addition in mining & processing		Private Sector	MT	
Pursue non-traditional export growth in manufactures		Private Sector	MT	
Revisit Import Substitution industrialisation		Private Sector	MT	
Other				
Develop opportunities in Information Technology	Formulate national ICT strategy	MSTVT/Private Sector	MT	
Promote cultural ceremonies	Prepare Ceremony calendar	ZNTB	IST	200,000
Expand involvement of Zambians in tourism	Offer special rates to Zambian tourists	ZNTB / Private Sector	IST	
Review growth potential of Cottage industries	Restructure and Recapitalise SEDB	MoFED/SEDB	IST	10,000,000
Ensure improved Credit provision to SMEs	Restructure & Recapitalise DBZ	MoFED/DBZ/EDP	IST	20,000,000
Develop Entrepreneur class	Encourage entrepreneurship training & facilitate business linkages with foreign entrepreneurs/partners	MCTI/TEVETA		1,000,000

Broad objectives

** **Economic growth, price stability and employment creation**

1. Reduce the percentage of extremely poor Zambians to 30% by 2010 and 5% by 2015.

2. Attain a consistent GDP growth target - 8% per annum for 10 years.

3. Achieve real per capita GDP growth of at least 4% per annum for the next 15 years. As a result, per capita income should rise to US$365 by 2005 and US$730 by 2015.

4. Endeavour towards the creation of 200,000 new formal sector jobs over 10 years.

5. Pursue macroeconomic stabilisation as an objective but not as an overriding goal at the expense of growth and development.

6. Achieve 100% household access to clean water by 2010.

7. Reduce the rural and urban distance to basic needs, specifically health centres, schools, and markets, to 15 kilometres by 2005, 5 kilometres by 2010, 1 kilometre by 2015.

8. Consistent with the classification of poverty as defined by the Namibia Planning Commission, where poverty is defined as utilising 60% of household income on food, and extreme poverty as utilising 80% of income on food, the Zambian poverty reduction strategy should aim for a maximum 40% share of household budget allocation to food by 2005. The proportion should fall to 25% by 2015.

9. The Gini Coefficient, an empirical measure of income inequality, should fall from 0.5 now to 0.4 by 2005, falling further to 0.3 by 2010.

10. The Kuznets Ratio, another measure of inequality, should be reduced from to 2.5 by 2005, 1.5 by 2010, and 1.2 by 2015.

Specific proposals

** **Fiscal policy: government revenue, government expenditure, fiscal balance/deficit**

Government today cannot afford to finance its operations, it is arguably the second largest consumer of foreign exchange but not a generator of foreign exchange and it is time to "cut its suit according to its cloth".

11. Our proposal is to reduce the size of government to a maximum of 16 ministries (from 29), with a single Deputy Minister at most and a single

Permanent Secretary.

12. The District Administrator strategy has merely added a bureaucratic layer to local government administration - a layer that does not report to the same authority as the rest of the team. Hence, retrench DAs and restore authority to local government administration.

13. An expenditure task force to clinically excise government wastage should be constituted and given a 6-month task to make recommendations on how to curb government spending.

14. The government budget deficit should not exceed 2.5% of GDP and should only be justified by capital expenditure/public investment projects.

15. Adopt government-wide zero-based budgeting to compel justification of expenditures and to force accountability and transparency as an alternative to incremental budgeting.

16. Further widen tax bands and allow the first K250,000 income to be tax-free.

17. Specifically allocate resources into a Poverty Action Fund that will religiously adhere to its terms of reference, stipulating that resources allocated to the fund are expended on Poverty Reduction initiatives. The PAF can be resourced from savings and net flows arising from benefits accruing to HIPC.

18. Limit the banking sector's claims on government to a maximum of 2% of Gross Domestic Product.

** **Monetary policy: money supply instruments, interest rates**

19. Reconsider interest rate manipulation as the primary monetary policy instrument. It is destructive.

20. Impose a limit on the spread between deposit rates and lending rates.

21. Reduce government dependence on Treasury Bills and Government Bonds, with a view to reducing Government Securities to a minor policy instrument in the monetary arsenal.

22. Extend the period before classifying a loan as non-performing to 6 months.

23. Compel banks to have at least 5% of their portfolio in loans to Micro, Small and Medium-Scale Enterprise, either directly or through a specialised intermediary.

24. Allow graded commercial paper to enjoy the same liquidity status and tax incentives as Treasury Bills.

** **Trade policy: exchange rate, trade tariffs, trade zones, balance of trade**

25. Government should act as a champion for Zambian business - aggressively attacking non-tariff barriers and exposing markets for Zambian exports, while ensuring that quality is not compromised on imports.

