Chapter 4

PRSP National Goals and Objectives

4.1 Introduction

To reverse Zambia's deteriorated socio-economic conditions, a balanced and multi-pronged approach will be used based on three broad assumptions. *Firstly*, the PRSP is not a substitute to the much needed macroeconomic stability and structural reforms that are so pivotal to both growth and poverty reduction. Alongside this, growth-stimulating interventions are being placed at the centre of the PRSP together with pro-poor interventions that have been carefully chosen. In this regard, the PRSP is putting in place effective and monitorable poverty reducing projects in general, and in particular projects that are properly targeted at the vulnerable and disadvantaged groups and will ensure that project selection criteria are clearly specified. Better targeting of interventions is considered to be of utmost importance in an environment with considerable competing interests for the limited resources available.

Secondly, the PRSP plans to carefully channel the scarce national resources only to meet those goals and objectives that have been agreed upon through the consultative process that characterised the preparation of the PRSP. Although a good number of the interventions that have been included are already ongoing (for the PRSP does not intend to re-invent the wheel), such interventions are to be streamlined into the overall planning framework. Moreover, while some of these ongoing projects are being undertaken through an over-centralised structure, the PRSP does place a high premium on the need to move decisively on decentralisation that would allow levels lower than central government to take an upper hand in project/programme implementation, monitoring, and evaluation.

Lastly, the PRSP primarily, though not exclusively, targets agricultural development as the engine of income expansion for the poor and is thus perceived to possess the best opportunities of enhancing the poor's livelihood. In this regard, to the extent that income poverty has been singled out through the PRSP process as one of the major constraints to improved social welfare, particular effort will be directed towards agricultural growth stimulation that is sensitive to equity in resource access and use. Other economic sectors that complement this effort either directly or indirectly through inter-linkages are tourism, manufacturing, mining, and energy. The issues dealing with the growth of the Zambian economy are appropriately termed the "economic theme of the PRSP".

Zambia recognises that the approach through growth stimulation should be complemented by measures that target the poor against the adverse impacts of economic reforms and other internal and external factors. In particular, basic education and basic health are powerful instruments for assisting the poor; therefore, substantial resources are earmarked for both sectors. However, the PRSP plans to go beyond these to reinforce other existing measures which include the poverty-focused social safety nets like the Public Welfare Assistance Schemes (PWAS); the Social Recovery Fund; Project Urban Self-Help (PUSH), the Food-For-Work Programme; and entrepreneurial development and training for retrenched employees. All these areas constitute the "social theme" of the PRSP. Higher budgetary allocations to these poverty-oriented interventions are seen as important prerequisites under a multi-prong approach to poverty reduction. On top of this, Zambia's PRSP has incorporated the fight against HIV/AIDS, which is a critical intervention against poverty.

Understandably, the ideal approach to reducing poverty might require many varied interventions. In reality, our interventions are limited by the available financial and human resources and the former is dealt with in detail later. Zambia has, therefore, chosen to focus initially on a few things that have maximum impact. In subsequent PRSPs, the sphere of interventions will be re-examined and modified according to the circumstances that will prevail then.

4.2 PRSP Macroeconomic Framework (2002-2004)

4.2.1 Broad Assumptions

Under Zambia's PRSP, improved economic growth will constitute the most important defining variable of government intervention for poverty reduction. Without economic growth, it is almost impossible to reduce income poverty, and even advances against other aspects of human poverty, such as illiteracy or child mortality, cannot be sustained without it. Zambia's PRSP sees economic growth as a powerful means to reduce and, ultimately, eradicate poverty as it can raise the productivity and incomes of poor people, expanding opportunities and choices in a number of ways. During the past 30 years, Zambia's economic growth has stagnated, thereby failing to meet this important prerequisite for poverty reduction. It is important, therefore, that this is reversed. It is for this reason that in this PRSP growth strategies sensitive to equity issues have been developed in the economic sectors of tourism, mining, industry, and agriculture, with the latter taking the lead position. These strategies are articulated in their respective chapters in this document.

However, the importance of growth in poverty reduction ought to be appreciated in the correct context. Although sustained growth is imperative for poverty reduction, rising inequality has serious adverse effects that dampen the efficacy of growth in realising the desired goal of poverty reduction. There are losers from the adjustments that growth requires, and policies need to be put in place to target them so that the benefits of growth do not bypass them. It is in this context that the concept of *broad-based growth* has emerged as an alternative way of recognising the importance of *growth* with *redistribution* in any meaningful approach towards poverty reduction.

4.2.2 The Envisaged Macroeconomic Indicators

Zambia's current macroeconomic framework covers the period 2001 to 2003 and is supported by the World Bank, the IMF, and other multilateral and bilateral cooperating partners. The country now plans to enter into a new programme for the period 2002-2004 with the following envisaged macroeconomic indicators against which the PRSP assumptions are being made (see Table 4.1 for more details):

- An annual average growth rate of 4.3 percent in 2002 and 4.0 percent each in the years 2003 and 2004.
- The external current account and the overall balance of payments to improve to minus \$597 million and minus \$99 million, in 2004 from an estimated minus \$665 and minus \$420 million in 2002, respectively.
- A financing gap of \$95 million and \$72 million is forecast for the years 2003 and 2004, respectively, and will have to be financed from external support or closed through demand management measures.
- By 2004, end year inflation is planned to drop to 5 percent.