26. Duty is paid on locally sold imports but not on imports for most projects and aid programmes, thus it is a disadvantage for a domestic supplier. There should be scope for a duty rebate for a local supplier who wins a contract to supply government or an aid agency/project.

27. The International Monetary Fund should provide a Stabilisation Fund of US$750 million to smooth demand for foreign currency and stabilise the exchange rate. The Stabilisation Fund will have a tenor of five years, at the end of which the Bank of Zambia should have accumulated its own resources to maintain a stable exchange rate and allow for economic growth and development.

** **Debt: foreign (public and commercial), domestic (ZCCM, commercial, pyramid) balance of payments**

28. The international financial community should consider a one-off write off of Zambia's debts as proposed by Jubilee 2000.

29. Government should implement a one-year programme to clear its payment arrears to domestic suppliers of goods and services. These payments directly reach the low income earners and will improve domestic liquidity, while restoring government as a credible debtor.

Institutional framework

Target institutions: Ministry of Finance and Economic Development, Bank of Zambia, Zambia Revenue Authority, Zambia Investment Centre, National Pension Scheme Authority, etc.

30. Establish a Super Ministry responsible for planning and co-ordination of other ministries and government department activities. This Ministry should fall under the Office of the Vice-President or a revived Office of the Prime Minister - it cannot fall under the Ministry of Finance and Economic Development.

31. GIDD should remain at Cabinet Office. Permanent Secretaries in all Ministries, however, including the Super Ministry for Planning, should be GFPPs. These GFPPs should ensure that all sectoral policies are gender responsive. They should also monitor and evaluate the implementation of the policies and ensure that gender is taken into account at all levels – including the national budget.

32. The Super Ministry will ensure that Permanent Secretaries meet fortnightly to co-ordinate programmes being implemented by government ministries, to ensure improved integration and communication between the various implementation units of government. To enhance gender mainstreaming in all ministries, GIDD should be involved in these meetings.

33. Adopt a federal/regional approach to development, building capacity to plan for and implement development projects within provinces, and release resources to the provinces in proportion to deprivation levels - thus the poorest must receive the most resources.

34. The Anti-Corruption Commission should be de-linked from the Office of the President and made to report to a panel of three Judges who shall examine the legal merits of any case before recommending action. This will curb corruption and lift the protective veil.

35. The Zambia National Tender Board should publish results of each tender award, and give reasons for its choice. The ZNTB should insist that Zambian participation is a pre-requisite to a successful bid, and it will carry significant points for the bidding consortium. The organisation, which can be a leading proponent of economic empowerment for indigenous business, should internalise the "Buy Zambian" mantra.

36. Reconstitute the Directorate of State Enterprises (DSE) or replace it with an alternative monitoring and supervisory body responsible for oversight of parastatals, commercialised government departments and, possibly, post-privatisation monitoring activities.

37. Transfer shares warehoused in the Zambia Privatisation Trust Fund (ZPTF) to Zambian citizens on deferred payment terms (over 2-3 years) to broaden ownership and at a price that allows Zambians to experience capital gains and see some direct benefit of privatisation. Majority ownership of the companies will remain in the hands of strong technical and financial partners but an affordable mechanism of transferring wealth to the Zambian can be effected.

    (Russian example - in the case of Russia, shares in several parastatals were simply handed over for free to citizens, many of whom immediately resold and realised some income from the programme.)

38. The Office of the Auditor-General should be in the Super Ministry, not in the Ministry of Finance and Economic Development. There are proposals to convert the Auditor-General into the Accountant-General. The Super Ministry will be responsible for benchmarking and monitoring ministry performance vis-à-vis agreed parameters and time frames.

Savings, investment and credit

39. Statutory savings institutions, development finance institutions, savings bodies, micro and SME lending institutions, foreign savings disbursement channels require restructuring to improve the proportion of savings to GDP, from 6% to at least 18% over the next 10 years. There can be no domestically fuelled investment without a transformation in the savings function.

40. Restructure and recapitalise the Development Bank of Zambia. Privatise management and make it the apex manager of EDP funds, and allow it to tender to manage other aid funds (such as Japanese non-project grant aid).

41. Activate statutory savings institutions such as NAPSA, the Public Service Pensions Board, Worker's Compensation Control Board, and other pension funds, such as the Mukuba Pension Fund and the Zambia State Insurance Corporation Life and Pensions to play their role as institutional investors, devoting a portion of their assets to venture capital, investment in commercial paper and provision of resources to qualifying SME lending intermediaries.