Table 4.1: Macroeconomic framework and assumptions: 1999-2004

To achieve the poverty reduction targets set for 2015, it is estimated that Zambia needs to

	1999	2000	2001	2002 Proj.	2003 Proj.	2004 Proj.
	(Annual percentage change, unless otherwise					
National income and Prices						
Real GDP	2.4	3.6	5.2	4.3	4.0	4.0
CPI inflation (end period)	20.6	30.1	18.7	13.0	8.0	5.0
CPI inflation (annual average)	26.8	26.1	21.7	16.4	10.9	6.3
Terms of trade	-5.7	1.9	-3.8	-1.8	6.4	3.6
GDP deflator	21.1	27.9	23.4	17.2	10.9	6.3
Nominal GDP (change expressed as a	1.24	1.33	1.30	1.22	1.15	1.11
Nominal GDP (K'billions)	7,480	10,075	13,079	15,988	18,440	20,385
Nominal GDP (US $'billions)	3.132	3.239	3.625	3.876	4.076	4.359
Balance of payments (in US$ million)						
Current account	(533)	(608)	(743)	(665)	(621)	(597)
Exports, f.o.b.	755	746	871	883	972	1,078
Metal sector	467	497	590	580	644	720
Non-metal sector	288	249	281	303	328	358
Imports, f.o.b.	(922)	(978)	(1,253)	(1,190)	(1,230)	(1,308)
Overall balance	(335)	(373)	(428)	(420)	(406)	(299)
External debt and support (in US$ million)						
External debt service 1/	-328	-456	-265	-148	-151	-211
Amortisation	-162	-290	-232	-115	-117	-168
Interest	-166	-166	-33	-33	-34	-43
External programme assistance	539	432	376	439	431	434
Project support - loans	165	93	121	112	113	114
Project support - grants	196	153	180	183	188	190
Balance of payment support -	61	32	31	31	30	30
Balance of payment support -	117	154	44	113	100	100
Central Government Budget (in Kwacha						
Revenue and grants	1,921.0	2,528.0	3,454.7	3,746.0	4,337.0	4,799.8
Domestic tax and non-tax revenues	1,324.0	1,952.0	2,509.0	2,940.0	3,420.0	3,782.0
Programme and project grants	597.0	576.0	754.0	891.0	986.0	1,043.0
Domestic Budget balance(cash basis)(=- is	31.0	-336.0	-609.0	-487.0	-403.0	-410.0
Overall balance, cash basis	-297.0	-708.0	-1,057.0	-1,168.0	-1,138.0	-1,301.0
Resource Envelope	2,218.0	3,236.0	4,511.7	4,914.0	5,475.0	6,100.8
Expenditure and Net Lending	2,195.0	3,122.0	4,212.0	4,999.0	5,545.0	6,125.0
Resource Difference	23.0	114.0	299.7	-85.0	-70.0	-24.2
Central Government Budget (in percent of						
Revenue and grants	25.7	25.1	26.4	23.4	23.5	23.5
Domestic tax and non-tax revenues	17.7	19.4	19.2	18.4	18.5	18.6
Programme and project grants	8.0	5.7	5.8	5.6	5.3	5.1
Domestic balance, cash basis	0.4	-3.3	-4.7	-3.0	-2.2	-2.0
Overall balance, cash basis	-4.0	-7.0	-8.1	-7.3	-6.2	-6.4
Resource Envelope	29.7	32.1	34.5	30.7	29.7	29.9
Expenditure and Net Lending	29.3	31.0	32.2	31.3	30.1	30.0
Resource Difference	0.3	1.1	2.3	-0.5	-0.4	-0.1

Source: Ministry of Finance and National 19-Feb-02

c:\IMF-Macroframework, 1999-2003-December

1/ After enhanced HIPC Initiative assistance, with completion point assumed to be reached at end-

grow by 6 to 8 percent annually over the intervening period. Viewed in this light, the projected growth rates of 4.3 percent in 2002 and 4 percent in 2003 and 2004, respectively, (Table 4.1) seem too modest. However, higher growth rates are possible only after significant improvements are realised through public sector institutional and structural reforms that enhance better decentralised modes of service delivery and improved financial planning, management, and accountability. In addition, the withdrawal of Anglo American Corporation from the mining industry in Zambia casts doubt on the wisdom of planning for higher economic growth even though it is hoped that the measures adopted in the other economic sectors such as tourism, mining, industry, and agriculture will eventually bear fruit. Table 4.2 gives PRSP projected GDP by kind of economic activity.

Table 4.2: GDP by kind of activity (at constant 1994 prices in K million)

KIND OF ECONOMIC ACTIVITY	1999	2000	2001 1/	2002 Proj.	2003 Proj.	2004 Proj.
Agriculture, Forestry and Fishing	423.2	429.8	418.9	427.3	442.2	459.9
Mining and Quarrying	160.2	160.4	182.9	189.5	195.2	200.1
Metal Mining	155.7	155.2	178.5	184.7	190.3	196.0
Other Mining and Quarrying	4.5	5.2	4.4	4.8	5.1	5.3
Manufacturing	254.2	263.2	278.6	292.5	304.2	316.4
Electricity, Gas and Water	72.1	72.9	82.1	87.4	90.9	94.6
Construction	116.0	123.6	137.8	148.1	154.1	161.0
Wholesale and Retail trade	446.2	456.6	484.2	503.6	523.7	549.9
Restaurants, Bars and Hotels	43.0	48.2	59.9	65.9	72.5	76.8
Transport, Storage and communications	154.1	157.6	162.1	167.0	173.6	182.3
Financial Intermediaries and Insurance	206.7	205.4	205.6	209.7	218.1	224.6
Real Estate and Business Services	203.7	238.2	246.6	263.9	274.4	282.6
Community, Social and Personal Services	193.8	192.8	204.0	208.7	212.9	216.1
Less: FISIM	-118.8	-121.8	-124.9	-128.0	-131.2	-134.5
Total Gross Value Added	2,154.4	2,227.3	2,337.5	2,435.5	2,530.6	2,629.8
Taxes on Products	258.9	272.4	291.4	306.0	321.3	337.3
Total GDP (at market prices)	2413.3	2,499.7	2,628.9	2,741.5	2,851.9	2,967.2
Real growth rates (in percent)	2.2	3.6	5.2	4.3	4.0	4.0
Population of Zambia (in millions) 2/	…..	10.3	10.6	10.9	11.2	11.5
Real GDP per capita (1994 prices) (in Kwacha)	236,596	242,680	248,013	251,368	254,120	256,941
Nominal GDP (K'billion)	7,480	10,075	13,079	15,987	18,439	20,386

Source: Central Statistical Office

1/ Preliminary: based on partially available data, likely to undergo revision

2/ Population growth rate of 2.9 percent per year, the average for the period 1990-2000 is used for projection, 2002-2004.

Table 2.1B: Gross Domestic Product by kind of Economic Activity (in Percent of previous year's value)

KIND OF ECONOMIC ACTIVITY	1999	2000	2001 1/	2002 Proj.	2003 Proj.	2004 Proj.	Ave. for proj.
Agriculture, Forestry and Fishing	10.1	1.6	-2.6	2.0	3.5	4.0	3.2
Mining and Quarrying	-24.8	0.1	14.0	3.0	3.0	2.5	2.8
Metal Mining	-25.3	-0.3	15.0	3.5	3.0	3.0	3.2
Other Mining and Quarrying	-2.2	15.6	-15.0	8.0	6.5	5.0	6.5
Manufacturing	2.8	3.5	5.8	5.0	4.0	4.0	4.3
Electricity, Gas and Water	2.6	1.1	12.6	6.5	4.0	4.0	4.8
Construction	3.2	6.6	11.5	7.5	4.0	4.5	5.3
Wholesale and Retail trade	4.4	2.3	6.0	4.0	4.0	5.0	4.3
Restaurants, Bars and Hotels	-6.1	12.1	24.3	10.0	10.0	6.0	8.7
Transport, Storage and communications	5.8	2.3	2.9	3.0	4.0	5.0	4.0
Financial Intermediaries and Insurance	2.5	-0.6	0.1	2.0	4.0	3.0	3.0
Real Estate and Business Services	13.7	16.9	3.5	7.0	4.0	3.0	4.7
Community, Social and Personal Services	8.4	-0.5	5.8	2.3	2.0	1.5	1.9
Less: FISIM	2.6	2.5	2.5	2.5	2.5	2.5	2.5
Total Gross Value Added	3.1	3.4	4.9	4.2	3.9	5.5	4.5
Taxes on Products	-4.5	5.2	7.0	5.0	5.0	5.0	5.0
Total GDP (at market prices)	2.23	3.6	5.2	4.3	4.0	4.0	4.1
Real GDP per capita (1994 prices) (in Kwacha)	1.2	2.6	2.2	1.4	1.1	1.1	1.2
Consumer price inflation (annual average)	26.8	25.9	21.7	16.4	10.9	6.3	11.2
Terms of trade (annual percent change)	-5.7	2.1	-3.8	-1.8	6.4	3.6	1.0
GDP deflator (expressed as a factor change)	1.3	1.28	1.30	1.22	1.15	1.11	1.2
Nominal GDP (in kwacha billion)	7,480	10,075	13,079	15,987	18,439	20,386	18,271

Source: Central Statistical Office and MoFED for projections

1/ Preliminary: based on partially available data, likely to undergo revision c:\Gpdcon

4.3 Key PRSP Issues for Reviving Growth

4.3.1 Investment and Role of the Private Sector

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 such as over-involvement by the state in commercial operations, and it is generally accepted that this played an important role in Zambia's economic stagnation. In response, government undertook rapid privatisation to remedy the situation.

Over the past decade, government went beyond privatisation to encourage more investment. Other supportive measures have included encouraging the development of capital markets by facilitating the growth of the banking sector so as to allow for a diversified system of financial intermediation that is so important to private sector growth, together with related support policies for enhanced financial sector supervision. The Lusaka Stock Exchange (LUSE) was launched in February 1994 and following this, the Securities and Exchange Commission (SEC) was established. Other related institutional support measures included support to the Investment Centre and revisions to the investment legislation.

Despite these supportive measures, investors still face many obstacles in Zambia. Key among these is the absence of a reliable source of long-term capital. This is compounded by a host of unfavourable macroeconomic factors such as occasional exchange rate instability, and very expensive short-term working capital. Although a number of institutions exist in Zambia that attempt to provide a variety of support services in the form of training, financial assistance, technology, export assistance, and business information, most of them have capacity problems due to a host of problems that include financial scarcity. As a result, producers, particularly small-scale ones, have not sufficiently benefited from their services.