42. Micro and SME credit emphasis should be sensitised, but reinforced by advisory/technical assistance to improve access and outreach without imposing the cost of skills upgrades on the MFIs.

43. Strengthen punishment and exchange of information on delinquent debtors, individual, institutional and corporate.

Sectors

44. Support identified growth drivers in each economic sector.

45. The trickle down effect of mining sector growth is a long-term phenomenon and not likely to have a direct impact on the extremely poor. Interventions that promote SME growth and funding, tourism, small-scale agriculture, emergent agriculture, trade/commerce would have a faster, lower capital cost, impact on the poor, low and middle income people. These must be emphasised in the short-term.

* **Mining: large, medium, small-scale**

Copper output has declined from a peak of 750,000 million tonnes in 1975 to 225,000 million tonnes in 2000. The decline in output has coincided with the softening of world copper prices, exerting a double blow to export earnings and the balance of payments. The completion of the privatisation of mining interests in Zambia, and the awarding of promising concessions to private mining houses, is expected to result in US$3.1 billion new investment over a seven-year period. The new investment, coupled with improved procurement practices, rising world copper prices and enhanced yields, should result in a resurgence of employment opportunities and improved liquidity and business vibrancy on the Copperbelt.

46. Promote labour-intensive mining and minerals development, to realise the latent potential in industrial minerals, dimension stone and hydrocarbon exploration.

47. Deliberately allocate mineral royalties to surrounding communities, to be administered by community groups, with guidance but not control by government.

* **Agriculture: commercial, emergent, subsistence**

48. Food security and the eradication of chronic hunger must be achieved by the year 2005. This can be achieved with the support of crop research, the provision of extension services and market development.

49. Revisit non-traditional exports and address the factors that are causing stagnation in their growth (i. e. cost of electricity, fuel/transportation, up-front taxes, capital expenditure and working capital requirements, marketing and research costs).

50. In order to reduce gender inequality in land ownership, use and access, there is need to increase women's ownership of land by a deliberate policy of reserving 30% of all advertised plots of land for women. To ensure adequate access and use of this land to increase food production, MAFF should ensure that access to credit, technology, and extension services is not gender blind. It should adequately take into account the fact that women farmers are the main producers of food for domestic consumption. Therefore, the collection of gender disaggregated data on agriculture revealing the gender gaps in food production should be undertaken, to ensure that gender inequalities are reduced, in order to enhance food production and food security.

* **Manufacturing: consumer, industrial**

51. Focus on import substitution on goods with high transport costs and low value. Address value addition on products in which Zambia has a natural endowment or comparative advantage - e. g. industrial minerals, gemstones, engineering works, timber processing, food processing, floriculture and horticulture product enhancement.

52. In collaboration with private sector or bilateral partners, construct serviced industrial/business park premises with power, communications (including internet), water/sanitation, access and regular extension visits for entrepreneurship development, for rental by Zambian business people.

* **Tourism: international, internal**

53. Promote community-based tourism and participation in the utilisation of resources emanating from tourism endeavours with the surrounding community.

54. Tourism in Southern Africa is growing at a rate of 10% per annum, under a tour circuit that involves South Africa, Namibia, Botswana and Zimbabwe. It would be inexpensive to infuse Zambia into the network, and into the established marketing channels.

55. The dual objectives of poverty reduction and economic development encourage a multi-faceted approach to problem solving in the tourism sector, to unlock the value that can be realised for careful marketing of our natural endowments.

56. Increase the number of tourists visiting Zambia annually to 750,000. Increase internal tourism by 40%. Increase the value of expenditure per tourist from US$212 to US$500 within five years.

57. Increase bed occupancy by dramatically increasing off peak internal tourism; formulate incentives and packages for internal tourists; cut rates during low season; promote domestic marketing of facilities; encourage educational tours; sensitise local travel agents to promote internal holidays.

58. Focus on high value tourists interested in two-week photographic or hunting safaris, tour packages that take them to five sites in Zambia (national parks, Victoria Falls, Lake Kariba, Open Pit Mines, Lusaka City, or tiger fishing in Senanga).

59. Develop a tourism web site with a detailed map of Zambia's attractions.

60. Formulate a specific plan to bring decision-makers from the top 25 tour agencies in the world to visit Zambia on a conducted tour.

* **Utilities: energy, water, communications**

Over the past five years, Zambian business has lost the strategic advantage of having relatively cheap electricity as a resource. The escalation of electricity costs, coupled with the consistently expensive fuel prices, have weakened the competitive position of Zambian enterprise at a time when globalisation and free trade regimes are exposing them to greater foreign competition.