At the broad macroeconomic level, Zambia's economic stagnation has led to low national savings levels that are inadequate to fund desirable investment. 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 the mining industry – must learn to do more export-based business. In encouraging foreign investment, due attention will be paid to the quality of this investment; evidence of the success of other investments they have made elsewhere; experience in the relevant field they wish to enter; and 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. 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. Zambia 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 programme for the PRSP is contained in this document.

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 Centre, 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. Further, the Zambia Investment Centre, the Export Board of Zambia and similar institutions will be more focused in their promotional work, narrowing their scope of interventions to areas where the chances of success are highest.

In encouraging investment, the mix of scale of operator sizes will come into focus. All the different sizes of economic actors have important roles in increasing growth and reducing poverty. The risk in focusing exclusively on small-scale operators is that they may not be efficient enough to provide timely response to the efficiency-enhancing market signals at a time when high poverty levels demand faster reaction. Large-scale producers, similarly, could delay the pro-poor responses by opting for capital-intensive, labour-saving operations, resulting in reduced employment opportunities. Under the PRSP, all scales of producers will be encouraged and synergy between them will be supported. For example, large-scale producers will be encouraged in agriculture, tourism, mining, and industry and synergies will be established for small-scale and medium producers to feed off the large-scale operators.

4.3.2 Promoting the Productivity of the Poor's Assets

The main challenge for poverty reduction is how best to create and expand the poor's opportunities to earn a decent income in a sustainable way so that they are able to meet the basic necessities of life. This is in addition to short-term government-sponsored poverty alleviation programmes. While for the rural poor, their preoccupation is largely agricultural, those in the urban areas are principally engaged in the informal sector. The informal sector in Zambia, as in many developing countries, remains the most dynamic in terms of employment generation and currently absorbs more than 70 percent of the Zambian labour force. Unfortunately, earning levels in this sector on average tend to be much lower than those in the formal sector. This will probably continue to be the case as long as the formal sector stays stagnant. This is why it is important to encourage strong formal sector revival through economic growth so as to relieve the burden on the informal sector.

For the foreseeable future, however, many people will continue to depend on the informal sector for livelihood and, therefore, there should be measures to support them. The required support includes the facilitation of credit schemes; provision of marketing and technological information related to improved productivity and product marketing; and the provision of infrastructure through, for example, the building of industrial estates. The PRSP, therefore, recognises the need to take into consideration the locational and sectoral concentration of poverty (both rural and urban) and work towards sustainable improvement of productivity in these two critical sectors.

The poor's main productive asset in Zambia is land. Their *access* to physical assets that enable them improve their productivity is, thus, an important prerequisite to their involvement in income-generating activities and the PRSP does recognise this important consideration. To the extent that agriculture is dominant in livelihood security for the poor, their access to land is, therefore, considered pivotal. As of now, close to 97 percent of farmers in Zambia have no title to the land that they cultivate.[3] This considerably reduced the motivation to invest substantial amounts of money in land improvements and agriculture-related physical infrastructure on such land. It also prevented the average farmer access to loanable capital for large-scale commercial farming, as major financial lending institutions are generally unwilling to extend loans for investments on land without title. Considering that smallholders account for about 60 percent of agricultural output, this restriction has had an adverse effect on land productivity and, indeed, on any serious poverty reduction strategy for the rural poor.

Moreover, the lack of productive assets such as oxen, storage facilities and mechanised farm implements severely constrains the poor's productivity and under the PRSP, these are being added to the list of the poor's assets that require urgent support. For urban areas, residents in deprived areas have limited access to productive assets. The illegality of many of the slum

[3] This is explained by a number of factors. Principally, the 1975 Land (Conversion of Title) Act declared that all land has no commercial value and cannot be sold in itself unless there are developments/improvements on it. The immediate consequence of this state policy was that there was no security of tenure for the majority of farmers. This was reversed in 1995.

areas means that the poor do not have formal title to their dwellings. Lack of title and restrictive regulations have precluded the poor from capitalising on income-generating activities.

In recognition of the above realities, the PRSP will address the issue of strengthening credit markets for financing investment. The role of micro- financing is perceived to be crucial in this regard and both the government and the private sector will have a role to play at this level. The government will also create a hospitable environment for the adoption (and diffusion) of technological innovations that raise labour productivity.

4.3.3 The External Sector

Worldwide experience indicates that success in economic expansion in small countries hinges on export growth. Exports not only create a vent for domestic surplus but also expand domestic incomes and, therefore, enhance purchasing power, leading to expanded markets for domestic produce. This is also true for Zambia with a small population with insufficient purchasing power to absorb expanded domestic output. The implication is that in agriculture, tourism, mining, and manufacturing, production for exports will receive greater emphasis. Under the PRSP, the relevant sector ministries and trade promotion institutions will be given appropriate support. In future, these institutions will be more focused on the key elements in their operations. For example, the Export Board of Zambia will primarily focus on a few export commodities that enjoy a comparative advantage in external markets. Similarly, the Zambia Investment Centre will as much as possible focus on attracting investors in areas known to have the best potential for Zambia.

As export expansion is a fundamental assumption behind the planned economic growth under the PRSP, the government will give high priority to these efforts. Complementary efforts in this regard will include (a) the re-orientation of the Zambian diplomatic service in a way that enables it to assume a greater role in identifying and negotiating market preference for Zambia; (b) the improvement of national capacity for expeditiously handling cases of unfair trading disadvantage against local businesses; (c) the elimination of barriers to trade and fair competition; and (d) the resisting of discretionary tariff/duty concessions.

The introduction of external trade liberalisation with little consideration of the speed and degree to which the country's main regional trading partners are doing the same calls for further reflection. Many producers in the country today complain that they are being unduly exposed to an *'unlevelled playing field'* in their intra-regional trade interaction, particularly with South Africa and Zimbabwe that have not yet opened up their trade regimes (including exchange controls) to the same degree. Under the PRSP, the government is going to examine carefully these concerns with a view to arriving at what is best for the country in the light of the country's membership to regional trade-enhancing protocols under COMESA and SADC to which Zambia is a party.

4.3.4 Fiscal Policy

The focus of fiscal policy over the period 2002 to 2004 is to provide public services and infrastructure (both physical and institutional) in support of the targeted average real GDP growth target of 4.1 percent. In this regard, the following assumptions are being made:

- Capital expenditures are projected to rise from 11.9 percent of GDP in 2000 to 12.7 percent in 2004. However, much of this remains foreign-financed (67 percent of total capital expenditure, or 8.5 percent of GDP average) representing a sustainability risk.
- Government projects to run a deficit over the period, but this is expected to fall from around 7.3 percent of GDP in 2002 to a balanced budget in 2003 and 2004, provided a financial gap for $95 million and $72 million can be filled in 2003 and 2004 respectively. This is important for freeing credit to the private sector in support of economic growth.

Considering the high degree of dependency on donor funding for the PRSP, Zambia intends to continue with the programme of rationalising the public sector so that it costs the state less and thereby free money for poverty reduction programmes.

4.3.5 Monetary and Financial Policy

The main objective for monetary policy under this PRSP is to attain single digit inflation by 2004. Inflation has been high because of inability to arrest monetary growth. Given the large size of the monetary shocks and the small money market, the open market operations that the Bank of Zambia depended on for monetary control could not cope, hence, the increase in the statutory reserve ratios. However, this has the undesirable effects of raising interest rates and widening the spread between deposits and lending rates. To address these issues, the following will be undertaken:

- Bring down interest rates to support economic growth. Lower inflation is a pre-requisite for this.
- A credit institution for organised small-scale farmers and businesses will be established since banks have refocused mainly towards corporate clients.
- Ensure that debt relief and pledged donor support will be accessed, thus reducing the need to borrow from the central bank.
- Strengthen monetary control and refrain from borrowing from the Bank of Zambia. When this is required, borrowing from commercial banks or the non-bank public will be preferred.
- Make open market operations more transparent, efficient, and better understood by commercial banks and other stakeholders.
- Encourage the use of other money market instruments such as commercial paper and certificates of deposit – particularly those that unlock long-term credit.

In the past a major source of pressure to borrow from the Bank of Zambia, thereby increasing quasi-fiscal deficits, high inflation, and high interest rates has been losses incurred by major parastatal companies like Zambia Consolidated Copper Mines, Zambia National Oil Company and others. The government wishes to end these losses and hence quasi-fiscal deficits through privatisation of services provided by the concerned parastatals. Obviously, the losses from the mining companies had been detached from government after the privatisation of the industry in 2000. The possibility of the government acquiring the mining assets back from Anglo American Corporation, even on a temporal basis until another buyer is found, will entail state financial commitments, but should such an eventuality materialise the government will provide the support through non-quasi-deficit financing.

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

- Government (together with private investors) will facilitate the re-capitalisation of the Development Bank of Zambia (DBZ) in order to strengthen the medium- and long-term capital market. This measure is in response to the widespread complaints on the lack of long-term capital in the country.
- An enabling environment will be created for the establishment of merchant banks, investment funds, and other long-term sources of capital.
- The Depositors Insurance Scheme will be implemented.
- Efforts will be made to build on the success of the Zambia Electronic Clearing House and the recently introduced direct debit and credit facilities at banks in payment systems. Online approvals for credit card-based payments and automated teller machines will also be encouraged. This will better support the planned expansion in tourism.
- The Bank of Zambia will address other structural constraints that include the promotion of competition in the banking sector and encouragement of competition between non-bank financial institutions and commercial banks in the credit market.

- Government will repay its huge debts to pension schemes and privatise their management.
- Institutional capacities of the Securities and Exchange Commission and the Lusaka Stock Exchange will be strengthened.
- Greater legal and operational autonomy will be granted to the Bank of Zambia. In the same vein, the supervisory autonomy of the Bank of Zambia will be strengthened since commercial banks' contribution to poverty reduction is maximised only when their financial integrity is unquestionable.
- The government will minimise its borrowing to unlock credit for the private sector.
- Legislation relating to commercial debt management and recovery will be strengthened.
- Priority will be given to the improvement of post office-based savings and payment systems.