One major paradox is that ZESCO exports power to Zimbabwe at a lower cost than it is supplied to Zambian enterprises; that power is then used by Zimbabwean enterprise, which then competes with Zambian business. The escalation of factor costs has contributed to loss of competitiveness and stagnation in job creation.

Cellular phone charges are arguably the highest in the region, and terrestrial telephone costs also compare unfavourably to neighbouring country rates. The commercialisation of water utilities has led to a sharp increase in water and sanitation charges with minimal discernible improvement in service or quality. Commercialisation is not the right to merely hike prices, but to improve efficiencies - the consumer requires a protector to ensure that water bills do not encourage illegality.

61. There is need for more responsible pricing and inflexibility on the part of regulators in allowing wanton or repeated escalation of charges. Freeze charges for a financial year to allow for planning and competitiveness protection.

* **Commerce/services: especially financial services, trade and exchange**

The comparatively high rates of literacy and numeracy in Zambia grant the nation a unique opportunity to develop its service and commerce sectors as the absorptive capacity of the trader and service provider is high, understanding of the English language is widespread, and new employers would have less difficulty training new staff.

The financial services sector remains immature and underdeveloped; thus it does not play the role of a lubricant of the economic engine, as there is a stunted credit industry and an equally comatose capital market that enjoys a sophisticated legislative and operational framework. The nation has yet to unlock the catalytic value of the financial services sector in development. For this to occur, there is need for a series of interventions, including:

62. Removal of withholding tax on dividends earned on listed and quoted shares.

63. Favourable treatment of investments in commercial paper and venture capital by the Bank of Zambia.

64. Compulsory allocation of at least 5% of the investment portfolio of institutional investors towards venture capital, micro and SME lending (directly or via licensed specialist institutions).

65. A deliberate policy should be put in place to ensure that women entrepreneurs and traders are involved in the development of trade policies and practices, to ensure that their needs and concerns are taken into account.

* **Transport: road, rail, air, aqua**

The price of fuel in Zambia is the highest in the entire SADC region. With the country lacking a waterway network or ocean/sea port, and with the large surface area of 751,000 square kilometres being most accessible via road or rail transport, fuel plays a significant role in influencing the cost of living and the cost of production in the country, exacerbating poverty and stifling business competitiveness.

66. Government must review the structure of taxation of fuels to assist in

shepherding the price downwards, and this will have an across the board deflationary impact if oil marketing companies pass on tax relief to the consumer.

67. Allow oil marketing companies to import crude and processed fuel, and manage their own procurement and distribution, with no price fixing. Government could, as a regulatory measure, work through the Energy Regulation Board to ensure that there is no price fixing or exploitation.

Alternatively, government, through its strategic fuel reserve, could release cheaper fuel onto the market to counteract market failure on occasion.

68. In the long-term, the nation must offer incentives, such as accelerated capital allowances, fast-track licensing, and tax benefits to encourage oil exploration in the seven areas identified as enjoying significant hydrocarbon potential. Zambia could be an oil producing country within 10 years.

* **Employment**

69. Establish job centres to detail work opportunities and to provide a database of human resource skills available in the country (region). This can be housed within TEVETA and/or training institutions.

70. Government is recognised as a particularly slow debtor, and must be compelled to meet confirmed internal debt obligations within 90 days of confirmation of invoice, as its failure to do so has rendered government receivables obsolete, and created severe hardships among suppliers and service providers to government, their employees and families.

71. Design specific employment and entrepreneurship training strategies for street kids and street vendors to create options for their assimilation into the formal economy.

72. Income distribution and inequality: introduce progressive taxation to minimise burden on the poor and increase collections from the wealthy.

73. Health: reduce infant and maternal mortality by 70% and 60%, respectively, within 10 years; improve primary health care.

74. Education: aim for 100% primary school enrolment and 98% literacy by 2015, with affirmative action to increase the literacy rates of girls and women.

Supervision of PRSP

72. Establish a Standing Committee on Poverty Reduction, comprising representatives of government, civil society, the business community, and professional bodies, to be constituted with a view to continuously review recommendations and the implementation of the PRSP, with a mandate to

ensure that cross-cutting issues are taken into consideration as a deliberate objective, not as a potential consequence.

Conclusion

Zambia's economic and social malaise are neither inevitable nor intractable. Economic and social recovery are within our means. There has been a shift in emphasis from reliance on the market to an approach that recognises the need for efficient markets, while also acknowledging the need for strategic interventions to correct market and societal failures. With these developments, Zambia can assume its position as a viable member of the community of nations.