4.3.6 Structural Reform, Infrastructure, and Economic Growth

4.3.6.1 Reducing the Quasi-fiscal Deficit

The objective of Zambia's structural reforms is to restore economic growth and macro-stability through: a) reducing the overall public sector quasi-fiscal deficit caused by losses from parastatals and other extra-budgetary funds as explained in 4.3.5; and b) improving fiscal management. Reducing the quasi-fiscal deficit will help ensure adequate funding to help the poor and other vulnerable groups, in addition to mobilising domestic savings to finance higher investment and growth. Because the high quasi-fiscal deficit (over 13 percent of GDP in 1997) has been a structural cause for high inflation and macroeconomic instability in Zambia, progress in this area will have a long and lasting impact on economic growth and poverty reduction. Reforming budget management will ensure that the government's budget priorities on social development and poverty reduction will be faithfully reflected in actual cash releases.

4.3.6.2 Improving Fiscal Management:

In the area of budget preparation, measures have been taken to help improve transparency and the strategic allocation of public spending. In budget execution, efforts have been be made to improve the accountability and predictability of public expenditures. To address the weak budget control and the persistent arrears build-up, efforts have been made to improve the predictability of cash releases, automate commitment monitoring, and enforce hard budget constraints on over-spending ministries. During the PRSP period, the above ongoing efforts will be sustained and strengthened and the key recommendations of the Public Expenditure Review (PER), which has been prepared, will be implemented. For these measures to work, it is essential that the Public Service Reform Programme, including adequate salaries and working conditions to attract, retain, and motivate skilled staff will be implemented as soon as possible. The government is preparing, jointly with the World Bank, a report on Public Expenditure Management and Financial Accountability, which will lay out a programme of reforms in all areas related to fiscal management.

4.3.6.3 Strengthening Structural Reforms

In addition to the benefits on growth and poverty mentioned above, structural reforms in the energy sector will have a positive impact on the cost of production and, therefore, export competitiveness. In the oil sector, the government will continue to take actions to ensure the competitive and transparent procurement of feed stocks and to keep the petroleum product market competitive. The sale/concessioning of the TAZAMA Pipeline, INDENI Refinery, and Ndola storage facility should further reduce the cost of energy in Zambia. Currently, it is estimated that petroleum prices in Zambia are nearly three times those obtaining in South Africa, and this is a serious blow to Zambia's economic competitiveness compared to the latter.

In electricity, the concessioning and other reforms of ZESCO should help reduce the cost of electricity to the copper mines, thereby allowing the country some additional time for export diversification. In the area of pension reforms, important measures have been taken with the help of the World Bank's Fiscal Sustainability Credit to establish a transparent governance structure and prudential investment guidelines for the National Pension Scheme (NPS) and to reduce the National Pension Scheme Authority's (NAPSA) administrative costs. Further measures will be taken to restore the financial solvency of the Public Service Pension Fund (PSPF), to implement NAPSA's investment guidelines, and to improve the existing legal framework on the private pension industry that are necessary to reduce the drain on the budget and improve domestic savings.

Rehabilitation of existing infrastructure in roads, railways, electricity, and petroleum oil (as opposed to the creation of new ones) will receive priority under the PRSP. The construction of new infrastructure will be justifiable only in areas where it becomes a component of an overall plan to increase output, say in the opening of a new mine or in facilitating the creation of a farming block. Equally important for the poor is the PRSP plan to expand such infrastructure as rural feeder road networks, rural electrification, and other forms of energy, and communications infrastructure.

4.4 Public Sector Management

The strengthening of state capacity for poverty reduction programmes is important for without it, very little will be achieved. This does not mean that the involvement of the state in poverty-reducing programmes is limited to public expenditure programmes or provision of public services. To a large extent, the effectiveness of the state's contribution hinges on creating an enabling environment for other actors (the private sector, NGOs, CBOs, and beneficiaries themselves) and promoting a sense of urgency in dealing with the problem of poverty. The government's own commitment to raising the welfare of the poor is an important signal to the rest of the society and will be reflected partly by the amount of budgetary resources earmarked for poverty reduction and how efficiently these will be applied.

All this calls for capacity building for social and economic management and, in this respect, the restructuring of the Ministry of Finance and National Planning, including the establishment of a Department for Planning and Economic Management, is timely. In particular, the PRSP recognises the need to strengthen the capacity of social sector ministries such as the Ministry of Community Development and Social Services, Ministry of Education, and Ministry of Health to enable them become more effective in reducing poverty and alleviating it.

The PRSP also recognises the need to strengthen the link between plans and budgets. In this regard, special efforts are under way to ensure that budgeting is purposeful and that it is not at variance with what is finally mobilised and later expended. Activity Based Budgeting (ABB) is being extended to all government ministries as an instrument for linking the budget with development goals. The Integrated Financial Management Information System (IFMIS) that is being developed now will in a timely manner provide information that can be utilised for judging whether budgetary resources are being used in accordance with the plan.

To achieve the above, the PRSP will place priority on capacity strengthening in planning and budgeting. The planning units and the budgeting and audit capacities in the line ministries will be strengthened in line with the mandate of the Public Service Reform Programme. To improve upon this aspect of 'economic governance,' the government will facilitate a more direct and participatory input by Parliament in the budget preparation and approval process. In this way, the current dominance of the Ministry of Finance and National Planning in the budgeting process *vis-à-vis* the definition of the country's priority areas at the level of resource allocation will be purposefully checked.

One of the major impediments to the design and execution of poverty-reducing programmes has been a lack of supportive analytical capacity and good data in easily usable form at the country level. The PRSP will address three broad areas of needed action:

- Strengthening local capacity for research and policy analysis in support of formulation of appropriate interventions and policies for reducing poverty.
- Rationalising the operations of state institutions responsible for collecting information pertinent to analysing and monitoring poverty; and setting up mechanisms for the effective transfer of knowledge from experts availed through technical assistance to local experts.

Regarding public debt, the authority to borrow is provided by the Loans and Guarantees (Authorisation) Act 366. This provision has not always been observed in the past. Over the PRSP execution, Zambia will tighten regulations governing public borrowing to bring about greater openness and accountability. In this regard, proposed new public debt will have to be formally justified and parliamentary authority sought for amounts above a certain threshold. The government will also implement a time-bound programme to clear its payment arrears to domestic suppliers and to retrenched/retired workers in both the state and parastatal sectors.

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

- Guarantee social spending and capital expenditure against expenditure compression.
- Extend activity-based budgeting to all ministries as a rational mechanism for linking public expenditure with clear policy objectives and goals.
- In line with the recommendations of the Public Expenditure Review, remove the uncertainty introduced by the cash budget between authorised expenditure and actual releases.
- Ensure timely release of capital funds to enable effective execution of projects.
- Merge government departments to tighten operations.
- Resolve the local government debts on wages and salaries and transparently reflect the true cost of local government operations on the Treasury.
- Improve public service pay and remove employee allowances that are not related to performance.
- Strengthen the legislature to hold the executive to account for discrepancies between authorised and actual expenditures.
- Disburse funds directly to local government authorities in line with the policy of decentralisation. The requisite capacity for effective resource management and accountability at the sub-national level will be developed in line with this measure.
- Expunge District Administrators from the budget.
- In general, implement the recommendations of the Public Expenditure Review, which Zambia prepared together with other stakeholders.

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:

- Continue to improve tax compliance so that the tax/GDP ratio reaches 20 percent.
- Remove leakages in customs duty collections.
- Transform collection and 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 that taxation is progressive.

- Create a Poverty Action Fund for direct support to the poorest and most vulnerable in society.

4.5 Rural Development

4.5.1 Situation Analysis

Poverty is most prevalent in the rural areas although according to the Living Conditions and Monitoring Survey of 1998, some provinces have marginally reduced it. It is suspected that this may be due to the shift towards cash crops.

The causes for the high poverty in rural areas are varied. For example, small-scale farming connected with cattle rearing in the Southern, Western, and Central Provinces attribute cattle disease as one of the major causes of poverty. For most rural areas generally, the failure of agriculture is considered a major contribution to poverty. Most livelihoods in rural areas are agriculture-based. Drought outbreaks in the early 1990s followed by sudden state withdrawal of support to agriculture without adequate private sector response to fill the gap in many instances led to loss in income. On top of that, rural areas suffer many deprivations such as poor access to amenities like health services, safer water, quality education, and infrastructure.

In addition, few rural areas adequately contribute to the generation of resources needed to finance their access to amenities. This is because they lack serious investment and productivity. In the 1970s, a policy of taking investment to rural areas was embarked upon which saw factories in places like Chipata (bicycles), Mansa (batteries), Mwinilunga (pineapple canning) and so forth. This contributed to income generation and employment creation and, in some instances provided social amenities. With economic liberalisation and withdrawal of subsidies in certain cases, many of these state-owned enterprises folded up.

The 1970s and 1980s witnessed some important gains in rural Zambia. Amenities like primary and secondary schools expanded. Various colleges were established in many provinces and the same was done for roads and other economic infrastructure such as power and communications. By the beginning of the 1990s, many of these needed rehabilitation but lack of resources prevented this.

4.5.2 PRSP Interventions for Rural Development

The general PRSP interventions in rural development are roads (and canals), education, health, water, sanitation, and HIV/AIDS as well as economic empowerment. On top of this, there are area-specific interventions as defined by stakeholders. For example, livestock disease monitoring, and eradication in the Central, Southern, and Western Provinces is important, as is security in areas bordering Angola and the Democratic Republic of Congo.

Roads infrastructure is important for linking outlying areas with the rest of the country. This involves not just the rehabilitation of the major trunk roads but also that of feeder roads. The mechanisms for this intervention will be as set out in RoadSIP. The interventions in education, health, sanitation, and HIV/AIDS are as outlined in the respective sections of this document.

Regarding economic empowerment, it is recognised that many parts of rural Zambia are well endowed with resources like land, water, wildlife, and forests – often better endowed than some urban areas. They remained underdeveloped because they have lacked quality investments to exploit the resources. Where there have been investments such as the Kariba and Kafue hydroelectric schemes in Southern Province there has been negligible social and economic linkages within their vicinity.

The immediate potential in most places is in agriculture due to the abundance of land. This does not preclude other areas like tourism, forestry, fishing, and mining. In the past Zambia's focus on rural agriculture assumed every rural dweller is a farmer and must be assisted to farm better. In actual fact, many take farming as a way of life rather than business and can be equally happy in a job.

The PRSP strategy continues with efforts to assist rural farmers directly as described in the chapter on agriculture in this document. In addition to this, government will facilitate employment opportunities on commercial farms, large-scale corporate agricultural estates or in agro-processing industries in rural areas. On these schemes, outgrower schemes involving local people will also be encouraged as an extra option. In this way, rural agriculture will become a viable economic activity and rural areas will generate resources that will contribute to their social and economic development.

With only 16 percent of Zambian arable land being utilised (with an even lower percentage when consideration is made of land that could be turned arable through technology) Zambia can afford to encourage rural large-scale agriculture without creating land problems although it will require shifting some people. In most rural Zambia, close to 100 percent of land is under traditional authority and in many provinces there is hardly any commercial farm. The result is that the major formal employer is government with the land contributing little. Such areas are condemned to poverty until such a time when there will have been sufficient social transformation to raise rural agricultural productivity. Moreover, leaving this issue unattended to now means that it will be much harder to do it later as the density of human settlement increases. Facilitation of large-scale agriculture with outgrower schemes will be particularly targeted in rural provinces where poverty is also highest.

To facilitate investment, all rural areas, especially those with abundant land, will be encouraged to demarcate farm blocks for commercial exploitation, outgrower schemes and tourism development. In some of the areas, water resources for irrigation are plenty and prosperous farm blocks can be established. It is preferable that the blocks are in clusters – meaning several districts or indeed even adjoining provinces can have a common block. This will minimise new required investments in infrastructure. Further, the blocks must wherever possible be near existing infrastructure for the same reasons. It is desirable for the farm blocks to be near rivers and lakes where serious investments in irrigation can be made cost-effectively.

Each community will determine the mode of land alienation, i.e. whether to lease or to sell, etc. and if the latter, how the sales proceeds of the land will be utilised. The government will be available to advise and supervise. Out of desperation for development, some chiefs are reportedly giving away large tracks of land in non-transparent ways to investors some of whom are doubtful in terms of development capability. Zambia encourages investment in her rural areas but this must be done in an orderly and transparent manner, and the interests of wider communities protected. The interests include ensuring that the size of farm blocks will not create landlessness in the foreseeable future, the quality of the investor is verified, the communities' participation through outgrower schemes and other arrangements are defined and so on.

The government will work out detailed guidelines on how rural farm blocks and investments will be established before the scheme comes into force. Although most land is currently unproductive, it is the key asset rural communities have. If part of it has to be sold it must be made more productive and benefit them and, therefore, speculators must be prevented. Already there is a lot of land on title, which is presently grossly under-utilised.

For its part the government will, as part of meaningful decentralisation, let communities benefit from the commercial exploitation of their land. This will include schemes like shareholding arrangements with investors where possible, outgrower schemes, and tax sharing arrangements. Through this strategy, rural people will be empowered to develop themselves.

In summary, the following opportunities will be created in rural Zambia:

- Employment opportunities on part-time and full-time through large-scale agriculture, agro-processing and tourist ventures.
- Self-employment through outgrower schemes.
- Small-scale businesses in farming, fishing, carpentry, and others resulting from rising purchasing power in rural and urban areas.
- Better food security in subsistence farming through the appropriate interventions that were outlined for agriculture.
- Social interventions in education, health, sanitation, and road infrastructure as was already mentioned.

4.6 Risks in Implementing Zambia's PRSP

As for any other plan, there are significant risks in implementing this plan successfully. The most immediate serious risk is the withdrawal by Anglo American Corporation from the Zambian mining industry due to poor copper prices. In doing so, one of the options was to bring the mines to an orderly closure, a situation which would have led to severe economic compression and rising poverty. However, even the more desirable option of keeping the mines open until another investor is found still poses a risk to the PRSP because public resources will in the interim be shifted from objectives that directly enhance economic growth and poverty reduction to preventing a worse poverty situation emerging as a direct consequence of the developments in the mines. In the light of the foregoing, strong efforts will be made to find alternative investors in the existing and potentially new mines in the shortest time possible.

The mining crisis aside, Zambia faces a serious resource constraint, which may render it difficult to implement the PRSP successfully. As Chapter 15 demonstrates, Zambia will in the short term be almost entirely dependent on continued aid at existing or even higher levels to be able to implement the PRSP. This is due to a combination of factors, which include low financial resource levels in line with stagnated economic performance over several decades. Another cause is major portions of financial resources being locked up in the financing of the existing administrative and social apparatus, which were established when Zambia was rich. These resources will only be unlocked gradually as administrative reforms progress.

The dependency on donors implies that Zambia will be exposed to changing moods in the donor community. She can minimise this risk by as much as possible only agreeing to conditionalities that she can fulfil. On the side of donors, they can be more helpful if they designed realistic and implementable conditionalities. Moreover, serious attention is required to review how aid is managed. Aid is most useful only when it helps the recipient country to attain its poverty reduction goals in the manner defined through the participatory process. The risk faced by aid recipients is that donors may not always pull in the same direction. In particular, there will be need to re-direct some of the aid programmes towards PRSP priorities and the success of failure of this will impact substantially on the implementation of the PRSP.

A major risk hinges on the organisational and administrative capacity of Zambia to implement the PRSP because a plan that is satisfactory on paper may not be successful unless there is capacity to implement it. In this regard, Chapter 16 of this document outlines the institutional mechanisms that will be employed to implement and monitor the PRSP. Substantial support will be required to build capacity for this.